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AT SEATTLE
CLERK U.S. DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
BY DEPUTY

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

C11-0096

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

ZIZHONG FAN AND ZISHEN FAN,

Defendants,

and

JUNHUA FAN,

Relief Defendant.

Case No. _____ (MJP)

COMPLAINT

[FILED UNDER SEAL]

Plaintiff Securities and Exchange Commission ("the Commission") alleges:

SUMMARY OF THE ACTION

1. This case involves insider trading in the securities of Seattle Genetics, Inc. ("Seattle Genetics" or "SGEN"), a Bothell, Washington biopharmaceutical company.

1 Beginning in at least August 2010, defendant Zizhong Fan, a manager at Seattle Genetics,
2 learned confidential information about positive clinical trial results for a cancer drug under
3 development by the company. Zizhong Fan tipped this information to a relative in southern
4 California, defendant Zishen Fan, who purchased several hundred thousand dollars of Seattle
5 Genetics stock and options in the U.S. brokerage account of another family member living in
6 China, relief defendant Junhua Fan. When Seattle Genetics reported to the public in late
7 September 2010 that its flagship drug had proven effective in fighting Hodgkin's lymphoma,
8 the company's stock price jumped nearly 18%. By trading on inside information learned by
9 Zizhong, the Fans netted over \$803,000 in illicit profits.

10 2. Upon being contacted by the staff of the Securities and Exchange Commission
11 ("Commission"), Zizhong Fan denied being related to or even knowing Zishen Fan, despite
12 the fact that they have shared multiple addresses over the years. Zishen Fan similarly denied
13 to the Commission staff that he knew anyone who worked at Seattle Genetics. Almost
14 immediately after being contacted by the Commission staff, Zishen Fan contacted his broker
15 and attempted to transfer several hundred thousand dollars from Junhua Fan's brokerage
16 account to a bank account in China. While two of these attempts were unsuccessful, as of the
17 date of this Complaint, one such request is still pending with the brokerage.

18 3. By trading on the basis of material nonpublic information Zizhong learned
19 through his employment at Seattle Genetics, defendants violated Section 10(b) of the
20 Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5
21 thereunder [17 C.F.R. § 240.10b-5]. The Commission seeks, among other relief, an order
22 enjoining defendants from future violations of the securities laws, requiring them to disgorge
23 their ill-gotten gains with prejudgment interest, and pay civil monetary penalties.

24 4. Moreover, because Zishen Fan, upon learning of the Commission's
25 investigation, attempted to transfer assets out of the United States, the Commission seeks
26 emergency relief to preserve the status quo, including a temporary restraining order, an asset
27 freeze, and expedited discovery.

JURISDICTION AND VENUE

5. The Commission brings this action pursuant to Section 21(d) of the Exchange Act [15 U.S.C. §§ 78u(d)]. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

6. Defendants, directly or indirectly, have made use of the means and instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, in connection with the acts, practices, courses of business, and transactions alleged herein.

7. This District is an appropriate venue for this action under Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Certain of the acts, practices, courses of business, and transactions constituting the violations alleged herein occurred within the Western District of Washington. Defendant Zizhong Fan resides in Bothell, Washington, and defendants traded in the securities of Seattle Genetics, a company based in Bothell, Washington. Assignment to the Seattle Division is appropriate because much of the relevant conduct took place in King County.

THE DEFENDANTS

8. Zizhong (James) Fan, age 39, resides in Bothell, Washington. At the time of the events alleged herein, Zizhong Fan was employed as the manager of clinical programming for Seattle Genetics.

9. Zishen (Brandon) Fan, age 38, resides in Chino Hills, California. Zishen and Zizhong Fan are relatives of one another. Among other things, both have shared multiple common addresses in Maryland and California over the past decade, according to public records.

RELIEF DEFENDANT

10. Junhua Fan, age 60, is a resident of Beijing, China. Junhua Fan is a relative of Zizhong and Zishen Fan. Junhua Fan is the owner of a brokerage account in which trades for Seattle Genetics were placed, and which currently holds several hundred thousand dollars in

1 cash and securities as a result of the tipping of inside information. Zishen Fan made several
2 trades in Seattle Genetics securities in Junhua Fan's brokerage account.

3 **RELEVANT ENTITY**

4 11. Seattle Genetics is a Delaware corporation headquartered in Bothell,
5 Washington. The Company's common stock is registered with the Commission under
6 Section 12(b) of the Exchange Act [15 U.S.C. § 78I]. Its stock is publicly quoted on the
7 NASDAQ Stock Market under the symbol "SGEN." Seattle Genetics is a clinical stage
8 biotech company developing therapies for the treatment of cancer and autoimmune diseases.
9 Its lead product candidate is brentuximab vedotin, or SGN-35, which is being developed for
10 use by patients with Hodgkin's lymphoma.

11 **FACTUAL ALLEGATIONS**

12 12. In 2010, defendant Zizhong Fan was employed as Seattle Genetics' manager of
13 clinical programming. He and his team were involved in the clinical trials of the company's
14 leading developmental candidate, SGN-35, a product to be used to treat Hodgkin's
15 lymphoma. Zizhong Fan's direct report had access to pivotal data about the SGN-35 clinical
16 trials in July and August 2010. This information was confidential.

17 13. During the relevant period, Zizhong Fan began tipping his relative Zishen Fan
18 nonpublic information that Zizhong Fan learned through his employment at Seattle Genetics
19 concerning the SGN-35 clinical trial.

20 14. Zizhong Fan knew or was reckless in not knowing that the information he
21 learned regarding the SGN-35 clinical trial was confidential and that he had a duty to his
22 employer to keep the information confidential. Zishen Fan knew or was reckless in not
23 knowing that the information was confidential and that Zizhong Fan was breaching a duty to
24 his employer by sharing the information with him.

25 15. Between August 24 and September 24, 2010, Zishen Fan purchased over 2,750
26 Seattle Genetics option contracts – options which provided the right to purchase Seattle
27 Genetics common stock at a designated price – at a total cost in excess of \$360,000. On many

1 of the days during which the trades were made, Zishen's purchases represented the vast
2 majority of the option trading volume for the entire market. He purchased these securities in a
3 brokerage account held in the name of Junhua Fan, a relative in Beijing.

4 16. The call options purchased by Zishen Fan had an exercise price of \$12.50 and
5 an expiration date of October 16, 2010. At the time, Seattle Genetics' stock was trading at
6 around \$12 per share. This meant that the options were "out-of-the-money" and would have
7 value only if some event caused the company's stock price to jump to \$12.50 by October 16;
8 if the stock did not rise by that date, the options would expire worthless, and Zishen and
9 Junhua Fan stood to lose the entire \$360,000 investment.

10 17. During this same period, Zishen Fan purchased several hundred shares of
11 Seattle Genetics stock in his own account.

12 18. Also during this same period, in addition to tipping Zishen, Zizhong Fan
13 purchased Seattle Genetics call options in his own account. At the time he did so, the
14 company was in a "blackout period," meaning company employees were prohibited from
15 trading in the company's securities.

16 19. Throughout the period when Zishen was amassing the Seattle Genetics options in
17 Junhua Fan's account, Zizhong Fan was attending meetings at which the SGN-35 clinical trial
18 results were discussed. For example:

- 19 • on Wednesday, September 8, 2010, Zizhong Fan attended a staff meeting to
20 plan for the receipt and sequestration of the final results of the SGN-35 pivotal
21 clinical trial. At this meeting, Zizhong received a timeline for the evaluation
22 of the SGN-35 results that set forth that Seattle Genetics would be issuing a
23 press release regarding the results of the SGN-35 pivotal clinical trial on
24 Monday, September 27. On September 10, Zishen spent \$45,000 buying out-
25 of-the-money SGEN call options that expired on October 16, 2010 in Junhua's
26 brokerage account.
- 27 • on Friday, September 17, Zizhong Fan was one of a team of SGEN employees

1 who received the final data from the SGN-35 pivotal clinical trial. That same
2 day, Zishen spent over \$40,000 buying out-of-the-money SGEN call options
3 that expired on October 16, 2010 in Junhua's brokerage account.

- 4 • on Friday, September 24, Zizhong attended a series of meetings at which the
5 results were finalized for presentation to Seattle Genetics' senior executives,
6 at which time the company began preparing to report the news to the investing
7 public. That date coincided with Zishen Fan's largest-ever single day
8 purchase of Seattle Genetics call options, when he acquired over 500 call
9 option contracts at a price of over \$65,000 – nearly 50% of all Seattle
10 Genetics call options in that series purchased that day. Also on September 24,
11 Zishen Fan purchased over \$150,000 in Seattle Genetics stock in the Junhua
12 Fan account.

13 20. On the morning of Monday, September 27, Seattle Genetics issued a press
14 release and held a webcast in which it publicly reported the positive results from the SGN-35
15 clinical trials. The company's CEO was quoted as being "extremely excited" about the
16 results, which moved the company significantly closer to releasing the treatment to patients
17 with Hodgkin's lymphoma. The company's stock price rose more than \$2.00 per share the
18 same day, or nearly 18%, closing at \$14.30.

19 21. Following the September 27 announcement, the value of the call options in the
20 Junhua Fan account jumped instantly by several hundred thousand dollars. Throughout the
21 following month, the call options were either sold for a profit or exercised (i.e., stock was
22 purchased at the exercise price of \$12.50 per share), and the stock was sold at market prices
23 ranging from \$15.09 to \$17.35 per share. All told, the Junhua Fan account realized net
24 trading profits of over \$803,000.

25 22. On January 13, 2011, the staff of the Commission contacted both Zizhong and
26 Zishen Fan. Zizhong denied being related to or knowing Zishen Fan, while Zishen denied
27 knowing anyone at Seattle Genetics. Later that day, Zishen transferred \$50,000 from

1 Junhua's brokerage account to a domestic bank account in Junhua's name. On January 14,
2 Zishen made two additional attempts to transfer a total of \$300,000 from Junhua's brokerage
3 account to an overseas bank account in China. These attempts were unsuccessful. However,
4 a fourth request, to transfer \$500,000 from the Junhua Fan brokerage account to a bank in
5 China, was still pending with the brokerage as of Tuesday afternoon, January 18.

6 23. Also on January 14, Zizhong Fan told his supervisor at Seattle Genetics that
7 he was leaving unexpectedly for China that day, and would not return for at least four weeks.

8 **CLAIM FOR RELIEF**

9 *Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder*

10 24. The Commission realleges and incorporates by reference Paragraphs 1 through
11 23 above.

12 25. By engaging in the conduct described above, Defendants, directly or indirectly,
13 in connection with the purchase or sale of securities, by the use of means or instrumentalities
14 of interstate commerce, or of the mails, with scienter:

15 (a) employed devices, schemes, or artifices to defraud;

16 (b) made untrue statements of material fact or omitted to state material facts
17 necessary in order to make the statements made, in the light of the
18 circumstances under which they were made, not misleading; and

19 (c) engaged in acts, practices, or courses of business which operated or would
20 operate as a fraud or deceit upon other persons, including purchasers and
21 sellers of securities.

22 26. Defendants have violated and, unless restrained and enjoined, will continue to
23 violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. §
24 240.10b-5].

25 **PRAYER FOR RELIEF**

26 WHEREFORE, the Commission respectfully requests that this Court:

27 I.

1 Enjoin defendants Zizhong Fan and Zishen Fan, temporarily, preliminarily and
2 permanently, from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule
3 10b-5 thereunder [17 C.F.R. § 240.10b-5].

4 II.

5 Order defendants Zizhong Fan and Zishen Fan and relief defendant Junhua Fan to
6 disgorge their ill-gotten gains, including prejudgment interest.

7 III.

8 Order defendants Zizhong Fan and Zishen Fan to pay civil penalties pursuant to
9 Section 21A of the Exchange Act [15 U.S.C. § 78u-1].

10 IV.

11 Enter an order temporarily freezing the assets of Junhua Fan's brokerage account and
12 any bank account that received any proceeds from the fraudulent trading.

13 V.

14 Enter an order preventing defendants Zizhong Fan and Zishen Fan and relief
15 defendant Junhua Fan from destroying, mutilating, concealing, transferring, altering, or
16 otherwise disposing of, in any manner, books, records, computer programs, computer files,
17 computer printouts, correspondence, including e-mail, whether stored electronically or in
18 hard-copy, memoranda, brochures, or any other documents of any kind that pertain in any
19 manner to the business of the defendants and relief defendant.

20 VI.

21 Enter an order permitting expedited discovery.

22 VII.

23 Retain jurisdiction of this action in accordance with the principles of equity and the
24 Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders
25 and decrees that may be entered, or to entertain any suitable application or motion for
26 additional relief within the jurisdiction of this Court.

VIII.

Grant such other and further relief as this Court may determine to be just and necessary.

Dated: January 19, 2011

Respectfully submitted,

/s/ Robert L. Mitchell
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