

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

ADVATECH CORPORATION and
RICHARD J. MARGULIES,

Defendants.

Civil Action No.

08-5788

COMPLAINT

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

SUMMARY

1. From at least May 2008 through June 2008, Advatech Corporation ("Advatech") and Richard J. Margulies (collectively, the "Defendants") engaged in a fraudulent scheme to manipulate the market for the common stock of Advatech.
2. Specifically, Margulies, the Chief Financial Officer ("CFO") and a director of Advatech, paid a 20 percent kickback in exchange for causing or generating purchases of Advatech stock to Eduardo Rodriguez, a corrupt stock promoter, and the Cooperating Witness ("CW"), an individual whom he believed had connections to corrupt registered representatives. In reality, the CW was, at all times, cooperating with the Federal Bureau of Investigation ("FBI").
3. In accordance with his scheme, Margulies paid at least \$1,040 in kickbacks as partial payments to the CW in exchange for completed purchases of at least 5,000 shares of Advatech stock in an effort to create the appearance of market interest, induce public purchases of stock, and ultimately increase the stock's trading price.

VIOLATIONS

4. As a result of the conduct described in this Complaint, the Defendants violated, and unless restrained and enjoined by the Court will continue to violate, Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)], and Rule 10b-5 [17 C.F.R. § 240.10b-5], thereunder.

JURISDICTION AND VENUE

5. The Commission brings this action pursuant to the authority conferred upon it by Sections 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], seeking permanently to enjoin Defendants from engaging in the acts, practices and courses of business alleged in this Complaint.

6. The Commission seeks a final judgment ordering Margulies to disgorge his ill-gotten gains, with prejudgment interest thereon.

7. The Commission seeks a final judgment ordering Margulies to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

8. The Commission seeks a penny stock bar pursuant to Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)] against Margulies.

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

10. Venue in this District is proper pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa], because certain of the acts, practices, and courses of business constituting the violations alleged herein occurred within the Eastern District of Pennsylvania. For example, the kickbacks paid to the CW were deposited into a bank account controlled by the FBI in the Eastern District of Pennsylvania.

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

DEFENDANTS

12. **Advatech Corporation** is a Florida corporation headquartered in West Palm Beach, Florida.

13. **Richard J. Margulies**, age 58, is a resident of Edison, New Jersey. He is the CFO of Advatech and a member of its board of directors. At all times relevant to the Complaint, Margulies owned and/or controlled a significant portion of Advatech stock either directly or through nominees.

FACTS

Advatech Corporation

14. Advatech describes itself as an early stage biotechnology company engaged in research and development for the commercialization of products for non-invasive therapeutic medicine. At all times relevant to the Complaint, Advatech's securities publicly traded on the "grey market" under the symbol "ADVA" and were not registered with the Commission. Grey market stocks have no market makers, and are not listed, traded or quoted on any stock exchange, the over-the-counter-bulletin-board or the Pink Sheets. However, customers may trade through brokers on an unsolicited basis, and trading data is publicly available throughout the trading day.

15. At all times relevant to the facts alleged in this Complaint, Advatech qualified as a penny stock as defined by Rule 3a51-1 of the Exchange Act, and did not meet any exceptions to that rule.

16. At all times relevant to the facts alleged in this Complaint, Advatech acted by and through Margulies.

Margulies Manipulated the Market for Advatech Stock

17. Beginning as least as early as May 2008, Defendants orchestrated and directed a scheme to manipulate the market for Advatech stock. They did this in various ways, including: a) entering into illegal agreements to orchestrate trading activity to create the false impression of increased market demand for Advatech stock; b) engaging in, directing, or causing manipulative and deceptive securities transactions to artificially increase Advatech's stock price and trading volume; and c) coordinating trading activity with the issuance of Advatech press releases to provide a false pretext for the increased trading volume in Advatech stock and to induce public investors to also make purchases of Advatech stock.

18. Through these activities, Defendants created artificial trading activity, injected artificial information into the marketplace, and created a false impression of supply and demand for Advatech stock.

19. Specifically, on or about May 21, 2008, Margulies met with Rodriguez and the CW to discuss a scheme to artificially inflate the price of Advatech stock.

20. Rodriguez is a stock promoter who, in exchange for a fee, facilitated purchases of publicly traded stock with the objective of illegally manipulating the market for that stock by artificially creating demand.

21. During this meeting, Margulies stated that he wanted to increase Advatech's stock price from approximately \$0.30 to \$2.00 per share. To meet this goal, Margulies agreed to pay Rodriguez and the CW a kickback equal to 20 percent of the cost of shares in Advatech stock that they, or individuals working with them, purchased and held as part of the scheme.

22. As part of this scheme, on or about May 30, 2008, Margulies emailed the CW a list of shareholder positions in Advatech to demonstrate that Margulies knew “where every share” of Advatech was and that he could exercise control over the free trading shares of Advatech.

23. Margulies and the CW discussed how Margulies wanted to coordinate the dissemination of Advatech press releases with the purchases to be generated by the CW.

24. On or about June 11, 2008, Margulies told the CW during a telephone call that an upcoming Advatech press release would be issued announcing an agreement with a major university and they should “move [the stock] up nice and slow, so it doesn’t look like we’re a bunch of idiots.”

25. The following day, Margulies told the CW that the press release he previously described would be issued on June 16, 2008 and that he expected the release to create trading activity in the stock. During this conversation, Margulies also instructed the CW that to avoid scrutiny, he should make sure that the individuals the CW used to generate purchases did not purchase Advatech stock until the news was released. Margulies further stated that he was “not going to get [his] ass in hot water or partners’ ass[es] in hot water” and that he would instruct the CW about the details for purchasing the stock at a later time.

26. On or about June 16, 2008, Margulies emailed the CW an unreleased advanced copy of the press release announcing the agreement with a major university which he had previously described to the CW.

27. The following day, June 17, 2008, at approximately 2:00 p.m. Eastern Time, Margulies told the CW by telephone that Advatech’s press release should be issued at 3:00 p.m. that day and instructed the CW to purchase Advatech stock after that time. Margulies agreed to wire the CW’s kickback after the trades had cleared, but stated that he would make the payment from an account that was not his.

28. At approximately 3:20 p.m., Margulies contacted the CW again and told him that the news had not yet been released and that the CW should refrain from purchasing the stock until the next day because Margulies did not want buying “in the absence of news.” However, at approximately 3:37 p.m., Margulies called the CW and told him that the Advatech press release was now publicly available.

29. Once the news was issued, in what appeared to Margulies to be a trade caused or generated by the CW, the FBI purchased approximately 1,000 shares of Advatech stock for approximately \$0.90 per share, for a total of approximately \$900. This trade represented 50 percent of that day’s trading volume in Advatech stock.

30. The next day, June 18, 2008, Margulies and the CW discussed purchasing additional Advatech stock later that day. At Margulies’ direction, in what again appeared to Margulies to be transactions caused or generated by the CW, the FBI purchased approximately 4,000 shares of Advatech stock at approximately \$1.05 per share, for a total of approximately \$4,200. These trades represented 78 percent of that day’s trading volume in Advatech stock. This order was executed through four separate transactions.

31. Advatech’s stock price on June 18, 2008 ranged from \$0.05 to \$1.05, on a volume of 5,100 shares. During the year prior to these purchases on June 17 and 18, 2008, Advatech had traded in a range of \$0.01 to \$0.75 per share. Prior to June 17, 2008, Advatech traded only a few days a month and averaged 3,200 shares on the days it traded.

32. On or about June 19, 2008, Margulies told the CW that Margulies had himself purchased Advatech shares prior to the CW’s purchase on June 18th in order to manipulate the share price up to \$1.00. Margulies also stated that he would pay the CW the 20 percent kickback

that they had previously agreed to, and told him that to help conceal the scheme, he would make payments in multiple transactions from multiple accounts.

33. Margulies also took other steps to attempt to conceal the manipulative scheme. On or about June 20, 2008, Margulies told the CW that he should provide him with a fake invoice to disguise the kickback payments. He instructed the CW to direct the invoice to a shell company controlled by Margulies. Margulies also instructed the CW not to communicate with him about this scheme via email in order to avoid detection.

34. On or about June 20, and again on or about June 23, 2008, Margulies paid a \$520 kickback (\$1,040 total) as partial payment to Rodriguez and the CW. Margulies unknowingly made those payments to an FBI-controlled bank account in Philadelphia.

CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5, thereunder

35. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 34, inclusive, as if the same were fully set forth herein.

36. From at least May 2008 through June 2008, Defendants knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of a national securities exchange:

- (a) employed devices, schemes or artifices to defraud;
- (b) made untrue statements of material fact, or omitted to state material facts

necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person in connection with the purchase or sale of any security.

37. By engaging in the foregoing conduct, Defendants violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5], thereunder.

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

I.

Permanently restraining and enjoining Advatech and Margulies from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 [17 C.F.R. § 240.10b-5], thereunder.

II.

Ordering Margulies to disgorge any and all ill-gotten gains, together with prejudgment interest, derived from the activities set forth in this Complaint.

III.

Ordering Margulies to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

IV.

Prohibiting Margulies from participating in any offering of penny stock pursuant to Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)].

V.

Granting such other and further relief as the Court may deem just and appropriate.

Respectfully submitted,

s/ Scott A. Thompson

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Dated: December 15, 2008