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EIGHTH JUDICIAL DISTRICT
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SAN FRANCISCO, CALIFORNIA

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1 MARC J. FAGEL (Cal. Bar No. 154425)
fagelm@sec.gov
2 CARY S. ROBNETT (Cal. Bar No. 160585)
robnettc@sec.gov
3 ROBERT S. LEACH (Cal. Bar No. 196191)
leachr@sec.gov
4 ERIC M. BROOKS (Cal. Bar No. 209153)
brookse@sec.gov

5 Attorneys for Plaintiff
6 SECURITIES AND EXCHANGE COMMISSION
44 Montgomery Street, Suite 2600
7 San Francisco, California 94104
Telephone: (415) 705-2500
8 Facsimile: (415) 705-2501

9 UNITED STATES DISTRICT COURT
10 NORTHERN DISTRICT OF CALIFORNIA
11 SAN FRANCISCO DIVISION

12 SECURITIES AND EXCHANGE COMMISSION,
13 Plaintiff,
14 v.
15 WILLIAM J. RAUCH,
16 Defendant.

Case No. **CV 08 3416**
COMPLAINT
[DEMAND FOR JURY TRIAL]

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

18 **SUMMARY OF THE ACTION**

19 1. This case involves insider trading by William J. Rauch ("Rauch" or "defendant"), the
20 mayor of Beaufort, South Carolina, in the stock of a San Francisco-area biotechnology company for
21 which he provided consulting services. In August 2006, executives of Advanced Cell Technology,
22 Inc. told Rauch that the company was about to disclose a breakthrough embryonic stem cell
23 technique. Though aware the information was confidential, Rauch began buying Advanced Cell
24 stock in multiple brokerage accounts he had opened in the names of his children.

25 2. When Advanced Cell publicly announced the development on August 23, 2006, its stock
26 price soared more than 360%. At the close of trading on August 23, Rauch's \$11,162 investment was
27 worth more than \$60,000.

28 3. By breaching duties of loyalty, trust, and confidence he owed to Advanced Cell and its

1 | shareholders, Rauch violated the antifraud provisions of the Securities Exchange Act (“Exchange
2 | Act”).

3 | **JURISDICTION, VENUE, AND INTRADISTRICT ASSIGNMENT**

4 | 4. The Commission brings this action pursuant to Sections 21(d), 21(e), and 21A of the
5 | Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78u-1].

6 | 5. This Court has jurisdiction over this action pursuant to Sections 21(e), 21A, and 27 of the
7 | Exchange Act [15 U.S.C. §§ 78u(e), 78u-1, and 78aa]. Defendant, directly or indirectly, has made
8 | use of the means and instrumentalities of interstate commerce, of the mails, or of the facilities of a
9 | national securities exchange in connection with the acts, practices, and courses of business alleged in
10 | this complaint.

11 | 6. Venue is proper in this District pursuant to Section 27 of the Exchange Act [15 U.S.C. §
12 | 78aa], because acts and transactions constituting the violations alleged in this complaint occurred
13 | within the Northern District of California.

14 | 7. Assignment to the San Francisco Division is appropriate pursuant to Civil Local Rule 3-
15 | 2(c) because acts and omissions giving rise to the Commission’s claims occurred in Alameda County.

16 | **DEFENDANT**

17 | 8. Rauch, age 57, lives in Beaufort, South Carolina, where he has served as mayor since
18 | 1999. Rauch was a Beaufort city councilman from 1993 to 1999. Before moving to Beaufort in the
19 | late 1980s, Rauch worked as a managing director for a publicly traded company in California and,
20 | prior to that, in New York City government.

21 | **RELEVANT ENTITY**

22 | 9. Advanced Cell Technology, Inc. (“Advanced Cell” or “company”) is a biotechnology
23 | company, founded in 1994, that specializes in developing and commercializing human stem cell
24 | technology. During the relevant period, Advanced Cell was headquartered in Alameda, California,
25 | and incorporated in Delaware. It has since relocated its corporate headquarters to Los Angeles,
26 | California. At all relevant times, Advanced Cell shares were registered with the Commission under
27 | Section 12(g) of the Exchange Act [15 U.S.C. § 78l(g)] and traded on the OTC Bulletin Board under
28 | the symbol “ACTC.OB.”

FACTUAL ALLEGATIONS

Background

10. Rauch has had a long-standing relationship with Advanced Cell since being introduced to the company in the late 1990s by a friend. Rauch first bought stock in Advanced Cell in July 2000, before the company went public. He was appointed to serve on a business development board formed by the company.

11. In mid-2005, Rauch entered into a written Finder's Fee Agreement ("Agreement") with Advanced Cell. Under the Agreement, Rauch agreed to refer potential investors to Advanced Cell. In exchange for Rauch's services, Advanced Cell granted Rauch an option to buy 48,000 shares of Advanced Cell stock and promised him a referral fee equal to a percentage of any amounts raised.

12. The Agreement signed by Rauch contained a broad confidentiality provision that barred Rauch from "us[ing] any Confidential Information for [his] own benefit or for any purpose other than this Agreement" and required Rauch to "hold all Confidential Information in strict confidence and . . . not disclose any Confidential Information to any third party."

Rauch Traded on Inside Information

13. On July 25, 2006, Advanced Cell learned that the science journal Nature had agreed to publish an article by Advanced Cell reporting a new technique for creating human stem cell lines from a single embryonic cell without harming the embryo's developmental potential. Advanced Cell believed this development might allay some groups' religious, moral, and ethical concerns about stem cell technology and prompt the federal government to provide more funding for stem cell research.

14. On August 3, 2006, during several telephone calls, an Advanced Cell executive told Rauch in detail about the stem cell development and the upcoming Nature article. The executive told Rauch the information was not yet public and would be significant news.

15. In providing the information to Rauch, Advanced Cell believed he was obligated to keep the information confidential and not use it for his own benefit.

16. Also on August 3, Rauch called a securities broker – with whom he had never placed an order – and instructed the broker to open brokerage accounts in his name and in the names of his children.

1 17. On August 7, Rauch wired \$12,000 to the brokerage firm. Pursuant to Rauch's
2 instruction, the brokerage firm placed \$6,000 in Rauch's account and \$1,000 in each of the six
3 accounts held by Rauch's children.

4 18. On August 9, Rauch telephoned his securities broker and purchased 15,725 shares of
5 Advanced Cell at prices ranging from \$0.35 and \$0.36 per share in the six accounts held on behalf of
6 his children.

7 19. On Sunday, August 13, an Advanced Cell executive had additional communications with
8 Rauch concerning the impending Nature article, and reiterated that the information was confidential.

9 20. The next morning (Monday, August 14), Rauch called his brokerage firm and purchased
10 an additional 17,435 shares of Advanced Cell at prices ranging from \$0.30 and \$0.33 per share in the
11 six accounts held on behalf of his children. Later that day, Rauch personally delivered a \$6,000
12 check to the brokerage firm to cover the trades. In total, Rauch purchased 33,160 Advanced Cell
13 shares in his children's accounts for \$11,161.55 (excluding brokerage fees).

14 21. On August 23, 2006, Advanced Cell publicly announced its embryonic stem cell
15 technology development. The press release stated that "company scientists have successfully
16 generated human embryonic stem cells [] using an approach that does not harm embryos. The
17 technique is reported in an article appearing online (ahead of print) in the journal Nature." On this
18 news, Advanced Cell's stock price increased 360% from the previous day's closing price, jumping
19 from \$0.40 to \$1.83 per share. Approximately 12 million shares traded on August 23, compared to a
20 historical average daily volume of about 172,000 shares.

21 22. With the increase in Advanced Cell's stock price, Rauch's initial \$11,162 investment
22 increased to \$60,683 – a paper profit of \$49,521. Rauch did not immediately sell the stock. In the
23 days following Advanced Cell's announcement, a number of commentators criticized and questioned
24 aspects of the announcement, and the stock price declined somewhat. On August 25, 2006, the stock
25 closed at \$0.96 per share, still 140% above the price just before the announcement. Even with the
26 price decline, Rauch's potential profit on his stock purchases two weeks earlier, had he sold, was
27 \$20,708. As of June 2008, Rauch continued to hold a majority of the stock.

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1 **PRAYER FOR RELIEF**

2 The Commission respectfully requests that this Court:

3 I.

4 Permanently enjoin Rauch from, directly or indirectly, violating Section 10(b) of the
5 Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

6 II.

7 Order Rauch to disgorge any wrongfully obtained benefits, including prejudgment interest;

8 III.

9 Order Rauch to pay civil penalties pursuant to Section 21A of the Exchange Act [15 U.S.C. §
10 78u-1];

11 IV.

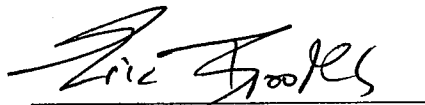
12 Retain jurisdiction of this action in accordance with the principles of equity and the Federal
13 Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that
14 may be entered, or to entertain any suitable application or motion for additional relief within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

16 V.

17 Grant such other relief as this Court may determine to be just and appropriate.

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19 DATED: July 16, 2008

Respectfully Submitted,

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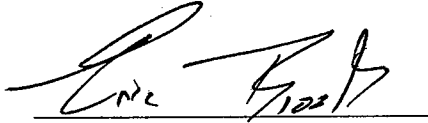
22 Eric M. Brooks
23 Attorney for Plaintiff
24 SECURITIES AND EXCHANGE COMMISSION
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REQUEST FOR JURY TRIAL

The Commission hereby demands a jury trial.

DATED: July 16, 2008

Respectfully submitted,



Eric M. Brooks
Attorney for Plaintiff
SECURITIES AND EXCHANGE COMMISSION

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