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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

PJH

C 06 5691

[redacted] On Behalf of Itself and All Others Similarly Situated,

Plaintiff,

vs.

CONNETICS CORPORATION, THOMAS G. WIGGANS, C. GREGORY VONTZ and ALEXANDER J. YAROSHINSKY,

Defendants.

CLASS ACTION

COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased the common stock of Connetics Corporation ("Connetics" or the "Company") between June 28, 2004 and May 3, 2006 (the "Class Period"), against Connetics and certain of its officers for violations of the Securities Exchange Act of 1934 (the "1934 Act").

2. Connetics is a specialty pharmaceutical company that engages in the development and commercialization of products for the medical dermatology market.

3. During the Class Period, defendants concealed a significant finding on the Company's most important new drug (Velac) which would likely prevent FDA approval. Defendants also reported false financial results by failing to properly reserve for rebates. As a result, Connetics stock was inflated and defendants (excluding defendant Alexander J. Yaroshinsky) were able to sell 165,779 shares of their Connetics stock for proceeds of $3.6 million.

4. In June 2004, Connetics completed a six-month carcinogenicity study on mice for its Velac drug with the result being that 55% of the mice treated with Velac developed tumors. On June 28, 2004, a panel of toxicology experts told Connetics such findings would make FDA approval of Velac highly unlikely. On April 13, 2005, Connetics' officers, including its Vice President of Biostatistics, Alexander J. Yaroshinsky ("Yaroshinsky"), learned that the FDA likely would determine Connetics' acne drug Velac was unsafe. Rather than disclose the truth or abstain from benefiting from this news, Yaroshinsky both concealed the information from the public and also sold 15,100 shares of Connetics stock. Moreover, he also bought 2,076 put contracts on Connetics stock so that he would benefit when the news came out and the stock dropped in price. Yaroshinsky profited by $680,000 from his scheme.

5. Then, on June 13, 2005, Connetics shocked the market with news of an FDA Non-Approvable Letter for Velac:

> Connetics Corporation, a specialty pharmaceutical company focused on dermatology, announced today that the U.S. Food and Drug Administration (FDA) has issued a non-approvable letter dated June 10, 2005 for Velac® (a combination of 1% clindamycin and 0.025% tretinoin) Gel, an investigational new drug formulation for treating acne. The only issue raised in the non-approvable letter was a positive carcinogenicity signal that was detected in a TgAC mouse dermal carcinogenicity study.

"We are disappointed in the FDA's decision. As discussed during our first quarter earnings call on April 26, we were particularly disappointed that FDA did not notify us of this as a potential issue until two months prior to the PDUFA date," said Thomas G. Wiggans, chief executive officer of Connetics. "We remain committed to bringing Velac to market, and will be working with FDA representatives to determine what is required to do so. Despite this setback, Connetics will continue to expand its leading position in the dermatology field with four brands on the market and a robust and diverse pipeline."

As a result of today's announcement, Connetics now projects 2005 total revenues to be $182 million to $188 million, down from previous guidance of $195 million to $206 million. Combined SG&A and R&D expenses for 2005 are projected to be between $121.5 million and $125.0 million. Diluted EPS for 2005 is projected to be in the range of $0.66 to $0.70, versus previous guidance of $0.88 to $0.92. The revised revenue and earnings guidance represents growth of approximately 28% over 2004 revenues and 33% over 2004 earnings.

6. On this news, Connetics' stock immediately crashed 27% to $15.13 per share on volume of 15 million shares.

7. On March 28, 2006, the SEC announced charges against Yaroshinsky for his actions. On that day, the SEC issued a litigation release which stated:

SEC Charges California Drug Executive with Insider Trading After Learning of the FDA's Reaction to Cancer Tests of Company's Acne Drug

Court freezes assets of drug executive at Connetics Corp. who orchestrated intricate stock-selling scheme before price fell 27%

On March 28, the Securities and Exchange Commission filed suit in the United States District Court for the Southern District of New York against Alexander J. Yaroshinsky, a Vice President at Palo Alto, California-based Connetics Corp., charging him with illegally trading on the basis of non-public, inside information after learning the FDA's preliminary reactions to a study relating to cancer tests of its acne drug. At the Commission's request, the Honorable Michael B. Mukasey issued an order freezing Yaroshinsky's assets, temporarily restraining him from further violations, and granting other emergency relief.

The Commission's complaint alleges that Yaroshinsky, who participated in tests which led the FDA to ultimately conclude that the drug was "unsafe for use," learned the FDA's preliminary views with respect to the cancer tests in an April 13, 2005 call with the FDA. Shortly thereafter, Yaroshinsky positioned himself to profit from a fall in the price of Connetics' stock. In accounts he controlled, Yaroshinsky sold 15,100 previously acquired Connetics shares, and bought 2,076 put contracts which gave him the right to sell Connetics shares at a fixed price and profit when the shares fell below that price. Ultimately, on June 13, 2005, when news of the non-approval was made public, Connetics' share price fell 27% and Yaroshinsky reaped a benefit of at least $ 680,000.

The complaint charges Yaroshinsky with violations of the anti-fraud provisions of the Securities Exchange Act of 1934, specifically Section 10(b) and rule 10-b5 thereunder, and seeks a permanent injunction, disgorgement of all ill-gotten gains plus prejudgment interest, and civil money penalties.

8. Then on May 3, 2006, Connetics announced it could not file its quarterly report on time due to a restatement of its financial results from the improper accounting for rebates.

9. On this news, the stock declined to $13.76 per share.

10. Later, on June 20, 2006, the SEC filed an amended complaint with additional details about defendants' knowledge of the problems with Velac and naming an additional defendant for consideration.

11. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) the carcinogenicity study of Velac had indicated that 89 out of 160 mice treated with Velac developed tumors;

(b) prior to the Class Period, Connetics had been informed by a panel of toxicology experts that they were unaware of any drug with similar results to Velac ever being approved by the FDA;

(c) the Company's new Velac drug would be deemed unsafe by the FDA and would not provide the revenue and income promised by the Company;

(d) the Company would not be able to achieve the operating results for 2006-2007 as projected due to its inability to launch Velac; and

(e) the Company was falsifying its financials for at least 2005 and likely earlier due to improper accounting for rebates.

12. As a result of defendants' false statements, Connetics' stock price traded at inflated levels during the Class Period, which allowed the individual defendants to reap millions of dollars in insider trading proceeds. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales of the Company's shares, sending them down 45% from their high. The stock now trades at $10-$11 per share, some 63% below the Class Period high of $29.92.

JURISDICTION AND VENUE

13. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

14. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(b) The Company's principal executive offices are located at 3160 Porter Drive, Palo Alto, California.

THE PARTIES

15. Plaintiff [redacted] purchased Connetics common stock as described in the attached certification and was damaged thereby.

16. Defendant Connetics is a specialty pharmaceutical Company that engages in the development and commercialization of products for the medical dermatology market. It offers OLUX Foam for the treatment of scalp dermatoses, and scalp and non-scalp psoriasis; Soriatane, an oral retinoid, to treat severe psoriasis in adults; and Luxiq Foam, a midpotency topical steroid, for the treatment of mild to moderate steroid-responsive scalp dermatoses, such as psoriasis, eczema, and seborrheic dermatitis, as well as Evoclin for the treatment of acne vulgaris. The Company is also developing Desilux Foam and Primolux Foam, which have completed Phase III clinical trials. Connetics sells its products primarily to physicians, principally dermatologists and pediatricians, in North America.

17. Defendant Thomas G. Wiggans ("Wiggans") is Chief Executive Officer and a director of the Company. Wiggans also served as President of the Company until February 2005. In February 2005, Wiggins was named Chairman of the Board of Connetics effective January 1, 2006. During the Class Period, Wiggans reaped $3,113,240 in insider trading as a result of his concealment of material adverse information.

18. Defendant C. Gregory Vontz ("Vontz") is, and at all relevant times was Chief Operating Officer of the Company. Vontz has served as President of the Company since February 2005 and as a director of the Company since March 2005. During the Class Period, Vontz reaped $586,412 in insider trading as a result of his concealment of material adverse information.

19. Defendant Yaroshinsky was a Vice President of the Company. Yaroshinky reaped $680,000 in insider trading (including purchasing put option contracts) as a result of his concealment of material adverse information.

20. Defendants Wiggans, Vontz and Yaroshinsky, because of their positions with the Company, and involvement in the Velac studies, and because of their access to material non-public information available to them but not to the public, knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. Wiggans, Vontz and Yaroshinsky are liable for the false statements pleaded herein at ¶¶27-28, 33-34, 38, 40, 44, 46-48.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

21. Defendants are liable for: (i) making false statements; ***or*** (ii) failing to disclose adverse facts known to them about Connetics. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Connetics' common stock was a success, as it: (i) deceived the investing public regarding Connetics' prospects and business; (ii) artificially inflated the price of Connetics' common stock; (iii) allowed defendant Yaroshinsky to sell Connetics stock and to purchase put contracts at artificially deflated prices for proceeds of $680,000 and the other defendants to sell $3.6 million worth of their Connetics shares; and (iv) caused plaintiff and other members of the Class to purchase Connetics' common stock at inflated prices.

22. In December 2002, Connetics initiated the Phase III program for Velac, a first-in-class combination of 1% clindamycin and 0.025% tretinoin, for the treatment of acne. The Velac clinical program consisted of two pivotal trials designed to demonstrate superiority to the individual drug products, and two smaller supplemental clinical studies required by the FDA. The Company completed enrollment of both pivotal trials in late 2003, enrolling over 2,200 patients. The market reacted favorably to Connetics' disclosures about Velac, including a March 2004 announcement of the positive outcome of the Phase III clinical trials of Velac, stating that the data from each trial demonstrated a consistently robust and statistically superior treatment effect for Velac compared with clindamycin gel, tretinoin gel and placebo gel on both of the primary endpoints. Connetics represented that an analysis of the combined data from the clinical trials also demonstrated that Velac was safe and well tolerated, with the most commonly observed adverse effects being application site reactions such as burning, dryness, redness and peeling. Following this supposedly positive clinical outcome, Connetics submitted a new drug application ("NDA") with the FDA for

Velac in August 2004. The NDA was accepted for filing by the FDA in October 2004 with a filing date of August 23, 2004 and a user fee goal date of June 25, 2005. If approved by the FDA, Velac would have competed with topical retinoids as well as topical antibiotics, representing approximately $988 million in the U.S. prescriptions during the 12 months ended December 2004. Velac was a very important drug for Connetics' business and the market expected favorable results once it was approved by the FDA.

23. However, defendants actually knew of severe adverse news about Velac. From January 2004 through June 2004, Connetics had performed a carcinogenicity study on mice. The carcinogenicity study results indicated that out of 160 mice treated with Velac Gel in varying formulations and dosages, 89 (55%) of the mice developed tumors. On June 28, 2004, Connetics convened a panel of toxicology experts to provide feedback on the carcinogenicity study results. At the meeting, the panel reported that it was unaware of any drug exhibiting a "positive dermal" similar to Velac Gel that had been approved by the FDA. Employees of Connetics, including Yaroshinsky, were present at this discussion. On August 24, 2004, Connetics submitted the Velac Gel drug application to the FDA. The application included the results of the carcinogenicity study. Given these results and what the toxicology experts had told Connetics, defendants knew it was highly unlikely the FDA would approve Velac.

24. Immediately prior to the Class Period, Wiggins appeared at the Company's Analyst and Investor Day on June 16, 2004 at The Mandarin Oriental Hotel. After the Investor Day, Comtex News Network reported that:

> Connectics continues to position itself to become one of the top dermatology pharmaceutical companies as it moves more deeply into the psoriasis market with Soriatane and lays the foundation to successfully enter the acne market with new products, Actiza and Velac. Management articulated its strategy and optimistic outlook at a meeting with investors yesterday.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

25. Despite the adverse news the Company had received on June 28, 2004, defendants made no effort to correct the prior positive statements about Velac which they then knew were not

true. In fact, the defendants continued to make misleading statements about Velac, at the same time falsifying the Company's financials through improper accounting for rebates.

26. On July 1, 2004, *Dermatology Times* reported on the many favorable aspects of Velac with information provided by the Company:

> Lead investigator of the Velac program, James Leyden, M.D., says that for most acne patients, prescribing Velac or similar combination products in development would be "desirable" versus prescribing two agents separately.
>
> "Compliance is so important, and when you get better you tend to get lazy, particularly when you use two drugs," says Dr. Leyden, professor of medicine at the University of Pennsylvania, Philadelphia, Pa. "There will be a certain amount of that with the combinations, but at least you know (patients) will be getting two drugs that attack two different areas of pathophysiology whenever they use it."
>
> Many experts already recommend topical antibiotics in combination with topical retinoids for nearly all acne patients. Only recently have Connetics and others been able to develop combination antibiotic-retinoid formulations that remain stable in the tube or jar.
>
> Trial results revealed patients treated with the Velac gel had significantly lower lesion counts, and significantly less acne by investigator assessment, than either clindamycin or tretinoin gel alone.
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> "The combination is powerful," says dermatologist Lincoln Krochmal, M.D., executive vice president of research and product development for Connetics Corp.
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> "Together, they do more as a single product than each active by itself . . . what you have to show in any combination product is that the combined product is superior, and clearly that's what you find here."
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> * * *
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> The manufacturer of Velac recently announced results of two phase 3 trials, and says that a new drug (NDA) will be submitted to the U.S. Food and Drug Administration (FDA) in the third quarter of 2004.

27. On July 28, 2004, Connetics reported favorable net income for the second quarter ended June 30, 2004 in a release which also discussed Velac:

> "This quarter's impressive results showcase our achievements in every aspect of our operations and speak to the potential for further growth and expansion of a valuable specialty pharmaceutical franchise," said Thomas Wiggans, Connetics' President and CEO. "We are confident in our ability to achieve continued revenue growth with our current brands and look forward to launching up to three new products from our pipeline within the next 12 months. Based on our commercial activities with Soriatane and the new distribution agreement we have entered into we are raising our financial guidance for the balance of the year. Looking ahead, we are diligently preparing to initiate two clinical trials while preparing our commercial operations for the introduction of Actiza, Extina and Velac," said Wiggans.

28. On October 25, 2004, the Company issued a press release entitled "Connetics Reports Third Quarter Earnings Per Share of $0.10; Company Introduces 2004 Fourth Quarter Financial Guidance." The press release stated in part:

> Connetics Corporation, a specialty pharmaceutical company that develops and commercializes dermatology products, today reported net income for the third quarter ended September 30, 2004 of $3.7 million, or $0.10 per diluted share, which includes a $3.5 million milestone payment due to Yamanouchi Europe B.V. in conjunction with the submission of the Velac(R) New Drug Application (NDA). This compares with net income of $1.6 million, or $0.05 per diluted share, for the third quarter of 2003.
>
> Total revenues for the third quarter of 2004 were $37.3 million, compared with total revenues of $19.7 million for the third quarter of 2003. Product revenues for the 2004 third quarter more than doubled to $37.0 million, compared with $17.7 million for the comparable period last year, reflecting growth in revenues of OLUX(R) and Luxiq(R), and the addition of Soriatane(R), which the Company acquired from Roche in March 2004. The Company had cash, cash equivalents and short-term investments on September 30, 2004 of $78.0 million.
>
> During the third quarter of 2004 revenues of OLUX and Luxiq were $22.2 million, representing an increase of 26% over the prior year. Soriatane revenues were $14.7 million during the third quarter of 2004. Contract and royalty revenues for the third quarter of 2004 were $345,000, compared with $2.1 million in the third quarter of 2003.
>
> Selling, general and administrative (SG&A) expenses increased to $16.8 million in the third quarter of 2004 from $9.7 million in the third quarter of 2003, primarily due to payments made to UCB Pharma (UCB) for promotional activities on behalf of OLUX and Luxiq, increased promotional activities for all products and increased headcount. Research and development (R&D) expenses were $6.0 million, essentially unchanged from the third quarter of 2003.
>
> "I am delighted to report on our progress, particularly our recent regulatory milestones including the FDA approval of Evoclin(TM) and the filing of the NDA for our Velac product," said Thomas G. Wiggans, President and Chief Executive Officer of Connetics. "With the planned commercial launch of Evoclin in the fourth quarter, we continue to expand our commercial product portfolio and achieve our corporate goals and objectives. During October, we expanded our team of sales representatives to 124 from 66. Our new sales representatives are currently undergoing comprehensive training, and we look forward to their contribution beginning later this quarter. The Company continues to execute well on all fronts, and we are anticipating a strong finish to 2004."
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> Significant activities in the third quarter of 2004 and subsequent weeks included:
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> – Receiving FDA approval of Evoclin (clindamycin) Foam, 1% (formerly Actiza(TM)) for the topical treatment of mild-to-moderate acne vulgaris (October 2004). Evoclin is the first product approval for Connetics that will address the acne market. Evoclin is delivered in Connetics' proprietary VersaFoam(R) vehicle and will be available in the fourth quarter of 2004 in 50g and 100g sizes.

– The FDA's acceptance of the NDA filing for Velac, a once-a-day treatment combination of 1% clindamycin and 0.025% tretinoin in an aqueous gel for the topical treatment of acne vulgaris (October 2004).

29. On the conference call following the release of Connetics' results, Vontz stated:

> [VONTZ]: Also, an important accomplishment in the third quarter for our regulatory team, who completed our largest NDA filing to date with the Velac filing, a tremendous amount of work by our team, very excited that we achieved our goal, and now can await a PDUFA date of June 25th, 2005.

30. In the question and answer part of the call, Vontz and Wiggins were asked about Velac:

> [ANALYST]: I'd like to maybe shed a little more color, if I could, on the clindamycin product, formerly Actiza, I guess now Evoclin, and also Velac, regarding label. Will you be able to get – maybe you can't discuss this for competitive reasons, but versus Clindagel, for example, will you have any label advantages over that product, perhaps irritation tolerance?
>
> And also on the subject of Velac as well, I noticed that Duac really has only a general – excuse me, an inflammatory acne claim, and yet it does I think in excess of $40 million. You will be able to get a general acne claim on that? Is that what we should expect?
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> * * *
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> [VONTZ]: Mark, you're spot on, though, with your assessment. With Evoclin, it is a 505B (2) reference label, so there is no comparative information in the label. Where we will have comparative information, and advantages, though, frankly, is with Velac. The world is changing, as you're probably well aware, with endpoints. The new hurdle that has been imposed in the last 18 months is – for a full acne claim is demonstration of both inflammatory and non-inflammatory resolution of lesions, and that we have in spades with Velac.

31. On November 22, 2004, Connetics issued a release to affirm its Velac patent position:

> The U.S. Food and Drug Administration has accepted for filing Connetics' New Drug Application for Velac as of August 23, 2004, with a user fee goal date of June 25, 2005. Connetics licensed from Yamanouchi Europe B.V. the rights to U.S. Patent No. 5,690,923 dated November 25, 1997, to develop and commercialize Velac exclusively in the U.S. and Canada, and non-exclusively in Mexico. Velac is currently approved in France.

32. Connetics concealed the problems it knew would likely cause the FDA not to approve Velac.

33. On November 23, 2004, Connetics announced it had received an FDA non-approvable letter for Extina. The Company's stock price dropped significantly on this news but continued to trade at artificially inflated levels due to the Company's assurances about Velac:

Connetics Receives FDA Non-Approvable Letter for Extina

Connetics Corporation, a specialty pharmaceutical company focused on dermatology, today announced that the U.S. Food and Drug Administration (FDA) has issued a non-approvable letter (dated November 23, 2004) for Extina®, an investigational new drug formulation of 2% ketoconazole for the treatment of seborrheic dermatitis. The FDA concluded that Extina was not effective for the treatment of seborrheic dermatitis because it was not superior to placebo foam.

Connetics announced in April 2003 that results from its Phase III clinical trial with Extina demonstrated non-inferiority to Nizoral® (ketoconazole) 2% Cream as measured by the endpoint of the Investigator's Static Global Assessment. Connetics also announced the results did not achieve statistical superiority versus placebo foam.

"The FDA's decision is disappointing and surprising. Based on discussions with the FDA regarding the requirements for the Phase III trial, we believe Extina met the study endpoints and that the NDA was approvable," said Thomas G. Wiggans, Connetics' Chief Executive Officer. "We believe that Extina demonstrated efficacy and warranted approval. However, under the circumstances, we will evaluate all options for Extina."

Commenting on the company's near-term commercial prospects, Mr. Wiggans added, "With our recently expanded and highly experienced sales force, we project continued growth from our core brands in 2005, and we are prepared for the commercial launch of Evoclin™, our new acne foam product, early next month. In addition, we have submitted an NDA for Velac® and have a robust pipeline of clinical and formulation-stage product candidates. We believe that any potential lost revenue for Extina in 2005 will be offset by expense savings as we will not be incurring the planned commercialization costs for Extina."

34. On January 25, 2005, the Company issued a press release entitled "Connetics Reports Fourth Quarter EPS of $0.17 and Product Revenues up 128% to $43.5 Million; Concludes First Year of Profitability with $0.52 EPS." The press release stated in part:

Connetics Corporation, a specialty pharmaceutical company that develops and commercializes dermatology products, today reported record net income for the 2004 fourth quarter of $6.4 million, or $0.17 per diluted share, compared with $1.5 million, or $0.05 per diluted share, for the comparable quarter last year.

Total revenues for the fourth quarter of 2004 rose 115% to $43.8 million, compared with $20.3 million for the fourth quarter of 2003. Product revenues rose 128% to $43.5 million, reflecting $22.6 million in sales of OLUX(R) and Luxiq(R), $18.0 million in sales of Soriatane(R) and $2.9 million in sales of Evoclin(TM), which was launched in December 2004. Combined OLUX and Luxiq revenues increased 19% compared with the fourth quarter of 2003.

Selling, general and administrative (SG&A) expenses increased to $22.8 million in the fourth quarter of 2004 from $10.1 million in the fourth quarter of 2003, primarily due to payments made to UCB Pharma (UCB) for promotional activities on behalf of OLUX and Luxiq, launch-related costs for Evoclin, increased promotional activities for all products and increased headcount primarily related to Connetics' salesforce expansion. Research and development (R&D) expenses were $5.7 million, down from $6.5 million in the fourth quarter of 2003.

"Strong product revenue growth during 2004 contributed to our first full year of profitability and the fifth consecutive year of growth in our core brands OLUX and Luxiq," said Thomas G. Wiggans, President and Chief Executive Officer of Connetics. "Our first product in the acne market, Evoclin, was approved and launched during the fourth quarter. While early in the launch phase, the prescription data has been strong and the feedback from physicians has been encouraging, which we believe bodes well for a dynamic and expanding presence for Connetics in the acne market. We also marked the success of 2004 with the acquisition of Soriatane. Through our promotional efforts Soriatane was a significant financial contributor in 2004 and also was an important product for patients. With four marketed brands, a substantially expanded commercial team and a robust product pipeline, we believe Connetics is poised for another exciting and highly productive year."

Significant activities in the fourth quarter of 2004 and subsequent weeks included:

- Receiving U.S. Food and Drug Administration (FDA) approval of Evoclin (clindamycin Foam, 1%) for the topical treatment of mild-to-moderate acne vulgaris, and the commencement of shipments to pharmaceutical wholesalers, retail pharmacies, hospitals and other institutional customers nationwide.

- Launching a comprehensive sales and marketing program for Evoclin that is expected to include a strong presence at relevant medical conferences, particularly in the first quarter of 2005, by way of poster and symposia presentations, as well as journal advertising, direct promotion, media relations and internet marketing campaigns.

- Hiring 66 sales professionals, which more than doubled the sales force to 124 professionals and positions Connetics as a strong commercial force in the dermatology market.

- Receiving an FDA non-approvable letter for the Company's product candidate Extina(R). The Company plans to meet with the FDA early in 2005 to discuss the actions required to obtain approval for Extina.

35. On January 25, 2005, Connetics hosted a conference call for analysts, investors and media representatives, during which defendants stated the following:

[WIGGANS]: Secondly, while it is obviously still early for Evoclin, the initial impact of our sales and marketing efforts are very encouraging, and in fact, exceeding our expectations, which we believe bodes well for our entry into the acne market. We recognize this market is very competitive. We know we need to devote considerable resources, as well as expertise and bring competitive products to this market. But as we prepare not only to expand the launch of Evoclin, but prepare for a Velac launch, our plan encases (ph) that there will be a competitive product for Velac. But we have excellent data on Velac. We have now an expanded and very talented sales force. And we are confident that we will be successful in this market with our acne franchise, and in particular, with Velac.

* * *

[HIGGINS – Connetics' CFO]: Soriatane, we're forecasting approximately 20 percent year-over-year growth, making up approximately one-third of our revenue.

> And our acne products – Evoclin, which we just launched, and Velac, we expect to be launched midyear, making up the balance or roughly 20 percent of our sales. That amount for our acne franchise in 2005 we expect to be split roughly 50-50 between both Evoclin and Velac.
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> * * *
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> In 2006, we see revenue driven by continued growth of Evoclin. We forecast enjoying a full year of Velac sales – in addition, potential new product launches at the end of 2006. And this is matched with expenses that we believe will begin – the increases to flatten year over year. The last couple of years, we've seen tremendous investment in our commercial organization. We believe we're getting leverage off that.
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> [VONTZ]: On the Velac front, as Tom mentioned, preparations are completely underway for getting ready to launch this product. And as part of our launch strategy, we have worked out kind of a pulsed release of clinical data. We're very excited at the upcoming AAD meeting in New Orleans that of the 11 abstracts that we have submitted and have been accepted, 5 of those are unique to Velac. And those abstracts highlight some brand new data that will play a critical role in supporting the label for this product. So stay tuned when that data comes out – very, very exciting news for this product.
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> We additional [sic] have another tranche of data for Velac scheduled to be out at the summer AAD time to coincide with the launch of the product. So a lot attention and energies by our marketing team and sales operations group being focused on preparations for Velac.

36. Based on defendants' statements, analysts and other market observers believed Velac would be approved in June 2005. For instance, on or about March 11, 2005, Piper Jaffray upgraded its rating on Connetics stock based on its belief Velac would be approved and its belief that Velac had great promise in the acne market.

37. On April 13, 2005, defendant Yaroshinsky, who was involved in the Velac trial, had a call from the FDA in which he learned the FDA's preliminary views with respect to cancer tests on the Velac acne drug. The FDA told Connetics that the FDA's Executive Carcinogenicity Assessment Committee ("ECAC"), which serves as the primary consulting body for the FDA on carcinogenicity issues, had concluded that the Velac Gel vehicle was positive and may be a "tumor promoter or a carcinogen," The FDA staff further told Connetics that "this is a serious issue for a topical product for the treatment of acne." Yaroshinsky was present during this conference call with the FDA. Rather than disclose this information to the public, Yaroshinsky positioned himself and a neighbor to benefit from this undisclosed adverse information.

38. The next day, on April 14, 2005, Connetics held its 2005 Annual Analyst and Investor Day in New York City, at which Connetics management stated the following, according to a Company press release:

> – Outlining the Company's Long-Term Goals: Connetics' Chief Executive Officer, Thomas G. Wiggans, outlined the Company's long-term growth goals and put them in the context of a rapidly growing medical dermatology market. "Connetics is building the premier U.S. medical dermatology company through best-in-class technology and product innovation, strong commercial capabilities, outstanding customer service and excellent execution," said Wiggans. "This market will grow from $3.6 billion in 2000 to a projected $6 billion by 2010. We have aggressive plans to capture an increasing share of this market, and we have set a goal to achieve annual product revenues of $750 million by the end of the decade. This includes more than $500 million in annual revenues from products that we currently market or are already in our development pipeline."
>
> – Revising 2005 Revenue Guidance Upward: Connetics is now projecting 2005 total revenue will be between $195 million and $206 million, up from prior guidance of $190 million to $200 million, which represents an increase of 35% to 42% compared with 2004 total revenue. Guidance for combined SG&A and R&D expense increased to $121 million to $128 million from $116 million to $123 million. Diluted EPS for 2005 is projected to remain unchanged from previous guidance, and be in the range of $0.88 to $0.92.

39. No mention was made of the important adverse information received from the FDA just a day earlier. Yaroshinsky knew such concealment was material to keeping Connetics' stock price inflated.

40. On April 26, 2005, Connetics announced first quarter 2005 net income of $1.0 million, or $0.03 per diluted share and revenues of $42.4 million. The release also stated:

> "I am very pleased to report on a busy first quarter that included sales from our newly launched Evoclin product and the successful completion of a $200 million convertible financing," said Thomas G. Wiggans, Chief Executive Officer of Connetics. "We expect further revenue gains from our expanded sales force and new contract sales agreement with Ventiv for three of our products. Additionally, we have a number of near-term regulatory and clinical milestones as outlined during our Analyst and Investor Day event held April 14, 2005."

41. Also, on April 26, 2005, Connetics hosted a conference call for analysts and investors during which Wiggans acknowledged problems with the Velac approval process:

> [WIGGANS]: Regarding Velac, we are – we continue to be in active discussions with FDA on their review of our NDA. As we've moved through the review process, we've been pleased with the review. And up to this point, we've

> been in active communication with the agency and have continued to be in active communication with the agency over the last several weeks, answering their questions as they finalize their review of the various sections.
>
> As part of this review, we recently received communications that indicated FDA were interpreting results of one of our pre-clinical studies in a different fashion than we did in our submission. I realize over the past several weeks there's been speculation regarding the approvability of a new retinoid, or approvability of a combo product. The question that they have asked is unrelated to either one of these subjects.
>
> We conducted one of our pre-clinical studies in a transgenic mouse model. And in that study, there was a positive response to our product. At the time, we carefully analyzed the results with a panel of leading experts in this model and leading toxicologists. The outcome of that was that the epxerts advised us that this mouse model is known to have limitations and they concluded that the positive response was a result of one of these limitations of the model.
>
> Their advice is supported, in fact, by other products which have had a positive finding in this model, resulting in a clinical hold, only to be released later, based upon submission of additional data. And in fact, benzoyl peroxide, a commonly used OTC acne product, an ingredient in several prescription acne products, has Rx labeling that notes a positive result in this model. But, because up to this point FDA had not raised this issue with us, we were surprised to received this information; however, we are in discussions with them on their question and we expect to submit additional information well before the PADUFA date, which further supports our original conclusion included in the NDA.
>
> I would point out that, as a rule, we do not feel it is appropriate, frankly, to provide regular updates on our discussions with the FDA, and we do not intend to provide further updates on this until we have more definitive information. Because, obviously, this is limited information for you as well as for us. However, we felt it was important to take the opportunity to give you an update on this recent information.
>
> While I realize that this question might raise more questions, rather than answers for you, just as it did us, I can tell you that we are very committed to working with the FDA to get them the information so this issue can be resolved and enable us to launch Velac on schedule.

42. On this news, Connetics stock dropped to $22.30 per share but continued to trade at artificially inflated levels as defendants concealed the seriousness of the issue. Specifically, the SEC alleged that the release "stopped short of disclosing the full extent of the FDA's concerns and the incidence of tumors in the mice tested. Most notably, missing from the release was ECAC's conclusion that the 'vehicle was positive in this assay and may be a tumor promoter or a carcinogen.'"

43. Yaroshinsky took advantage of the inflation in Connetics' stock price by selling 15,100 shares and purchasing 51 put contracts on Connetics stock in his own account and 2,076 put contracts in a nominal account he controlled.[1]

44. On June 13, 2005, the Company issued a press release entitled "Connetics Receives FDA Non-Approvable Letter for Velac," stating in part:

> Connetics Corporation, a specialty pharmaceutical company focused on dermatology, announced today that the U.S. Food and Drug Administration (FDA) has issued a non-approvable letter dated June 10, 2005 for Velac(R) (a combination of 1% clindamycin and 0.025% tretinoin) Gel, an investigational new drug formulation for treating acne. The only issue raised in the non-approvable letter was a positive carcinogenicity signal that was detected in a TgAC mouse dermal carcinogenicity study.
>
> "We are disappointed in the FDA's decision. As discussed during our first quarter earnings call on April 26, we were particularly disappointed that FDA did not notify us of this as a potential issue until two months prior to the PDUFA date," said Thomas G. Wiggans, chief executive officer of Connetics. "We remain committed to bringing Velac to market, and will be working with FDA representatives to determine what is required to do so. Despite this setback, Connetics will continue to expand its leading position in the dermatology field with four brands on the market and a robust and diverse pipeline."
>
> As a result of today's announcement, Connetics now projects 2005 total revenues to be $182 million to $188 million, down from previous guidance of $195 million to $206 million. Combined SG&A and R&D expenses for 2005 are projected to be between $121.5 million and $125.0 million. Diluted EPS for 2005 is projected to be in the range of $0.66 to $0.70, versus previous guidance of $0.88 to $0.92. The revised revenue and earnings guidance represents growth of approximately 28% over 2004 revenues and 33% over 2004 earnings.

45. On this news, Connetics' stock collapsed to $15.13 per share, but continued to trade at artificially inflated levels as defendants concealed that 55% of the mice in its 2004 study of Velac had developed tumors, and the Company continued to report false financial results.

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[1] A put option is a contract that grants the right to sell at a specified price a specific number of shares by a certain date. The put option buyer gains this right in return for payment of an option premium. The put option seller grants this right in return for receiving this premium. A put option seller (called a writer) hopes the stock will remain stable, rise, or drop by an amount less than his or her profit on the premium.

As the buyer of the put options, Yaroshinsky hoped (or more accurately knew) the price of Connetics stock would drop.

46. On August 2, 2005, the Company issued a press release entitled "Connetics Second Quarter Revenues Increase 19 Percent; OLUX, Soriatane and Evoclin Achieve All-Time Quarterly Prescription Highs; Company Increases Full-Year Revenue Guidance." The press release stated in part:

> Connetics Corporation, a specialty pharmaceutical company that develops and commercializes dermatology products, announced today total revenues for the second quarter of 2005 were $45.4 million, an increase of 19% compared with 2004 second quarter total revenues of $38.3 million. During the second quarter of 2005 prescriptions written for OLUX® , Soriatane® and Evoclin™ reached all-time quarterly highs.
>
> Second quarter sales of Soriatane were $18.3 million. Evoclin, launched in the fourth quarter of 2004, continued its strong introduction with sales of $7.0 million during the quarter, of which nearly $1 million represented sales to a U.S.-based distributor that exports branded pharmaceutical products to select international markets. This distributor relationship has been in place for Soriatane, OLUX and Luxíq® since 2004. Sales of OLUX during the quarter totaled $14.0 million. The product continues to enjoy strong prescription growth; however, net sales for the second quarter reflect a charge for unusually high wholesaler returns of approximately $2.3 million. The product returns are related to expired and estimated expiring product inventory at wholesalers, arising from past distribution practices by the wholesalers that are not expected to repeat under recently entered distribution service agreements. With these agreements in place, Connetics believes it has taken an appropriate one-time provision to address the OLUX returns. Sales of Luxíq during the quarter totaled $5.8 million.
>
> Selling, general and administrative expenses for the second quarter of 2005 increased to $25.1 million from $17.2 million in the same period last year, reflecting expenses related to a near doubling of the Company's sales force, marketing and promotional activities related to the launch of Evoclin, and expenses related to the anticipated launch of Velac® . Research and development expenses for the second quarter of 2005 were $8.8 million, compared with $5.0 million last year, reflecting increased clinical activities including ongoing Phase III trials for Desilux™ VersaFoam-EF™ and Primolux™ VersaFoam-EF.
>
> Net income for the second quarter of 2005 was $2.5 million, or $0.07 per diluted share. This compares with net income of $7.5 million, or $0.19 per diluted share, for the second quarter of 2004, and primarily reflects anticipated higher costs in 2005 associated with planned sales, marketing and product development programs.
>
> * * *
>
> "This quarter marked another solid performance by Connetics, with strong prescription growth across all of our products," said Thomas G. Wiggans, Chief Executive Officer of Connetics. "We are very pleased with the continued adoption of Evoclin as well as the refill prescriptions we are beginning to see. For the second half of the year, we anticipate an increased contribution from our co-promotion partnership with Ventiv, and will continue to focus on pipeline projects including the commencement of the Extina Phase III program in the third quarter of 2005. We are disappointed with the non-approvable letter we received for Velac in June.

Addressing the FDA issues remains our highest priority as we work with the agency to determine requirements to obtain product approval for Velac."

47. On November 1, 2005, the Company issued a press release entitled "Connetics Reports Third Quarter Revenues of $55.3 Million and Diluted EPS of $0.39." The press release stated in part:

> Connetics Corporation, a specialty pharmaceutical company that develops and commercializes dermatology products, announced today that its net income for the third quarter ended September 30, 2005 was $15.4 million, up from net income of $3.7 million for the third quarter of 2004. Diluted earnings per share increased to $0.39 from $0.10 for the comparable period in 2004. The Company's financial results for the 2005 third quarter include a $7.0 million revenue benefit due to a reserve adjustment, as described below.
>
> Total revenues for the third quarter of 2005 were $55.3 million, an increase of 48% over total revenues of $37.3 million in the third quarter of 2004. Total product revenues for the quarter increased 49% to $55.2 million, up from $37.0 million in the third quarter of 2004, reflecting contribution from sales of Evoclin™, which was launched in December 2004, and continued growth in sales of Soriatane®, OLUX® and Luxíq®. Third quarter product sales included: Soriatane $23.1 million, Evoclin $7.7 million, OLUX $17.3 million and Luxíq $7.0 million.
>
> Product revenues for the quarter include a one-time $7.0 million benefit from the reduction of revenue reserve estimates related to Soriatane. The original estimates, based on information available to the Company at the time it acquired the product rights from Roche in March 2004, were revised after Roche furnished actual product return and Medicaid information during the 2005 third quarter. Excluding the $7.0 million benefit, product revenues for the quarter were up 30% over the third quarter of 2004.
>
> Selling, general and administrative expenses for the third quarter of 2005 increased to $23.4 million, from $16.8 million in the comparable period last year, primarily due to costs associated with a larger sales force and promotional activities related to Evoclin. Research and development expenses for the third quarter of 2005 were $8.2 million, compared with $6.0 million in the third quarter of 2004, reflecting the Company's late-stage clinical activities, including Phase III trials with Primolux™ and Extina ®.
>
> Connetics' cash and investments, including restricted cash, as of September 30, 2005, totaled $273 million.
>
> "The third quarter marked another solid period of commercial growth while we continued to make progress advancing our product pipeline," said Thomas G. Wiggans, Chief Executive Officer of Connetics. "Evoclin continues to be the most successful product launch in our Company's history, and now is the leading branded clindamycin product in dermatology. In addition, the remainder of our product portfolio continues to enjoy revenue growth. We are investing significantly in our pipeline to drive our future growth, and we have several global licenses that we expect will begin generating new royalty and contract revenues for the Company in the coming year. In the final months of 2005, we continue to build a broad platform that will allow Connetics to become the leading medical dermatology company in the U.S."

48. On January 31, 2006, the Company issued a press release entitled "Connetics Reports Fourth Quarter Revenues of $41.3 Million and EPS of $0.40." The release stated in part:

> Connetics Corporation, a specialty pharmaceutical company that develops and commercializes dermatology products, today reported net income for the quarter ended December 31, 2005 of $15.1 million, or $0.40 earnings per share on a diluted "If-Converted" basis.
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> * * *
>
> Total revenues for the fourth quarter of 2005 were $41.3 million, compared with total revenues of $43.8 million in the fourth quarter of 2004.
>
> * * *
>
> "Evoclin reached record market share levels during the quarter, and our other brands remain solid performers in increasingly competitive markets and against new entrants," said Thomas G. Wiggans, Chief Executive Officer of Connetics. "We are delighted that two of our partners, Pfizer and Novartis, recently received approvals to market products that incorporate Connetics' patented topical deliver technologies. With the breadth of our commercial portfolio, the expected introduction of Desilux in the fourth quarter of this year, and our expanded sales presence, we believe Connetics is positioned for continued growth in 2006."
>
> * * *
>
> Significant activities in the fourth quarter of 2005 and subsequent weeks include the following:
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> * * *
>
> – Connetics secured remaining worldwide rights to Velac, by way of an amendment to the license agreement with Astellas Pharma Europe B.V. (formerly Yamanouchi Europe B.V.). The original license in 2002 was limited to the United States, Canada and Mexico. The financial results for the 2005 fourth quarter include the $1.0 million payment associated with this amendment.

49. By the beginning of May 2006, Connetics stock was trading at approximately $15.30 per share.

50. Then, on May 3, 2006, the Company issued a press release entitled "Results of Operations and Financial Condition." The press release stated in part:

> On May 3, 2006, Connetics Corporation, or the Company, issued a press release announcing its preliminary results for the quarter ended March 31, 2006, and its intent to restate financial results for prior periods. A copy of the earnings release is furnished as Exhibit 99.1 to this report.
>
> Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. On May 3, 2006, the Company

concluded that its financial statements for the year ended December 31, 2005, and potentially additional periods, should no longer be relied upon. The Company has determined that its rebate reserves as of the end of 2005 were understated. Rebates are contractual discounts offered to government programs and private health plans which are eligible for rebates at the time prescriptions are dispensed, subject to various conditions. The Company records quarterly reserve provisions for rebates by estimating rebate liability for product sold, based on factors such as timing and terms of plans under contract, time to process rebates, product pricing, sales volumes, units held by distributors, and prescription trends. Upon review, the Company has concluded that the rebate rates and method used to calculate the rebate liability did not fully capture the impact of these factors in its historical provision. Accordingly, the Company plans to restate its financial statements for the year ended December 31, 2005, and potentially additional periods.

The Company intends to file an amended Form 10-K for the year ended December 31, 2005 and any other required amendments to its annual and periodic reports, which will include the restated financial statements, as soon as practicable after the Company completes its internal review and restatement of its financial statements and the external audit process is completed. The Company does not expect that it will be able to complete this process and make these filings before May 10, 2006, the deadline for timely filing the Form 10-Q for the quarter ended March 31, 2006.

The increase in the historical provision for rebate reserves will have the effect of decreasing revenues and earnings, accrued liabilities and retained earnings figures contained in our historical financial statements. We do not believe that this restatement will have an impact on the Company's historical cash position or operating expenses.

The Company and the audit committee of its board of directors have discussed the matters disclosed in this Current Report on Form 8-K with Ernst & Young LLP, the Company's independent registered public accounting firm.

Additionally, the Company is evaluating Management's Report on Internal Control Over Financial Reporting set forth in Item 9A on page 49 of the Company's 2005 Annual Report on Form 10-K. Although the Company has not yet completed its analysis of the impact of this situation on its internal controls over financial reporting, the need to restate prior period financial statements makes it highly likely that the Company had a material weakness in internal control over financial reporting as of December 31, 2005, and may have a material weakness in internal control over financial reporting as of other dates. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The existence of one or more material weaknesses means the Company could not conclude that its internal controls over financial reporting were effective as of year end. If the Company were to conclude that a material weakness existed as of December 31, 2005, it would expect to receive an adverse opinion on internal control over financial reporting from its independent registered public accounting firm.

51. On this news, the Company's stock collapsed to as low as $13.70 per share before closing at $13.76 per share.

52. Subsequently, on May 22, 2006, Connetics filed a Form 8-K indicating it had received a Notice of Delisting due to its failure to file its quarterly report. After this news, the stock dropped to below $13 per share.

53. On June 20, 2006, the SEC filed an amended complaint in the Yaroshinsky matter, including details of the 2004 mice study for Velac and naming one of Yaroshinsky's neighbors as a defendant for trading on information received from Yaroshinsky.

54. By June 27, 2006, the Company's stock price had dropped to below $11 per share.

55. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) the carcinogenicity study of Velac had indicated that 89 out of 160 mice treated with Velac developed tumors;

(b) prior to the Class Period, Connetics had been informed by a panel of toxicology experts that they were unaware of any drug with similar results to Velac ever being approved by the FDA;

(c) the Company's new Velac drug would be deemed unsafe by the FDA and would not provide the revenue and income promised by the Company;

(d) the Company would not be able to achieve the operating results for 2006-2007 as projected due to its inability to launch Velac; and

(e) the Company was falsifying its financials for at least 2005 and likely earlier due to improper accounting for rebates.

LOSS CAUSATION/ECONOMIC LOSS

56. By concealing problems with the Velac acne product, the defendants presented a misleading picture of Connetics' business and prospects. Thus, instead of truthfully disclosing during the Class Period that Connetics' business was not as healthy as represented, Connetics concealed problems it knew would prevent FDA approval of Velac. The Company also falsified its reported financial statements.

57. These concealments and claims of future profitability caused and maintained the artificial inflation in Connetics' stock price throughout the Class Period and until the truth began to be gradually revealed to the market.

58. Defendants' false and misleading statements had the intended effect and caused Connetics stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $29.92 per share.

59. On April 26, 2005, the Company disclosed the FDA had requested more information on Velac suggesting to the market that Velac's commercial introduction would at the very least be delayed. On June 13, 2005, defendants were forced to publicly disclose that Connetics had received a non-approvable letter for Velac Gel. Later, on May 3, 2006, Connetics admitted it had falsified its financial results for 2005 and earlier.

60. As a direct result of defendants' admissions and the public revelations regarding the truth about Velac and about Connetics' overstatement of income and its actual business prospects going forward, Connetics' stock dropped on April 27, 2005 from $27.57 per share to $22.30 per share (a drop of $5.27 per share) when the Company disclosed the FDA had requested more information about Velac. This drop would have occurred during 2004 had defendants been honest with the market about the high (55%) incidence of tumors in mice in the Company's 2004 Velac study. Connetics' stock price plummeted 27%, falling from $20.77 per share to $15.13 per share on June 14, 2005, a drop of $5.64 per share due to the June 13, 2005 FDA non-approvable letter. When Connetics revealed it had falsified its financial results on May 3, 2006, the stock dropped to $13.76 per share. These drops removed the inflation from Connetics' stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

61. Plaintiff incorporates ¶¶1-60 by reference.

62. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained

misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

63. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts 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 and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Connetics common stock during the Class Period.

64. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Connetics common stock. Plaintiff and the Class would not have purchased Connetics common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

65. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Connetics common stock during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act
All Defendants

66. Plaintiff incorporates ¶¶1-65 by reference.

67. Defendant Connetics controlled defendants Wiggins, Vontz and Yaroshinsky and all of its employees. By reason of such conduct, Connetics is liable pursuant to §20(a) of the 1934 Act. Defendants Wiggins and Vontz, by virtue of their positions, controlled Connetics and its employees and are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

68. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Connetics common stock on the open market during the Class Period (the "Class"). Excluded from the Class are defendants.

69. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Connetics has more than 33 million shares of stock outstanding, owned by hundreds if not thousands of persons.

70. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Connetics' common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

71. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

72. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

73. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages, interest and costs;

C. Awarding plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: September 18, 2006

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