

PBT

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

SECURITIES AND EXCHANGE COMMISSION, :
: :
: :
Plaintiff, :
: :
v. :
: :
JOHN M. WILLIAMS, :
: :
: :
Defendant. :
:

Civil Action No.

12 1126

A TRUE COPY CERTIFIED FROM THE RECORD
 DATED: MAR 2 2012
 ATTEST: Steve Tomas
 DEPUTY CLERK, UNITED STATES DISTRICT COURT
 EASTERN DISTRICT OF PENNSYLVANIA

COMPLAINT

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

SUMMARY OF THE ACTION

1. This case involves unlawful insider trading by Defendant John M. Williams (the "Defendant" or "Williams") in the securities of Hi-Shear Technology Corp. ("Hi-Shear") shortly before the September 16, 2009 announcement that Hi-Shear was being acquired by Chemring Group PLC ("Chemring"). Williams was an employee of Deloitte Tax LLP ("Deloitte"), and provided services to Chemring as part of his employment. Williams learned material nonpublic information about Chemring's proposed acquisition of Hi-Shear in the course of his employment, and Williams owed a duty of trust and confidence to Deloitte to keep such information confidential. In breach of Williams' duty to Deloitte, Williams misappropriated material nonpublic information about Chemring's proposed acquisition of Hi-Shear and used that information to trade in Hi-Shear stock in advance of the public announcement of its sale. As a result of his illegal trading on material nonpublic information, Williams realized unlawful profits of approximately \$6,803.18.

2. By engaging in the conduct alleged in this Complaint, Williams violated the antifraud provisions of the federal securities laws, specifically Section 10(b) of the Securities

Exchange Act of 1934, 15 U.S.C. § § 78j(b), and Rule 10b-5(a) and (c) thereunder, 17 C.F.R. § 240.10b-5(a) and (c). The Commission requests that the Court permanently enjoin Williams from further violation of the antifraud provisions of the federal securities laws, order him to disgorge his unlawful profits and pay prejudgment interest thereon, and impose a civil penalty.

JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to Sections 21(d)(1), 21(e), 21A, and 27 of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1), 78u(e), 78u-1 & 78aa. Williams, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

4. Venue is proper in this district pursuant to Section 21(d), 21A, and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u-1, and 78aa, because certain of the transactions, acts, practices, and courses of business constituting violations of the federal securities laws occurred within this district. As alleged in this Complaint, Williams was employed at Deloitte’s offices in Philadelphia, Pennsylvania, when he misappropriated material nonpublic information from Deloitte.

DEFENDANT

5. **John M. Williams**, age 38, resides in Media, Pennsylvania. He worked for Deloitte in Philadelphia, Pennsylvania from September 1997 until January 2010, when he was terminated for cause.

OTHER RELEVANT ENTITIES

6. **Chemring Group PLC** is a company organized under the laws of England and Wales. Chemring designs, develops and manufactures defense solutions, including countermeasures, pyrotechnics and munitions.

7. **Hi-Shear Technology Corp.** was an issuer with its principal place of business in Torrance, California. Until its acquisition by Chemring on November 24, 2009, Hi-Shear common stock was listed on the NYSE Amex under the ticker symbol “HSR.” Hi-Shear designed and manufactured pyrotechnic, mechanical and electronic products for the defense and aerospace industries.

8. **Deloitte Tax LLP** is the tax planning division of Deloitte, an international accounting and consulting firm.

FACTS

A. Williams Owed A Duty Of Confidentiality To Deloitte

9. Williams was hired by Deloitte in 1999 and worked for Deloitte until January 2010. As a condition of his employment, Williams was required to hold client information in confidence and refrain from using it for personal profit.

10. Deloitte employees were required to know, understand, and comply with its Code of Ethics and Professional Conduct (“Code”). Among other things, the Code required Deloitte personnel to “preserve the confidentiality of information obtained in client service” and refrain from using such information “for personal advantage or for the benefit of third parties.” It further cautioned employees against engaging in insider trading: “It is illegal for any person to buy or sell any securities (i.e., stocks, bonds) based on insider information, or to discuss such information with others who might buy or sell such securities.”

11. Deloitte required its employees to self-report all securities trading, opening and closing of brokerage and bank accounts, purchase or sale of insurance policies, and other financial activities (collectively, “transactions”). Deloitte had a search and compliance system which identified certain entities in which Deloitte employees were not permitted to have a financial interest. Prior to making a securities trade, Deloitte employees were required to access these systems to verify that the company involved in the transaction was not restricted, and to report any transactions after trades were executed. Williams was required to clear any stock trades through this system before making any purchases and sales, and to certify his receipt of and compliance with Deloitte’s policies on an annual basis.

12. When he was promoted to tax manager in August 2002, Williams signed an agreement in which he promised “to hold in trust and confidence all Proprietary Information of the Firm,” which was defined to include information relating to Deloitte’s clients.

B. Williams Learned That Chemring Planned To Acquire Hi-Shear And Traded On The Material Nonpublic Information

13. As part of his duties for Deloitte, Williams provided tax services for a Chemring subsidiary, Alloy Surfaces.

14. In late July 2009, Deloitte's Philadelphia office began assisting with Chemring's proposed acquisition of Hi-Shear, which was given the internal code name "Project Harriet." On August 31, 2009, Williams circulated the most recent version of a calculation that was "to reflect the potential acquisition of Harriet" by Chemring.

15. Around the same time, Williams was asked to assist with the tax due diligence for the proposed transaction and was told that Hi-Shear was the target of the acquisition. Williams was asked to review Hi-Shear's most recent Form 10-K to familiarize himself with the company. On September 8, 2009, Williams emailed a copy of Hi-Shear's Form 10-K to one of his colleagues.

16. On September 9, 2009, Williams received an email chain that discussed the proposed transaction and included a spreadsheet entitled "Hi-Shear Technology Corp. Historical Balance Sheet through Fiscal Year End 5/31/09."

17. Between September 10 and September 14, 2009, Williams purchased 850 shares of Hi-Shear stock in two accounts, a regular stock brokerage account and an IRA account. In both accounts, Williams had previously invested primarily in index funds; his only stock holding was one he had purchased years earlier. Williams had not previously purchased any Hi-Shear stock.

18. On September 9, 2009, Williams redeemed 560 shares of the index fund held in his brokerage account, generating proceeds of \$5,500.

19. On September 10, 2009, Williams used those funds to purchase 300 shares of Hi-Shear stock for \$3,149.97 (\$10.49 per share).

20. Also on September 10, 2009, Williams redeemed a portion of his positions in two index funds in his IRA account, generating proceeds of more than \$6,500.

21. On September 11, 2009, Williams purchased 400 shares of Hi-Shear stock for \$4,311.97 (100 shares for \$10.75 per share and 300 shares for \$10.78 per share) in his IRA account.

22. On September 14, 2009, Williams purchased 150 shares of Hi-Shear stock for \$1,715.99 (\$11.43 per share) in his brokerage account.

23. On the morning of September 16, 2009, at approximately 9:13 a.m. EDT (6:13 a.m. PDT), it was announced that Hi-Shear had agreed to be acquired by Chemring for cash consideration of \$19.18 per share, or a total purchase price of \$132 million.

24. On September 16, 2009, after the public announcement of the transaction, Williams sold all of his Hi-Shear stock in both accounts for \$15,981.11, realizing a profit of approximately \$6,803.18.

25. In breach of his duty to Deloitte, Williams intentionally misappropriated material nonpublic information about Chemring's plans to acquire Hi-Shear, and used that information for his own benefit to trade in Hi-Shear stock in advance of the announcement of its sale.

26. Williams did not pre-clear or report his Hi-Shear trades in Deloitte's compliance system, in violation of Deloitte's policies and procedures. When Deloitte learned that Williams traded in Hi-Shear stock in advance of the September 16, 2009 announcement of Chemring's acquisition of Hi-Shear, Deloitte placed Williams on administrative leave and conducted an internal investigation. On January 20, 2009, Deloitte notified Williams that he was being terminated for cause.

CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c) Thereunder

27. The Commission realleges and incorporates by reference ¶¶ 1 through 26 above.

28. As alleged above, Defendant learned material nonpublic information from Deloitte about Chemring's plan to acquire Hi-Shear. At all relevant times, Defendant owed Deloitte a fiduciary duty, or similar duty of trust or confidence, to maintain such information in confidence.

29. Defendant, in breach of fiduciary duty, or similar relationship of trust or confidence, owed to Deloitte, misappropriated such material nonpublic information by trading on the basis of such information. The misappropriated information was material because it would be important to a reasonable investor in making his or her investment decision to know that Chemring was planning to acquire Hi-Shear. There is a substantial likelihood that the disclosure of the misappropriated information would have been viewed by a reasonable investor as having significantly altered the total mix of information available to investors. At all times relevant to this Complaint, Defendant acted knowingly and/or recklessly by misappropriating information about Chemring's plan to acquire Hi-Shear and trading while in possession of such material nonpublic information. By engaging in the conduct described above, Defendant, directly or indirectly, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange, with scienter:

- (a) employed devices, schemes, or artifices to defraud; and/or
- (b) 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.

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

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that Defendant committed the alleged violations.

II.

Issue a judgment, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant and his officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the judgment by personal service or otherwise, from violating Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

III.

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

IV.

Order Defendant to pay a civil penalty under Section 21A of the Exchange Act, 15 U.S.C. § 78u-1.

V.

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

Respectfully submitted,



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