



*United States Attorney
Southern District of New York*



**FOR IMMEDIATE RELEASE
FEBRUARY 8, 2011**

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**MANHATTAN U.S. ATTORNEY CHARGES THREE HEDGE FUND
PORTFOLIO MANAGERS AND ONE ANALYST WITH INSIDER TRADING**

*Two Of The Hedge Fund Managers Are Also Charged With Obstruction
Of Justice*

*The Third Hedge Fund Manager And Analyst Have Already Pled Guilty
To Insider Trading Crimes*

PREET BHARARA, the United States Attorney for the Southern District of New York, and JANICE K. FEDARCYK, the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced that SAMIR BARAI, a former portfolio manager at two hedge funds, and DONALD LONGUEUIL, who formerly worked as a research analyst at a third hedge fund and as a portfolio manager at a fourth, have been charged with conspiracy to commit securities and wire fraud for their involvement in an insider trading scheme. BARAI has also been charged with securities fraud. JASON PFLAUM, a former research analyst for BARAI, and NOAH FREEMAN, a research analyst at a fifth fund and then a portfolio manager at a sixth, were charged with, and pled guilty in Manhattan federal court to, one count each of conspiracy to commit securities fraud and securities fraud for their roles in the scheme. Representing six hedge funds, the four defendants allegedly obtained and shared material, non-public information ("Inside Information") about at least six publicly-traded companies for the purpose of executing securities transactions that realized millions of dollars in illegal profits. BARAI and LONGUEUIL have also been charged with obstruction of justice for their efforts to destroy evidence of their involvement in insider trading after reading media reports about the FBI's insider trading investigation.

Manhattan U.S. Attorney PREET BHARARA said: "The Complaint unsealed today is a sad chronicle not only of criminal conduct but also its brazen cover-up. It alleges hard core insider trading in stock after stock - people blatantly trafficking in material, non-public information. And the lengths to which two of these defendants went to cover their tracks sounds like something out of a bad movie. To date, twelve people have been charged by this office in connection with our investigation of expert networking firms and four have pled guilty, but we are far from finished. Together with our law enforcement partners at the FBI, we intend to continue being as systematic and methodical in attacking insider trading as we allege today's defendants were in practicing it."

FBI Assistant Director-in-Charge JANICE K. FEDARCYK stated: "The charges and pleas announced today mark neither the beginning nor the end of a long-term FBI investigation we expect will continue for some time. The Complaint gives a clear picture of the cynicism that underlies the so-called 'research' these defendants relied on. When you are paying insiders for earnings data before it's announced, that isn't 'research.' That's cheating. And the efforts to destroy evidence are laid out largely in the defendants' own words. For all their presumed sophistication, the defendants lacked a mobster's instinct for conversational discretion."

According to the Complaint unsealed today in Manhattan federal court, as well as the Informations to which PFLAUM and FREEMAN pled guilty and statements made during their plea proceedings:

Between 2006 and 2010, BARAI, LONGUEUIL, PFLAUM, FREEMAN, and their co-conspirators participated in a conspiracy to obtain Inside Information, including detailed financial earnings, about numerous public companies, including Marvell Technology Group, Ltd. ("Marvell"), NVIDIA Corporation ("NVIDIA"), Fairchild Semiconductor International ("Fairchild"), Advanced Micro Devices, Inc. ("AMD"), Actel Corporation ("Actel"), and Cypress Semiconductor Corporation ("Cypress"). BARAI, LONGUEUIL, FREEMAN, and PFLAUM obtained Inside Information both from employees who worked at these and other public companies, and from independent research consultants who communicated with employees at public companies. Often, the defendants and their co-conspirators used an "expert networking" firm (the "Firm") to communicate with and pay their sources of Inside Information. In addition, although they worked at different hedge funds, BARAI, LONGUEUIL, and FREEMAN had regular

conference calls during which they shared Inside Information with each other.

For example, on May 23 and May 28, 2008, WINIFRED JIAU, who was previously arrested on December 29, 2010, had telephone conversations with BARAI and FREEMAN during which she advised them of Marvell's quarterly revenues, gross margins, and earnings per share for the Marvell quarter ending on May 3, 2008. The information JIAU provided was accurate and preceded Marvell's public announcement of its financial results for the quarter. FREEMAN then provided the tip to LONGUEUIL. As a result of JIAU's information about Marvell, the hedge fund where BARAI worked (defined as "Hedge Fund B" in the Complaint) purchased over 300,000 shares of Marvell, and the hedge fund where LONGUEUIL worked (defined as "Hedge Fund C" in the Complaint) purchased approximately 800,500 shares of Marvell. After Marvell's public announcement, the price of Marvell stock increased approximately 23%, resulting in net profits of over \$820,000 to Hedge Fund B and approximately \$1.08 million to Hedge Fund C.

In addition, BARAI, LONGUEUIL, PFLAUM, FREEMAN, and their co-conspirators undertook efforts to conceal the scheme from regulatory and law enforcement agencies, including by saving any electronic records evidencing their communications with company insiders on external flash drives or external hard drives, rather than on hedge fund servers. They also used personal e-mail accounts rather than the hedge fund e-mail accounts to communicate about Inside Information.

After reading media reports on November 19, 2010, that the FBI and a Manhattan federal grand jury were conducting an investigation into insider trading through the Firm, BARAI and LONGUEUIL attempted to, and did, destroy digital records and/or documents reflecting their receipt of Inside Information from their sources. Specifically, BARAI sent PFLAUM, who was at the time cooperating with the Government's investigation, Blackberry Messenger ("BBM") communications instructing him to go to Hedge Fund A's office, and to: "*[s]hred as much as u can,*" "*[p]ut all ur data files onto an encrypted drive,*" and "*delete all emails from*" two particular individuals. BARAI also told PFLAUM that he had already deleted his own emails.

In that same series of BBM communications on November 20, Barai wrote:

- "So what if we talked to anyone"
- "They need proof that we acted on something"

- "And its hard to have that"
- "My sense is they tapped [the Firm] just recently..."
- "the more I think about it - just not enough clues to hold something on us"
- "There isn't anything tho"
- "Nothing material"
- "We use all mosaic theory"
- "So we're ok"

Then, on November 21, 2010, BARAI instructed PFLAUM to leave his laptop computer, on which he memorialized some of his conversations with company insiders, with PFLAUM's doorman so that BARAI could obtain the laptop and "do a dept of defense delete," in order to erase all records from the laptop. Later that night, BARAI picked up PFLAUM's laptop and never returned it.

Similarly, after reading the news articles claiming the existence of an FBI and grand jury investigation, LONGUEUIL destroyed the flash drive on which he logged his conversations with company insiders, as well as two external hard drives containing evidence relevant to the insider trading investigation. He later recounted to FREEMAN, who at the time was a cooperating witness, how he destroyed the evidence:

So I just [expletive] ripped it [referring to the flash drive] apart right there... I had two external drives that had like wafer numbers on 'em. [expletive] pulled the external drives apart. Destroyed the platter... Put 'em into four separate little baggies, and then at 2 a.m. ... 2 a.m. on a Friday night, I put this stuff inside my black North Face [u/i] jacket,... and leave the apartment and I go on like a twenty block walk around the city... and try to find a, a garbage truck... and threw the [shit] in the back of like random garbage trucks, different garbage trucks... four different garbage trucks.

* * *

BARAI, 39, and LONGUEUIL, 34, both of New York, New York, have been charged with one count of conspiracy to commit securities fraud and wire fraud (Count One) and one count of obstruction of justice (Counts Five and Six). BARAI has also been charged with three counts of substantive securities fraud (Count Two through Four). Count One carries a maximum penalty of five years in prison and a fine of \$250,000, or twice the gross

gain or loss from the offense, and Counts Two through Four carry a maximum penalty of 20 years in prison and a maximum fine of \$5 million. Counts Five and Six carry a maximum potential penalty of 20 years in prison and a fine of \$250,000, or twice the gross gain or loss from the offense.

BARAI self-surrendered to authorities earlier this morning. LONGUEUIL was arrested at his residence in New York, New York, earlier this morning. Both defendants will be presented in Magistrate Court this afternoon.

Both PFLAUM, 37, of New York, New York, and FREEMAN, 35, of Boston, Massachusetts, who both previously pled guilty to conspiracy to commit securities fraud and securities fraud, face a statutory maximum sentence of 25 years in prison.

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Mr. BHARARA praised the investigative work of the FBI. He also thanked the U.S. Securities and Exchange Commission. Mr. BHARARA noted that the investigation is continuing.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys AVI WEITZMAN and DAVID LEIBOWITZ, and Special Assistant U.S. Attorney ANDREW Z. MICHAELSON are in charge of the prosecution.

The charges against BARAI and LONGUEUIL are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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