



*United States Attorney
Southern District of New York*



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**MANHATTAN U.S. ATTORNEY CHARGES EXECUTIVE
OF EXPERT-NETWORKING FIRM WITH CONSPIRING
TO DISTRIBUTE INSIDE INFORMATION**

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 DON CHING TRANG CHU, a/k/a "Don Chu," was arrested this morning on conspiracy charges in connection with his employment at an "expert-networking" firm (the "Firm"). CHU has been charged with conspiring to promote the Firm's consultation services by arranging for insiders at publicly-traded companies to provide material, nonpublic information ("Inside Information") to the Firm's hedge fund clients for the purpose of executing profitable securities transactions. CHU was scheduled to depart to Taiwan on November 28, 2010.

According to the Complaint unsealed today in Manhattan federal court:

The Firm and CHU's Employment

During the relevant time period, CHU was employed by the Firm and served as a liaison for the Firm to consultants and sources of information in the United States and elsewhere. CHU promoted the Firm's consultation services by arranging for Firm consultants to provide Inside Information regarding certain public companies' earnings releases for the purpose of executing profitable securities transactions, where such Inside Information had been disclosed by the Firm consultants in violation of their fiduciary and other duties to their employers.

The Firm's main office is located in California, but it maintains an office in, among other places, New York, New York. The Firm advertised itself as an "independent investment research firm that provides institutional money managers and analysts with market intelligence," through a "Global Advisory Team of Experts." The Firm advertised that its team of consultants "have real-world experience in industries such as healthcare, technology, media, telecommunications, retail, manufacturing, energy and aerospace." The Firm stated that its consultants "speak one-on-one with [Firm] clients to provide up-to-the-minute intelligence on trends, issues, regulations and dynamics affecting a particular company, product or industry." Consultants who become part of the Firm's expert network can earn hundreds of dollars per hour or per call from the Firm for their consultations with Firm clients. Firm clients, which include hedge funds, often pay the Firm tens of thousands of dollars annually for access to the Firm's consultant network and services.

In or about late 2008, CHU established a relationship with Richard Choo-Beng ("C.B.") Lee, who at that time worked for a hedge fund. (In or about April 2009, Lee began to cooperate with the Government's investigation, and he has since entered a guilty plea pursuant to a cooperation agreement with the Government to charges of conspiracy and securities fraud.) In late 2008 and early 2009, Lee's hedge fund was a client of the Firm. Lee's hedge fund's practice was to have its employees call a Firm consultant before the consultant's company was expected to release its quarterly earnings, in part to obtain Inside Information. Lee's hedge fund paid the Firm through soft dollars, which are payments that occur when a Firm client causes its trading activity to be directed through the Firm's designated broker-dealer, so that commissions or fees from the executed trading activity of the client satisfy the payment for the Firm's services.

The Tech Company Inside Information

On July 20 and 21, 2009, during the time when Lee was cooperating with the Government's investigation, CHU facilitated a consultation between Lee and an individual ("CC-1") who worked at a publicly-traded technology company (the "Tech Company"). During that consultation, CC-1 provided Lee with revenue numbers, average sales prices, unit sales for different product lines, gross margin figures, and revenue forecasts for the Tech Company. Later that day, the Tech Company announced its quarterly earnings. Shortly after the Tech Company's public announcement, Lee called an employee at the Firm (the "Firm Employee") and told

the Firm Employee about Lee's conversation with CC-1. Lee said that CC-1's revenue number was "spot on." The Firm Employee said that CC-1 is one of the Firm's "more liked guys," and [referring to revenue numbers] said "that's what you try to get into." The Firm Employee said that CC-1 is "known as being fairly accurate." Between January 2008 and March 2010, the Firm paid CC-1 more than \$200,000 for consultation services that CC-1 provided. During that entire time, CC-1 was also employed by the Tech Company.

On or about August 4, 2009, CHU met with Lee in person. During that meeting, Lee mentioned to CHU that Lee was surprised that CC-1, "gave me the number last quarter, it's like on the spot." Lee asked whether "you guys" were "nervous," and CHU replied, "I'm nervous." Later, CHU said, "Let me tell you the truth. That's why I don't want too (sic) involved in the States. . . . S.E.C. [the United States Securities and Exchange Commission] is too strong. In Asia, the S.E.C. can't do too much there." Later, CHU explained a method of electronic communication to Lee that CHU believed could not be detected by law enforcement. Referring to that particular method, CHU stated, "There's no, no, no, no copy. If you, it's better than personal email. . . . There's no copy saved in the server. Even personal email, there is a copy. . . . So, [UI] just talk. Do, don't, don't put it down in writing. Dangerous."

The Broadcom Inside Information

On or about August 28, 2009, CHU spoke on the phone with Lee. During that call, CHU told Lee about another Firm consultant who worked at Broadcom (the "Broadcom Employee"), and who could provide "top line revenues" for Broadcom. CHU and Lee then discussed how Lee could contact the Broadcom Employee (who also worked as a Firm consultant). On November 21, 2010, CHU spoke with FBI agents. CHU told the FBI agents that the Broadcom Employee "probably gave [a certain hedge fund manager] Broadcom's revenue numbers before Broadcom's quarter end because that is what [the Broadcom Employee] does. When you ask [the Broadcom Employee] for Broadcom's revenue numbers, [the Broadcom Employee] will give it to you."

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CHU, 56, of Somerset, New Jersey, has been charged with one count of conspiracy to commit securities fraud (Count One) and one count of conspiracy to commit wire fraud and fraud in connection with securities (Count Two). Count One carries a maximum potential penalty of 5 years in prison and a fine of \$250,000 or twice the gross gain or loss from the offense, and

Count Two carries a maximum potential penalty of 25 years in prison and a fine of \$250,000 or twice the gross gain or loss from the offense.

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Mr. BHARARA praised the investigative work of the Federal Bureau of Investigation. He also thanked the U.S. Securities and Exchange Commission. Mr. BHARARA also 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 REED BRODSKY, DAVID LEIBOWITZ, and ANTONIA APPS, and Special Assistant U.S. Attorney ANDREW MICHAELSON are in charge of the prosecution.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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