

United States v. S.A.C. Capital Advisors LP, et al.
Prepared Remarks for U.S. Attorney Preet Bharara
July 25, 2013

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

Today we announce three law enforcement actions relating to the S.A.C. group of hedge funds. First, we unseal insider trading charges and wire fraud against the four entities that principally managed the multi-billion dollar S.A.C. Capital Hedge Fund and which employed the many people responsible for what can only be described as rampant insider trading within those funds.

Second, we have filed civil money laundering charges against numerous S.A.C. funds, seeking appropriate forfeiture of assets to address S.A.C.'s liability.

And third, we unseal the guilty plea of yet another portfolio manager at S.A.C., Richard Lee, who just this past Tuesday pled guilty to committing insider trading offenses while an employee at S.A.C.

Mr. Lee brings to eight the number of employees so far convicted of, or charged with, engaging in insider trading for the benefit of S.A.C.

What today's indictment against S.A.C. makes clear is this: when so many people from a single hedge fund have engaged in insider trading, it is not a coincidence.

It is, instead, the predictable product of substantial and pervasive institutional failure. As alleged, S.A.C. trafficked in inside information on a scale without any known precedent in the history of hedge funds.

As described in the indictment, the scope of illegal trading was deep and wide – it spanned more than a decade in time; involved the securities of at least 20 public companies; extended across multiple sectors of the economy; and benefited S.A.C. to the tune of at least hundreds of millions of dollars.

Today's indictment, though, is not just a narrative of names and numbers. It is, more broadly, an account of a firm with zero tolerance for low returns but seemingly tremendous tolerance for questionable conduct. And so, S.A.C. became, over time, a veritable magnet for market cheaters. The S.A.C. Companies operated a compliance system that appeared to talk the talk, but almost never walked the walk.

And that is why today the institution itself – rather than just individuals – stands charged with wire and securities fraud.

Before I review the charges in more detail, let me introduce our partners in this investigation and prosecution.

I am joined by our partner in this and so many other cases, the FBI, led by George Venizelos, the Assistant Director-in-Charge of the New York Field Office, and April Brooks, the Special Agent-in-Charge of the Criminal Division.

I want to thank both George and April and their dedicated team – FBI Special Agents: James Hinkle, Matthew Callahan, B.J. Kang, David Makol, Matthew Thoreson, and Ronan Byrne – for their incredibly hard work and assistance.

I especially want to acknowledge the career prosecutors from my office. They are Arlo Devlin-Brown, Antonia Apps, and John Zach, the AUSAs handling the prosecution, and their chiefs, Marc Berger and Anjan Sahni; also, Micah Smith for his work on the forfeiture aspects of the case, as well as Asset Forfeiture Chief Sharon Cohen Levin. [Lorin Reisner and Richard Zabel]

Let me now take a moment to talk about the particulars of today’s charges and guilty plea.

First, the guilty plea we announce today is by one of S.A.C.’s Portfolio managers – Richard Lee – who until very recently co-managed a \$1.25 billion portfolio focused on “special situations” – like mergers and acquisitions. While a portfolio manager at S.A.C., Lee obtained inside information with respect to various securities, including Yahoo! and 3Com Corporation.

As set forth in the larger indictment, the particular story of Richard Lee’s time at S.A.C. is emblematic of the broader culture problem at the fund.

As alleged, the S.A.C. Companies hired Richard Lee despite a reputation for insider trading. Indeed, he was hired – over objections from S.A.C.’s own legal department – despite specific warnings during his application process that Lee had improperly been part of an “insider trading group” at his prior employer.

Predictably, from virtually the inception of his employment at S.A.C. in 2009, Richard Lee began to trade on inside information – conduct he admitted by his guilty plea two days ago. He is continuing to cooperate with the Government’s investigation.

Second, as I mentioned, this morning we filed a civil forfeiture action in federal court. The forfeiture complaint alleges that the S.A.C. Companies engaged in money laundering by commingling the illegal profits from insider trading with other assets, using the profits to promote additional insider trading, and transferring the profits.

Our action today does not seek to freeze any of S.A.C.’s assets, and we are always mindful to minimize risks to third-party investors. In other words, we have not restrained any money, and we will discuss with the company a reasonable method going forward to protect everyone’s legitimate interests.

And finally, an indictment unsealed today charges the four S.A.C. management companies with insider trading.

Why are the S.A.C. entities being charged?

In addition to individuals, sometimes the organizations that employ them are criminally culpable and merit prosecution too.

The S.A.C. Companies are being held accountable for the criminal acts of so many of their employees because the misconduct was pervasive; because those employees were acting for the direct financial benefit of the firm; and because the company did not effectively police its own precincts.

As alleged in the indictment, the S.A.C. Companies went out of their way to find employees with personal networks of company insiders but without correspondingly considering whether the employees were using such contacts to obtain inside Information.

By way of just one example, Jon Horvath was an analyst in the tech sector for one of the entities charged today. S.A.C.'s hiring report on Horvath touted that Horvath generated investment ideas by "mining his industry contact network for datapoints."

Last September, Mr. Horvath pled guilty to "mining" illegal inside information from this very network.

More generally, the failures of S.A.C. to police itself are legion, as alleged in the indictment:

- Red flags and warning signs were repeatedly ignored;
- Until late 2009, the compliance department rarely reviewed electronic communications by S.A.C. employees containing suspicious terms;
- And failed to detect the insider trading by ANY of the eight S.A.C. employees charged to date.

As alleged, in its entire history, S.A.C. identified possible insider trading by any of its employees just once. And on that occasion, S.A.C. not only failed to report the matter to law enforcement or regulators, but those individuals were not even terminated from employment.

In fact, as far as we can tell, S.A.C. never reported suspicious trading to any regulator or criminal authority, ever.

A company reaps what it sows, and as alleged, S.A.C. seeded itself with corrupt traders, empowered to engage in criminal acts by a culture that looked the other way despite red flags all around. S.A.C. deliberately encouraged the no-holds-barred pursuit of an "edge" that literally carried it over the edge into corporate criminality.

Companies, like individuals, need to be held to account and need to be deterred from becoming dens of corruption. To all those who run companies and value their enterprises, but pay attention only to the money their employees make and not how they make it, today's indictment hopefully gets your attention.