

SAC Capital to Pay \$616 Million in Insider Trading Cases

By PETER LATTMAN

The government's multiyear campaign to ferret out insider trading on Wall Street has yielded multiple prosecutions of former employees of SAC Capital Advisors, the giant hedge fund owned by the billionaire investor Steven A. Cohen.

On Friday, federal authorities took aim at the fund itself.

In what officials are calling the largest-ever settlement of an insider trading action, SAC agreed to pay securities regulators about \$602 million to resolve a civil lawsuit related to improper trading at the fund.

The landmark penalty exceeds, at least before adjustment for inflation, the fines meted out in the 1980s-era scandals involving Ivan F. Boesky and Michael R. Milken, records at the time. It also underscores SAC's central role in the government's recent push to prosecute illegal conduct on trading desks and in executive suites, an effort that has yielded about 180 civil actions and more than 75 criminal prosecutions.

SAC also agreed Friday to pay \$14 million to resolve its role in an insider trading ring that illegally traded technology stocks including Dell.

"These settlements call for the imposition of historic penalties," said George S. Canellos, the Securities and Exchange Commission's acting enforcement director.

Mr. Canellos said the resolutions did not prevent the future filing of additional charges against any person, specifically citing Mr. Cohen, who was not named as a defendant in the civil actions on Friday. Mr. Cohen has not been charged with any wrongdoing and has told his clients that he believes he has behaved properly.

In the bigger case, the agency said an SAC unit would forfeit \$602 million to settle claims that it sold nearly \$1 billion in shares of two pharmaceutical companies after a former portfolio manager at the fund received secret information from a doctor about problems with a new drug for Alzheimer's disease.

For SAC, which is based in Stamford, Conn., manages \$15 billion and holds one of the best investment records on Wall Street, the settlements, while another blow to its reputation, resolve a matter that caused some of its investors to withdraw their money. Investors became skittish last fall after regulators warned SAC that they planned to sue the fund.

“These settlements are a substantial step toward resolving all outstanding regulatory matters and allow the firm to move forward,” said Jonathan Gasthalter, a spokesman for SAC.

The settlements still need to be approved by Judge Victor Marrero of Federal District Court in Manhattan, the presiding judge in the case. As part of its agreement with regulators, SAC neither admitted nor denied wrongdoing. That entrenched S.E.C. practice — permitting defendants to settle civil claims without acknowledging wrongdoing — has come under increased scrutiny by the courts, a trend that legal experts say could lead the judge to question the settlement.

The cases brought on Friday echo earlier criminal charges against SAC employees. In December, prosecutors indicted Mathew Martoma, a former SAC portfolio manager at the center of the questionable drug-stock trades tied to a new Alzheimer’s drug. And Jon Horvath, a former SAC analyst, pleaded guilty last year to participating in the Dell insider trading ring. In its legal filing on Friday, the S.E.C. said Mr. Horvath had leaked secret information to two colleagues; previously, the commission said that only one former SAC employee had received tips.

A lawyer for Mr. Martoma said SAC’s resolution of the two lawsuits had no bearing on his client, who has denied the charges.

“SAC’s business decision to settle with the S.E.C. in no way changes the fact that Mathew Martoma is an innocent man,” said Charles A. Stillman, the lawyer. “We will never give up our fight for his vindication.”

On a conference call with reporters, government officials bragged that the \$616 million amount dwarfed other prominent insider trading settlements. Raj Rajaratnam, a former hedge fund manager convicted in 2011, paid \$156 million in combined criminal and civil penalties. Mr. Boesky, a central figure in the 1980s trading scandals, paid \$100 million then.

The sum also exceeds the amounts of older enforcement actions, including a \$550 million settlement with Goldman Sachs in 2010 related to fraud accusations tied to the sale of mortgage investments, and a \$400 million settlement with Mr. Milken, the junk bond financier, in 1990.

The larger of the two cases settled on Friday was based on powerful evidence against Mr. Martoma, the former SAC portfolio manager. The government said Mr. Martoma had caused

SAC to sell nearly \$1 billion in shares of Elan and Wyeth because he obtained secret information from a doctor about clinical trials for a drug being developed by the companies. Prosecutors have secured the testimony of the doctor who reportedly leaked Mr. Martoma the drug trial data.

In bringing the criminal charge against Mr. Martoma, prosecutors appeared to be moving closer to building a case against Mr. Cohen. The complaint noted that Mr. Cohen had a 20-minute phone call with Mr. Martoma the night before SAC began dumping its holdings. Prosecutors, though, have not claimed that Mr. Cohen knew that Mr. Martoma had confidential data about the drug's prospects.

The F.B.I. has tried unsuccessfully several times to persuade Mr. Martoma to plead guilty and cooperate against Mr. Cohen.

While the \$602 million settlement in the Martoma case is a prodigious sum, it is considerably less than the maximum that the S.E.C. could have extracted. The agreement required SAC to pay about \$275 million, an amount representing disgorged illegal gains, as well as \$52 million in interest. In addition, SAC agreed to pay a \$275 million penalty, an amount equal to the illicit gains. Under the securities laws, however, the S.E.C. could have secured a penalty of three times that amount, or \$825 million.

The forfeited money will come from SAC, meaning that the firm will write the government a check. SAC's investors will not pay anything or absorb any losses. The \$616 million will go into a general revenue fund of the United States Treasury.

Representing SAC in its talks with the S.E.C. were Martin Klotz of Willkie Farr & Gallagher and Daniel J. Kramer of Paul Weiss Rifkind Wharton & Garrison.

While the resolution of these two cases provides a measure of relief to SAC and its clients, the hedge fund's legal problems have already damaged its business. Though SAC has returned about 30 percent annually to its investors over the last two decades — a virtually peerless track record — many of its clients have parted ways with the fund.

Last month, SAC investors asked to withdraw \$1.7 billion, more than a quarter of the \$6 billion that the fund manages for outside clients. The balance of SAC's \$15 billion belongs to Mr. Cohen and his employees. The next regularly scheduled deadline for SAC clients to ask for their money back is mid-May.

In calls with concerned clients, SAC has highlighted its stepped-up efforts in building its legal staff and compliance procedures — an initiative that Mr. Gasthalter reiterated Friday. "We are

committed to continuing to maintain a first-rate compliance effort woven into the fabric of the firm.”

On a conference call discussing the case, Mr. Canellos was asked whether the S.E.C. felt that SAC was committed to keeping a strong culture of compliance.

“I sure hope they are,” Mr. Canellos said.
