

Insider trading case focuses on Apple's secrets

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(AP) -- Federal prosecutors in Manhattan broadened their insider trading crackdown Thursday, arresting four people on charges alleging that so-called "expert consultants" revealed secrets about Apple Inc.'s iPhone and other technology products to hedge funds seeking a trading edge on quarterly earnings reports.

The latest probe targeted Primary Global Research, a Mountain View, Calif.-based firm that offered consulting services to investors on industry trends, issues and regulations. Instead, prosecutors allege, firm executive James Fleishman used four consultants employed by publicly traded companies to create a corrupt clearinghouse for confidential information.

Fleishman, 41, was charged with wire fraud and conspiracy. Three others, all outside "expert consultants" for Primary Global Research until earlier this year, were charged with wire fraud and conspiracy to commit securities fraud and wire fraud, according to papers filed in federal court in Manhattan.

Fleishman helped arrange for Primary Global Research clients, including hedge funds, to speak with the consultants, the papers said. The clients were told about highly confidential Apple sales forecasts information, new product features for the iPhone and a top-secret project known internally at Apple as "K48," which became the iPad, launched this year, the complaint said.

The charges allege that a "corrupt network of insiders at some of the world's leading technology companies served as so-called 'consultants' who sold out their employers by stealing and then peddling their valuable inside information," U.S. Attorney Preet Bharara said in a statement.

He said the allegations describe criminal conduct that went "well beyond any legitimate information-sharing or good faith business practice."

Primary Global Research paid four consultants more than \$400,000 merely to participate in phone calls with their clients, "an indication of the value placed on the information," said FBI Assistant Director Janice K. Fedarcy.

"This wasn't market research. What the defendants did was purchase and sell insider information," Fedarcy said, adding: "Our investigation is most assuredly continuing."

The three consultants charged were Mark Anthony Longoria, 44, of Round Rock, Texas; Walter Shimon, 39, of San Diego; and Manosha Karunatilaka, 37, of Marlborough, Mass.

The prosecution is an offshoot of a probe of Galleon Funds founder Raj Rajaratnam and 22 others in which prosecutors made extensive use of wiretaps, which are more common in drug and organized crime investigations. Rajaratnam has pleaded not guilty and said he only traded with information available to the public.

On wiretaps used to build evidence against those arrested Thursday, Fleishman and Longoria could be heard speaking about the Galleon probe, with Fleishman assuring Longoria that Galleon was not a client, according to court papers.

The complaint said Longoria responded: "OK. Good. I wasn't sure. I

was, like, really getting nervous."

Richard Choo-Beng Lee, a former hedge fund co-manager who has pleaded guilty and is cooperating with the government, made some of the recordings, the complaint said.

Investigators have learned from Lee that his hedge fund's "practice was to have its employees call a firm consultant before the consultant's employer was expected to release its quarterly earnings, in part to obtain inside information," the complaint said.

Longoria worked at Advanced Micro Devices Inc. as a supply chain manager, Shimoon worked at Flextronics International Limited as senior director of business development and Karunatilaka worked as an account manager at Taiwan Semiconductor Manufacturing Co. office in Burlington, Mass.

The complaint said Shimoon illegally provided information about sales forecasts and new product features for Apple's iPhone that had been given to employees of Flextronics, which worked with Apple on camera and charger components for the iPhone and iPod.

It said he also spoke of the iPad project, saying on secretly recorded conversations with a government cooperating witness: "At Apple you can get fired for saying K48 ... outside of a meeting that doesn't have K48 people in it. That's how crazy they are about it."

The complaint said Shimoon was also captured on wiretaps promising to get secrets about sales at Research In Motion Ltd., which makes Blackberrys.

Shimoon has been terminated and Flextronics has clear policies prohibiting the release of confidential information about the company

and its business partners, Flextronics said in a statement.

It was not immediately clear who would represent Shimoon at an initial court appearance.

For Karunatilaka, bail was set at \$250,000 after an initial appearance in federal court in Boston. He was expected to be released Thursday. His lawyer, Brad Bailey, said he was reviewing the allegations against his client and would decide how to proceed. He said it was likely Karunatilaka would appear in Manhattan court sometime in January.

Longoria appeared before U.S. Magistrate Judge Andrew W. Austin, Texas, who ordered him released on \$50,000 unsecured bond and told him to surrender his expired passport.

When asked if he was a flight risk, a tearful Longoria said no.

"I'm not trying to fight this. I'm here to help. I've been cooperating on this from the beginning," Longoria said.

Longoria resigned Oct. 22 from AMD, where he had worked since 2007, said Mike Silverman, a company spokesman.

"It appears that AMD is the victim of an insider trading scheme," Silverman said. He added that AMD was cooperating with investigators.

A lawyers for Fleishman did not return phone calls for comment.

A fourth consultant for Primary Global Research, former Dell global supply manager Daniel Devore, pleaded guilty Dec. 10 to wire fraud and conspiracy charges in a cooperation deal that could win him leniency at sentencing, prosecutors also announced. His lawyer, John Sutton, declined to comment Thursday.

In his plea, Devore told a judge that Primary Global Research paid him about \$145,000 to share inside information with the firm's clients and employees.

"I knew that when I was misappropriating Dell's confidential information and providing it to money managers, I was violating my duties of confidentiality and trust to Dell," he said, according to a transcript.

David Best, a Dell spokesman, said the company would cooperate with authorities.

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