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**THE WALL STREET JOURNAL.**

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## Feds: Insider Scheme Spanned 17 Years

By CHAD BRAY, SUSAN PULLIAM and VANESSA O'CONNELL

For 17 years, Matthew Kluger and Garrett Bauer assiduously avoided each other, communicating through a go-between—and over that time, made each other rich in one of the longest-running insider-trading schemes ever uncovered, federal prosecutors alleged Wednesday.

### Read the SEC Complaint

|   |                               |
|---|-------------------------------|
| UNITED STATES DISTRICT COURT<br>DISTRICT OF NEW JERSEY    |                               |
| SECURITIES AND EXCHANGE COMMISSION,<br>Plaintiff,         | Case No.                      |
| v.  | <b>COMPLAIN<br/>THE FEDEB</b> |
| MATTHEW H. KLUGER and<br>GARRETT D. BAUER,<br>Defendants. |                               |

Plaintiff Securities and Exchange Commission (the "Commission")

Once they were caught—after allegedly netting \$32 million in profits—prosecutors say that Mr. Kluger, a lawyer, and Mr. Bauer, a trader, scrambled to wriggle out of the government net: Burning \$175,000 in cash, disposing of a prepaid cellphone in McDonald's trash cans and destroying fingerprints by running money through a washing machine were all discussed.

"We have to get all the fingerprints off that money," said Mr. Bauer in one of a flurry of frantic phone calls secretly taped by the go-between.

The complaint, filed in Newark by New Jersey U.S. Attorney Paul Fishman, accuses Mr. Kluger, who worked at two of the country's top mergers-and-acquisitions law firms, of obtaining secret information from the firms and passing it to the go-between. That person would then hand off the tips to Mr. Bauer, who would allegedly make the trades. The transactions involved some of the biggest tech deals of the past decade, including Intel Corp., Hewlett-Packard Co. and Oracle Corp.

*We have to get all the fingerprints off that money.*

—Garrett Bauer, according to prosecutors

Mr. Kluger allegedly started to share confidential information as a summer associate 17 years ago, when he was working at Cravath, Swaine & Moore LLP. He also passed on information from Skadden, Arps, Slate, Meagher & Flom LLP, where he worked from 1998 to 2001, according to the criminal complaint, and most recently, from his job at the law firm of Wilson Sonsini Goodrich & Rosati PC.

Mr. Kluger was arrested at his home in Virginia Wednesday morning and was ordered by a judge to be held in custody pending a bail hearing. Officials also arrested Mr. Bauer at his Manhattan apartment on Wednesday. He most recently worked at Lighthouse Financial Group LLC, according to the complaint. The securities brokerage recently filed for bankruptcy protection.

**Read the Criminal Complaint**

UNITED STATES DISTRICT COURT  
DISTRICT OF NEW JERSEY

AMERICA : CRIMINAL COMPLAINT  
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Mag. No.: 11-3536 (MF)

The third member of the alleged conspiracy, a mortgage broker from Long Beach, N.Y, who prosecutors say acted as a middleman in the plot, wasn't charged in the case. The broker consensually recorded calls with the other two men following a search of his home on March 8 by agents from the Federal Bureau of Investigation and the Internal Revenue Service, according to the complaint and a person familiar with the matter.

Mr. Kluger's lawyer couldn't immediately be identified. William Davis, Mr. Bauer's lawyer, said the case "has some difficult issues. How we will defend it will take a little time."

The case highlights the aggressiveness of law enforcement authorities who are increasingly using secretly recorded phone conversations and cooperating witnesses to build cases. The case against Galleon Group hedge fund founder Raj Rajaratnam, who is accused of running a large insider-trading ring, is built on such tactics. Mr. Rajaratnam has denied wrongdoing.

**Three Men, 11 Deals and a \$32 Million Haul**



The alleged scheme revealed on Wednesday stretched back to 1994, when Mr. Kluger allegedly told the co-conspirator while attending law school at New York University and after taking a summer associate job at Cravath that "I've got something," meaning he had access to confidential information, prosecutors said. The co-conspirator then approached Mr. Bauer, whom he had worked with in the 1990s at venture capital firm Weiss, Peck & Greer. Mr. Bauer agreed to trade based on the information provided, prosecutors said. "They structured their

relationship so that Bauer and Kluger did not have direct contact prior to the trades," said Daniel M. Hawke, the regional director for the Securities and Exchange Commission's Philadelphia office.

Mr. Kluger stole information regarding 11 deals while at Wilson Sonsini, which he left last month, according to the complaint. A spokeswoman for the firm declined to comment on the allegation, saying: "We were shocked to learn of the conduct the government has alleged a former employee committed against us." She said his departure wasn't related to the case and that the firm was cooperating with authorities. Spokesmen for Cravath and Skadden said their policies forbid such conduct and they would also cooperate with authorities.

"I don't know how the guy did it," said one lawyer who knew Mr. Kluger when he worked at Wilson's Washington office as an associate. Mr. Kluger was "low key and competent" as a lawyer, this person said. Others described him as outgoing. Mr. Kluger was "bubbly and aggressive," with a resume that included a stint selling cars, said one person who interviewed Mr. Kluger about a decade ago for an associate position at a law firm.

Mr. Kluger also worked briefly at the law firm Fried, Frank, Harris, Shriver & Jacobson LLP. A spokesperson at Fried, Frank didn't immediately return messages seeking comment.

**More**

**Deal Journal:** Take the \$175,000 and 'Burn it In a Fire'

**Vote:** Are insider trading rules too strict?

According to the criminal complaint, Mr. Bauer, Mr. Kluger and the unnamed co-conspirator allegedly invested more than \$109 million, making at least \$32.2 million in profits. Mr. Bauer, who netted roughly \$30 million of the total, purchased a \$6.65 million condominium in Manhattan and a \$875,000 home in Boca Raton, Fla., with the proceeds, prosecutors said.

Prosecutors say Mr. Bauer could access capital to increase the size of his bets, which likely led to larger profits than his co-conspirators.

The deals included Oracle's planned acquisition of Sun Microsystems in 2009; Adobe System Inc.'s purchase of

Omniture Inc. in 2009; Intel's purchase of McAfee Inc. in 2011; and CSR PLC's proposed merger with Zoran Corp. earlier this year, prosecutors said. Mr. Bauer made \$11.4 million on the Oracle deal and \$8.3 million on the Adobe deal, prosecutors said.

After the alleged profits were made, Mr. Bauer would go to a bank branch near him and use multiple ATMs to withdraw cash to pay the other two their share, prosecutors said. He withdrew \$175,000 after one recent deal, placed the money in white Citibank envelopes with the dollar amount marked on the outside of each envelope, and then placed them in a garbage bag and gave it to the co-conspirator.

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*If they start looking at me and look at my bank records and all that other stuff it could be, it could get ugly.*

—Matthew Kluger, according to prosecutors

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The mortgage broker began recording phone calls with his friends after the FBI's visit. The calls between March 17 and March 28 captured a kaleidoscope of paranoia and anxiety.

"I felt like I was in shock. My heart was beating 10,000 miles an hour," Mr. Bauer said in a call with the broker on March 18, reacting to the news of the FBI visit, according to the complaint. "I went right up to my apartment, and I broke the phone in half and went to McDonald's and put it in two different garbage cans. And someone was watching me. I thought it was an FBI agent. And I asked him, 'Do you know me? You look familiar.' And, like, I was so panicked. I literally didn't sleep that entire night."

Mr. Bauer told the broker to burn the \$175,000 from the recent deal, prosecutors said. "Burn it?" the co-conspirator said. "I would burn it...if there is any chance of us getting caught on that," Mr. Bauer said. In a call on March 17, Mr. Kluger told his friend that he wanted him to dispose of a phone, warning, "they have dogs that can sniff, that can sniff for cellphones."

The criminal charges against Mr. Kluger and Mr. Bauer include conspiracy to commit securities fraud, conspiracy to commit money laundering and multiple counts of securities fraud and obstruction of justice. The SEC also brought separate civil charges on Wednesday against both men.

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