<u>**United States v. Mathew Martoma**</u>
Prepared Remarks for U.S. Attorney Preet Bharara
November 20, 2012

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

Today, yet another privileged hedge fund professional stands accused of insider trading. The charges unsealed today describe cheating coming and going – specifically insider trading first on the long side, and then on the short side, on a scale that has no historical precedent. As the criminal Complaint alleges, by cultivating and corrupting a doctor with access to secret drug data, former portfolio manager Mathew Martoma and his hedge fund benefited from what might be the most lucrative inside tip of all time.

In any case, this is certainly the most lucrative insider trading scheme ever charged, allegedly resulting in an illegal windfall to the hedge fund of more than a quarter of a billion dollars.

As I will describe more fully in a moment, at the heart of this scheme was confidential information about an experimental drug treatment for Alzheimer's disease, being developed jointly by the pharmaceutical companies Elan Corporation and Wyeth.

As Martoma allegedly got his sneak peeks at drug data from the doctor, he first recommended that the hedge fund build up a massive position in Elan and Wyeth stock – at one point, by the end of June of 2008, that stake totaled more than $700 million.

Then, as also alleged, after the doctor secretly slipped Martoma the unexpectedly bad results of a clinical drug trial, the defendant realized that the massive stake had become a colossal liability, and in a matter of just days, he caused the hedge fund not only to dump its shares but also to short the two drug stocks in advance of the negative drug trial becoming public.

As a result of the blatant corruption of both the drug research and securities markets alleged, the hedge fund made profits and avoided losses of a staggering $276 million, and Martoma himself walked away with a $9 million bonus for his efforts.

From the $700M long position to the more than $250M short position, that was a swing of nearly $1 billion.

And once again, ordinary investors were cheated, the market was corrupted, and the rule of law took a back seat to illegal profit.

Before I review the charges in more detail, let me introduce the other speakers here today.

I am joined by Robert Khuzami, the Director of Enforcement of the Securities and Exchange Commission, and April Brooks, Special Agent-in-Charge of the FBI's Criminal Division.

Mary Galligan, Acting Assistant Director-In-Charge of the New York Division of the FBI could not be with us today. I would also like to thank the following people, many of whom are standing with us.

They are, from the SEC, George Canellos, Deputy Director of the Enforcement Division, Sanjay Wadwha, Associate Director of the New York Regional Office and Deputy Chief of the Enforcement Division's Market Abuse Unit, Amelia Cottrell, Assistant Director of the New York Regional Office, staff attorneys Charles Riely and Matthew Watkins, and staff accountant Neil Handelman.

Also here from the FBI are Doug Leff, Assistant Special Agent-in-Charge, Paul Takla, Acting Supervisory Special Agent, and Richard Jacobs, Coordinating Supervisory Special Agent. Matthew Callahan, the lead agent on this case is with the defendant in Florida and also deserves a big thank you for his outstanding work.

I especially want to thank the fine and dedicated career prosecutors from my office. They are Arlo Devlin Brown, the AUSA in charge of today's prosecution, and Marc Berger and Anjan Sahni, who head up our Securities and Commodities Task Force.

Let me now take a moment to talk about the particulars of today's charges.

In the summer of 2008, scientists and investors alike were awaiting the results of a clinical trial being conducted by Elan and Wyeth of a drug called bapineuzumab, or "bapi," for short, which offered a novel but untested approach to the treatment of Alzheimer's Disease.

As I mentioned and as the Complaint describes, at the center of the scheme was the cultivation of a renowned medical doctor and Alzheimer's expert. That doctor is now a cooperating witness for the government, and he is prepared to testify in connection with a non-prosecution agreement.

Martoma got access to data about the experimental drug by corrupting this doctor – who was not just a renowned doctor, but a doctor who was a paid consultant to Elan, who was personally involved in the drug trials in question, and who was later selected to announce the Drug Trial results at the Alzheimer's Disease conference on behalf of the companies.

Beginning in the summer of 2006, as the Drug Trial was getting underway, Martoma began arranging paid consultations with the Doctor through an expert networking firm. During the consultations – and there were about 42 of them altogether – Martoma eventually got the Doctor to start talking about his work on the Drug Trial.

In connection with the Doctor's encouraging inside information about the drug, the Complaint alleges the following, among other things:

- The Hedge Fund built up, over time, a massive position in Elan and Wyeth stock;
- The Hedge Fund built up this position even though it was vocally opposed by several others at the Hedge Fund, who were worried about the risk;

- In fact, Martoma was the only person at the Hedge Fund who was recommending establishing such a large position in Elan and Wyeth; and
- Following Martoma's adamant recommendation, by the end of June 2008, the Hedge Fund owned more than $700 million in Elan and Wyeth stock.

As further alleged, in July of 2008, however, Martoma got good news and bad news.

The good news was that the Doctor was selected to present the full results of the Drug Trial at an upcoming Alzheimer's conference and would receive those results before almost anyone else in the world.

The bad news was that the results were not good – the data raised serious questions about how well the drug worked, or if it even worked at all.

As alleged in the Complaint, the Doctor provided the secret, not yet public results directly to Martoma on July 17, 2008, even going so far as to send Martoma a draft of the 24-page PowerPoint presentation the Doctor planned to present at the conference.

And that is when Martoma had to do a spectacular about face because he understood that – with these negative results looming – the hedge fund's massive $700 million stake had become a terrible bet.

And so, just like that, overnight, Martoma went from bull to bear as he tried to dig his hedge fund out of a massive hole.

Over a 12-day period described in the Complaint, at Martoma's urging, the Hedge Fund sold – quickly and quietly – almost all of the approximately 17.5 million shares it owned of Elan and Wyeth.

What's more, to capitalize even more on the still-secret bad news, the Hedge Fund also took up short positions on Elan and Wyeth.

To give a sense of how much trading this required, records suggest that over a one-week period in July 2008, the Hedge Fund's trading in Elan stock represented more than 20 percent of the entire reported trading volume in that security.

By the time of the public announcement of adverse results of the drug trial on July 29th, the Hedge Fund was sitting pretty, with the unwinding complete and its new trading position in place.

The next day, the stock price of Elan plummeted over 40 percent, and the stock price of Wyeth fell some 12 percent.

One point of epilogue in the case as described in the complaint is this: Martoma had a banner year in 2008 and was rewarded handsomely. The following year, however, his portfolio lost money, and a Hedge Fund employee recommended that he be terminated, stating in an email that Martoma appeared to be a "one trick pony with Elan." In 2010, Martoma was in fact terminated from the Hedge Fund.

Martoma is now the 73rd defendant to be charged with insider trading by this Office in the past three years. He is also the third person to be charged in the past two years with insider trading around secret drug trial results leaked by doctors who both worked on the clinical trials and served as paid experts on the side for hedge funds.

The charges today should remind would-be cheaters that while the temporary payoff on an insider deal can be huge, they can find themselves with nowhere to spend their illegal profits but the prison commissary.

The magnitude of the alleged scheme boggles the mind. But one thing to bear in mind is that on the other side of the hundreds of millions of dollars in the hedge fund's trades were ordinary investors – investors who did not know the confidential results of the drug trial in advance. They didn't have the secret sauce. And they unwittingly suffered the large losses that Martoma, through his alleged corruption of the Doctor, had avoided for the Hedge Fund.

That is unacceptable. And that is why we will continue to prosecute those cheaters who make the stock market less fair for everyone else.