

Investment Research President Charged In NYC

Larry Neumeister, Associated Press

NEW YORK (AP) — The president of an Oregon investment research firm has been arrested on conspiracy and securities fraud charges in a continuing crackdown by federal authorities on networking firms accused of passing along secrets about public companies as if it were legitimate research.

John Kinnucan of Portland, Ore., was awaiting an initial court appearance Friday in Oregon. It was not immediately clear who will represent him in court. The president of Broadband Research LLC was arrested late Thursday at his residence.

The charges came as Donald Barnetson, a former employee of California memory card maker SanDisk Corp., pleaded guilty Friday in Manhattan federal court to a conspiracy charge, agreeing to cooperate with federal authorities investigating insider trading.

Barnetson entered the plea to conspiracy to commit wire fraud and securities fraud. Authorities said he fed tips about SanDisk Corp. to a research firm in Portland.

Kinnucan was accused of obtaining secrets about publicly traded companies and selling the information to Broadband's clients, including hedge funds and money managers.

U.S. Attorney Preet Bharara said Kinnucan used financial incentives, fancy meals and other inducements to get public company insiders to reveal secrets.

"He allegedly made a business model out of passing off those secrets to his hedge fund clients as legitimate research," Bharara said.

FBI Assistant Director-in-Charge Janice K. Fedarcyk criticized Kinnucan, saying: "That kind of information beats research every time. The only problem is it isn't legal."

Kinnucan is accused of obtaining inside information about earnings reports from companies such as F5 Networks Inc., Sandisk and Flextronics International Limited between 2008 and 2010 and relaying the numbers to his clients.

Kinnucan faces separate civil charges that were announced simultaneously by the Securities and Exchange Commission. The SEC says he was tipped off in July 2010 that a Seattle-based technology company was poised to report strong quarterly earnings. He passed the information to clients, who profited \$1.6 million from illegal trades, the SEC's complaint alleges.

"Obtaining important and unreported financial results from company insiders and selling that information to hedge funds is not legitimate expert networking services

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— it's old-fashioned insider trading," SEC enforcement chief Robert Khuzami said in a statement.

The SEC says Kinnucan's tipsters included employees of at least five publicly-traded companies. It says he compensated them with cash, meals, ski trips and other vacations.

The SEC wants Kinnucan to return money he was paid allegedly in exchange for illegal tips, as well as any insider-trading profits generated by him or his clients. It also is seeking unspecified civil monetary penalties.

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