

Indictments Expected in Alleged Trading Code Theft

*Criminal Complaint Targets Three, Including
Two Former Flow Traders Employees*

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The top prosecutor in Manhattan is seeking to indict three men for allegedly stealing valuable computer source code from an automated trading firm, according to people familiar with the matter.

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Associated Press

Manhattan District Attorney Cyrus Vance Jr. is seeking an indictment..

A criminal complaint filed by Manhattan District Attorney Cyrus Vance Jr. in New York and seen by The Wall Street Journal alleges that Glen Cressman and Jason Vuu, who worked as traders at Flow Traders US LLC in New York, emailed themselves lines of code that contained secret algorithms at the heart of the firm's high-frequency trading strategy.

Mr. Vuu shared the code with Simon Lu, a college friend from the Massachusetts Institute of Technology, through the file-storage service Dropbox, according to the complaint, which accuses the two men of planning to use the secret software to start their own company. Mr. Lu, currently a Ph.D. candidate in mechanical engineering at Carnegie Mellon University in Pittsburgh, was studying there when he allegedly received the stolen code.

The complaint doesn't allege that Mr. Cressman knew of or was involved in any alleged plan to start up a new firm.

"Glen Cressman is innocent," his attorney, Charles Ross, said Thursday. "He was a great employee for Flow Traders. I am confident that when everything is put on the table, the case against him will completely unravel," he said.

Mr. Lu's attorney, Paul Shechtman of Zuckerman Spaeder LLP, said he believes "the evidence will show that Simon never used source code from Flow Traders. We've asked

the district attorney's office to keep an open mind as this moves forward."

Mr. Vuu's attorney, Jeremy Saland, said he doesn't believe any harm was done to Flow Traders and is still looking into the facts. "I look forward to defending these accusations," he said Sunday.

Joseph DeMarco, outside counsel for Flow Traders, said the firm considers the code "valuable intellectual property used by the company in its trading business." Mr. DeMarco, a former federal prosecutor who founded the Computer Hacking and Intellectual Property Program in the Manhattan U.S. Attorney's office, said the company alerted authorities about the alleged code theft and is working with them on the case.

The three men, all in their 20s, were arrested earlier this month and arraigned in state court in Manhattan. The DA's office has been investigating the case and obtaining search warrants in recent weeks. A grand jury is expected to vote on the indictment as early as next week, according to people familiar with the matter.

The probe comes almost exactly a year after Mr. Vance brought charges against former Goldman Sachs programmer Sergey Aleynikov, who is out on bail awaiting trial in New York state court on charges that he stole high-frequency trading code from his employer. Mr. Aleynikov had been convicted in federal court for the same offense and was serving an eight-year prison sentence before his case was overturned by a federal appeals court in February of last year. Mr. Aleynikov's lawyer, Kevin Marino, denies his client did anything wrong. A judge allowed the case to go forward, despite Mr. Marino's argument that a second prosecution violated the Fifth Amendment of the Constitution.

Mr. Vance's prosecution of Messrs. Lu, Cressman and Vuu sends a clear signal that the alleged theft of proprietary computer code from Wall Street firms has become a priority for the Manhattan DA's office. The district attorney's office has prosecuted a handful of the cases, and according to people familiar with matter, there are more to come. "Employees who exploit their access to sensitive information should expect to face criminal prosecution in New York State in appropriate cases," Mr. Vance said in a

statement last year.

Such prosecution has critics, because stolen code by itself is of little value without sizeable teams of programmers to constantly update and maintain it, according to Dirk Eddelbuettel, a quantitative analyst at Ketchum Trading LLC. "There's a lot more to it. You can't just go off and start a company like that," he said.

Moreover, proprietary software often contains open-source code that is freely available to the public. It isn't clear whether the code at the center of Mr. Vance's prosecution contains portions of open-source material.

Flow Traders, founded in 2004, is a major market maker for the high-frequency trading industry. It has offices in Amsterdam, New York and Singapore.

Hedge funds, big investment banks and firms like Flow Traders rely on computer code to automate complicated trading strategies. In the case of high-frequency trading, firms can trade a massive amount of stock in fractions of a second. The strategy allows firms to make profits on tiny fluctuations in stock price, and they tightly guard their proprietary code.

In the complaint, investigators from the Manhattan District Attorney's office said they learned the details from an employee at Flow Traders. By that time, Messrs. Cressman and Vuu had left the firm and the state. Mr. Cressman had moved to Florida, and Mr. Vuu went to California.

After searching Mr. Lu's computers, investigators discovered that some of the computer code allegedly stolen from Flow Traders had been manipulated, leading investigators to believe that Mr. Lu had taken steps toward launching his own high-frequency trading platform, according to a person familiar with the matter. Messrs. Lu and Vuu had not set up their own firm.

The laws the men are accused of violating carry the lowest sentencing guidelines in New York state. If they are indicted and convicted, they would face a maximum of four years in prison, though some legal experts say it is unlikely they would serve any prison time at

all.