

The Washington Post

SEC gathered range of experts for Goldman case

By Zachary A. Goldfarb
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Late into the night, they darted from office to office, carrying thick reams of documents, building the most prominent legal case to grow out of the financial crisis.

On the fifth floor of the headquarters of the Securities and Exchange Commission, five men and one woman, fueled by Sbarro pizza and Subway sandwiches, worked marathon hours over three months to finalize a case alleging that Goldman Sachs had defrauded clients.

Led by a former federal prosecutor and a pair of veteran SEC investigators, the team was preparing to take legal action against America's most storied financial firm. On the line was the promise made by SEC Chairman Mary Schapiro, appointed by President Obama last year, that the agency would restore its traditional role as an aggressive check on Wall Street abuses.

The team consists of three old hands and three more junior lawyers. Together, former colleagues say, they bring a mix of backgrounds suited for the many dimensions of the Goldman case. They can understand the details of very complex financial products, grasp the

nuances of law and simplify complicated issues for a lay jury.

Lorin Reisner, 48, is a former federal prosecutor who was handpicked last year by the new enforcement director Robert Khuzami as his deputy. Under Reisner were agency veterans Ken Lench, 47, and Reid Muoio, 43, who lead a new agency group specializing in the types of exotic investments that nearly wrecked the financial system.

The men face keen challenges. Goldman Sachs, which has denied the fraud allegations, is assembling a powerful defense team led by Richard Klapper, who has spent 30 years at Sullivan & Cromwell, one of the country's most prestigious law firms, whose partners have played an influential role shaping financial regulation in Washington over

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the years. Goldman also recruited Obama's former White House counsel, Gregory B. Craig, for advice.

After a year and a half of preparation, the SEC filed a civil fraud suit against Goldman earlier this month. The crux of the case alleges that Paulson & Co., a hedge fund, was looking for a way to bet on a drop in the housing market and that it asked Goldman to help create a financial product that would allow such a wager. Then, Paulson helped assemble that product by selecting individual securities to include in it. These were mortgage-related securities that Paulson thought were likely to lose value.

The SEC claims that the fund's motivations and role were concealed when Goldman marketed and sold the investment to clients who hoped it would gain value.

Reisner, likely to be the chief litigator in the Goldman case, is one of several former federal prosecutors recruited to the SEC in the past year and a half. A graduate of Brandeis University and Harvard Law School, he spent more than a decade in private practice at a New York-based firm.

As a prosecutor, he worked primarily on cases involving public corruption and financial crime. In the mid-1990s, while pressing a case against gang members

who had crashed cars into luxury stores and then stolen merchandise at gunpoint, Reisner won notice for his talent at translating sophisticated ballistics evidence into simple points for juries.

"He was able to take what was complicated technical information and boil it down to make it understandable [to the jury] without oversimplifying," said Guy Petrillo, a former federal prosecutor.

He said Reisner's skill would be valuable in the Goldman case, which involves a complex financial instrument known as a synthetic collateralized debt obligation. "That general ability to synthesize and break down and explain complicated transactions or fact scenarios is really a hallmark of his expertise," Petrillo said.

Muoio ran the day-to-day SEC probe,

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working with three other investigators, Jeff Leasure, Jason Anthony and N. Creola Kelly. For a diversion, Muoio would pull out the ukulele that he took up after his son Jack received one as a Christmas gift five years ago.

A graduate of Williams College and Yale Law School, Muoio started at the SEC in 1998 as a frontline investigator after a short stint at a New York law firm and a clerkship with a federal judge in Chicago.

Muoio impressed his colleagues with unusually advanced trial skills. One of his biggest early cases was against Lewis Rivlin, a high-profile Washington lawyer who allegedly bilked investors, including charities, into buying \$6.2 million in fraudulent bank notes.

Muoio ran the probe, but when the case went to trial, he also was given the unusual task of helping question witnesses in court, a job that is usually left to more seasoned litigators.

"When you have an inexperienced junior counsel [questioning] a witness, they're often halting and stumbling," said Stephen Crimmins, a former SEC trial lawyer who oversaw the court proceedings. "He could stand up there and do his examination without rigid questions. . . . It was natural. For someone who never tried a case before, he was pretty good."

Lench brings to the case a deep knowledge of the most esoteric financial instruments, according to his former colleagues, and often delves into academic articles on derivatives and other structured financial products.

A graduate of Brandeis and Boston University Law School, he led a team that recently pressed charges against banks that allegedly sold exotic and risky bonds known as auction-rate securities to clients who wanted a conservative investment.

"Ken has the intellectual capacity and the patience to make sure he has the time to develop a deep understanding" of complex financial instruments, said Walter Ricciardi, a former SEC deputy enforcement director who worked with Lench on auction-rate securities. "He always impressed me with his thorough

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and deep understanding of how exactly the instruments work."

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