Goldman Director in Probe

Prosecutors Examine Trades by Galleon in Bank's Shares as Investigation Widens

BY SUSAN PULLIAM

Wall Street's most powerful firm is being drawn into the government's sprawling insider-trading investigation.

Prosecutors are examining whether a Goldman Sachs Group Inc. board member gave inside information about the firm to Galleon hedge-fund founder Raj Rajaratnam during the height of the financial crisis, people close to the situation told The Wall Street Journal.

Goldman's name emerged in a government letter listing companies whose trading, by Mr. Rajaratnam and others in the Galleon case, the U.S. is investigating. The March 22 letter said the government is scrutinizing trades by Mr. Rajaratnam and others in Goldman Sachs from June 2008 through October 2008, a time when Goldman shares gyrated amid the bankruptcy of Lehman Brothers Holdings and concerns about the future of all major investment banks.

As part of that focus, the government is examining whether Rajat Gupta—a current Goldman director, former head of McKinsey & Co. and close associate of Mr. Rajaratnam's—shared inside information about Goldman, the people close to the situation say.

No criminal charges or other allegations have been filed against Mr. Gupta, nor is there any indication that investigators are looking at his own stock trading. A spokesman for Mr. Gupta said, "Mr. Gupta is unaware of any examination of any such issue and has done nothing wrong."

Mr. Rajaratnam, who has pleaded not guilty to criminal insider-trading charges, declined to comment through his spokesman.

Though Goldman is just one of a number of stocks newly

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emerging in the investigation, the big banking firm stands out because it executed trades for Galleon over the years, and Messrs. Gupta and Rajaratnam were in a separate business partnership several years ago.

It isn’t clear what specific evidence the government may have gathered related to trading in the shares of Goldman or other companies listed in the March 22 court filing, which was a response to a request by Mr. Rajaratnam’s lawyers for more information about the government’s evidence.

The letter identified 22 companies, some not previously made public, in which the U.S. attorney in Manhattan is scrutinizing trading by Mr. Rajaratnam and other alleged co-conspirators. The letter from prosecutors said, “We fully anticipate that the Government’s ongoing investigation and review of information will lead to further evidence relating to the charged crimes, including identification of additional uncharged co-conspirators.”

The letter described the trading the government was investigating in various stocks as “almost all...clearly disclosed in the wiretap applications, intercepted calls, and consensually recorded calls.”

Defense lawyers in the Galleon case have argued that wiretaps shouldn’t be admitted as evidence.

The development marks a turning point in the Galleon matter, which has so far focused on the role of hedge funds, technology executives and traders in the alleged insider-trading scheme.

The focus on Mr. Gupta marks the first time the probe has involved a major Wall Street firm.

Goldman’s shares swung from roughly $180 in June 2008 to below $100 in October of that year. Amid that tumultuous pe-

period, in September 2008, Warren Buffett’s Berkshire Hathaway Inc. invested $5 billion in Goldman, shoring up confidence in the firm’s prospects. The stock has since rallied to $184.92.

Many of Galleon Group’s dozen or so hedge funds traded Goldman stock almost every day, with some buying while others were selling, an individual familiar with the matter said.

Galleon’s rapid-fire trading has stymied investigators in the past. In 2007, the SEC was investigating whether there was insider trading at Galleon. Amid active in-and-out trading by Galleon, the SEC was unable to immediately bring charges.

In the criminal complaint against Mr. Rajaratnam, prosecutors said he told another defendant to trade in and out of a stock to cover their footsteps.

Beginning last October, the U.S. charged 21 people in the Galleon matter, 11 of whom have pleaded guilty.

Mr. Rajaratnam and former fund manager Danielle Chiesi, who are at the center of the case, maintain their innocence and have said they will fight the charges. The case is scheduled for trial in federal court in New York in October.

Goldman and Galleon have had ties for some time. Galleon conducted trading business with Goldman. Mr. Rajaratnam was acquainted with Goldman executives in addition to Mr. Gupta, people close to the situation said.

Goldman’s activities separately are under scrutiny in a Securities and Exchange Commission civil investigation of whether there was insider trading in some health-care transactions.

SEC investigators are looking at whether there were leaks about health-care mergers in the past three years, including roughly a dozen involving bankers and others at Goldman since 2006, people close to the situation said.

The SEC sent about three-dozen subpoenas to hedge funds and brokerage firms last year. Goldman declined to comment on the matter, as did an SEC spokesman.

Mr. Gupta, 61 years old, was born in India. He joined McKinsey in 1973 and rose to head the consulting firm from 1994 to 2003. He stayed as a partner until 2007.

Mr. Gupta sits on the boards of Procter & Gamble Co. and AMR Corp. In addition to Goldman, and he has served as special adviser on management reform to the United Nations secretary-general.

There is no suggestion that trading in other companies where he is a director is under scrutiny.

Messrs. Rajaratnam and Gupta spoke frequently, and Mr. Gupta was invited to attend parties hosted by Galleon, an individual close to the situation says.

In 2006, Mr. Rajaratnam, Mr. Gupta and Mark Schwartz, a former Goldman executive, formed Taj Capital, a hedge-fund and private-equity firm focused on South Asia.

The firm, since renamed New Silk Route, manages $1.4 billion in private-equity investments. Mr. Gupta is now its chairman.

Mr. Rajaratnam has severed ties with the firm, according to a person close to the situation. Mr. Schwartz didn’t immediately respond to a request for comment.

Mr. Gupta is the second former McKinsey employee whose name has emerged in the Galleon matter. Anil Kumar, a former consultant at McKinsey, pleaded guilty to insider-trading charges in January, telling a federal judge that he received more than $2 million in exchange for inside information about an acquisition by Advanced Micro Devices Inc. Mr. Rajaratnam has denied the allegation.

McKinsey declined to comment.