Inside Trader at Nasdaq Had Drug-Abuse Record

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When Donald Johnson was interviewed for a job at the Nasdaq Stock Market, people were impressed by his attention to detail, easygoing personality and previous work as a nurse.

An Early Look

How Donald Johnson allegedly used confidential information to front-run market-moving news from a medical technology company.

Iplex Laboratories, Inc. (IPXL)

Oct. 23: Stock plunges after company's quarter earnings miss estimates

Oct. 26: More information from the company about Johnson's actions

Nov. 22: Case opens into whether Johnson used information

Dec. 15: Stock trading suspended

Subsequent court decisions

By June 2009, the company had suspended trading.

A detail didn't come up before Mr. Johnson began a nearly 20-year career at Nasdaq, which ultimately put him in a sensitive post where top corporate officials entrusted him with confidential, market-moving information: His nursing career had ended in disgrace.

Mr. Johnson was discharged from the U.S. Army Reserves in 1986 for stealing narcotics and using them while stationed at an Army hospital, regulatory records reviewed by The Wall Street Journal show.

Subsequently, working at a private hospital, he faked medical records 73 times in less than one month to get drugs "for his own personal and unauthorized use," according to Virginia Board of Nursing records reviewed by the Journal. The panel revoked his nursing license in 1987.

In late May, the former Nasdaq employee pleaded guilty to a federal charge of securities fraud. Government authorities denounced him as "a fox in a henhouse," saying he had made over $750,000 in illegal profits on a series of trades from 2006 until he left Nasdaq in 2009. Separately, the Securities and Exchange Commission has lodged a civil complaint against the 56-year-old for alleged insider trading.

Mr. Johnson, using an online account in his wife's name, traded on his confidential knowledge of corporate developments, such as earnings shortfalls and executive changes, according to the federal prosecutor's suit. It said he made some of the trades from his computer at Nasdaq's market intelligence desk in Manhattan, sitting among colleagues on the desk.

The market intelligence desk is a showcase of Nasdaq's relationships with corporate clients. The dozen or so people on the desk seek to understand movements in individual stocks and sectors, sometimes calling Wall Street traders for insight. The desk is a marketing tool used by the exchange's owner, Nasdaq OMX Group Inc., in its competition with NYSE Euronext for listings, because corporate chief executives are able to consult the market intelligence desk to keep track of forces moving their stocks.
Donald Johnson's Career

Spring 1976  Awarded bachelor's degree in biology, University of North Carolina at Greensboro.

Spring 1980  Awarded bachelor's degree in nursing, University of Virginia School of Nursing.

Sept. 1980  Commissioned an officer in the U.S. Army Reserves, Charlottesville, Va.; held rank of captain and worked as a critical-care nurse.

July 1985  Discharged in lieu of court martial for theft and abuse of a controlled substance.


April 1987  Registered-nurse license revoked in Virginia after found by state nursing board to have falsified medical records dozens of times to conceal theft and use of Demerol while on duty as a nurse at a Fairfax hospital.

1989  Hired as market surveillance analyst at the National Association of Securities Dealers, then the parent of the Nasdaq Stock Market.

July 1999  Sentenced to 12 days in jail as a result of accumulated driving infractions.


May 2011  Pleaded guilty to criminal securities fraud in connection with a series of trades over three years. Some of them made on Nasdaq work computer: named in an SEC civil complaint, now pending.

Aug. 2011  Scheduled to be sentenced.

Source: Public records. WSJ research

Large companies that trade on Nasdaq such as Microsoft Corp. and Dell Inc. have received reports from the market-intelligence desk, according to people familiar with the matter.

A Nasdaq spokesman declined to comment on Mr. Johnson or the circumstances of his hiring in 1989. There is no sign Nasdaq officials knew about the drug problem. He passed a drug test before starting work but didn't tell officials his nursing career had self-destructed, according to a person familiar with the situation. His military records note his 1986 general discharge but don't include the reason for it.

Nasdaq does "full background" checks and "substance tests," its spokesman said, adding that exchange officials have cooperated fully with investigative authorities.

Mr. Johnson, in an interview, wouldn't discuss details of his past drug use or the stock trading accusations against him. He said he was concerned about his wife, Dalila Lopez, whom the SEC cites, along with him, as a person from whom it may try to recover illicit trading gains. His wife isn't accused of any wrongdoing.

Mr. Johnson is in the process of hiring a lawyer to represent him, and perhaps his wife as well, in connection with the SEC complaint, according to a lawyer who is handling his criminal case.

On Nasdaq's market-intelligence desk, Mr. Johnson not only heard confidential company information, but, the SEC alleges, sometimes actively encouraged company representatives to disclose such information to him.

In October 2008, the SEC civil complaint says, Mr. Johnson asked an investor-relations representative at Idexx Laboratories Inc. to "share...pending earnings results with him so that he could provide her with better trading analysis." The SEC says Mr. Johnson assured Idexx that "he could not use the information in any improper way" because of his position at Nasdaq.

Mr. Johnson then made $99,000 by betting against Idexx shares and closing out this "short" position after Idexx later announced its earnings, the SEC said.

Since his guilty plea to a criminal charge, Mr. Johnson has told people close to him that there was "no good reason" for the illegal trades. His job paid about $300,000 a year, including bonus, a person familiar with the matter said.

His criminal lawyer wouldn't comment on his nursing and military records, nor would an Army spokeswoman.

Records filed with the Virginia Board of Nursing show Mr. Johnson left the Army Reserves, where he held the rank of captain, in July 1986. He stole an addictive painkiller called Demerol and was given the option of resigning rather than facing court martial, the records say. He underwent six weeks of substance-abuse treatment before his discharge.

Army officials recommended that he be denied the right to practice nursing in Virginia as well as New Jersey, people familiar with his service record said.
After leaving the Army, Mr. Johnson worked at a Fairfax, Va., hospital. The Virginia nursing board said he "self-administered" as much as 400 milligrams of Demerol a day "while on duty as a professional nurse." The state records say Mr. Johnson signed drugs out for patients who didn't exist or who hadn't been prescribed the drug.

Mr. Johnson, who appeared at a Virginia hearing about his license, completed a one-month in-patient drug-treatment program in late 1986 but dropped out of a required counseling program, according to Virginia Board of Nursing records. Virginia revoked his nursing license in April 1987.

He applied for a job at Nasdaq and, during and after job interviews, was told his nursing career was a plus.

At the time of his hiring, the Nasdaq Stock Market was owned by the National Association of Securities Dealers, or NASD, a self-regulatory body now called the Financial Industry Regulatory Authority. Finra said it wasn't clear what checks were done when Mr. Johnson was hired in 1989, as it couldn't immediately access relevant records. A spokeswoman said Finra began drug testing potential employees in 1990 and now has "very thorough financial and criminal background checks."

Nasdaq OMX, the owner of the Nasdaq Stock Market since 2008, hasn't made any changes to trading compliance procedures for employees as a result of the Johnson investigation, according to a person familiar with the matter. Employees generally are required to disclose their stock trades but aren't told to get advance approval, according to the person and a Nasdaq employee manual.

Nasdaq declined to discuss specifics of its trading policies, just pointing to a section in the employee manual that bars the trading of "securities of any company while in possession of material nonpublic information obtained in the course of your employment." Nasdaq blocks office computers' access to certain websites but not those of brokerage firms.

Nasdaq employees and customers saw Mr. Johnson as hard-working, friendly and knowledgeable, according to people who know him. When asked about his career switch, Mr. Johnson sometimes would say he had "burned out" in nursing.

A decade into his career at the exchange, Mr. Johnson was pulled over by the U.S. Park Police in northern Virginia, who discovered that his driver's license had been revoked because of his status as a "habitual offender" for driving infractions. Court records show he was sentenced to 12 days in jail. It isn't clear whether Nasdaq was told about this 1999 arrest and jail sentence.

In 2005, Mr. Johnson and his wife bought a house in Puerto Rico for about $350,000, said a person familiar with the matter, adding they had paid off most of the mortgage on their Virginia house and wanted additional tax deductions from paying interest on a new loan.

The following year, Mr. Johnson was tapped for the market-intelligence desk. David Weild, a former Nasdaq executive who started the operation, said Mr. Johnson impressed bosses with his military and market-surveillance background. "He was a natural guy to do this," Mr. Weild said.

In November 2008, Mr. Johnson spoke on a panel hosted by his nursing school at the University of Virginia titled "From the Bedside to the Business World: Taking Your Nursing Degree in a Different Direction." He talked about his success at Nasdaq, and told people in attendance that he had tired of the demands of nursing and found his move to Wall Street rewarding, according to people familiar with the matter.

In his biography for the event, Mr. Johnson said that his Nasdaq "position requires a strong background in securities laws" and that he was asked frequently to speak "on various topics ranging from insider trading to... short selling."

Mr. Johnson retired in 2009. Before his retirement, said a person familiar with the matter, he suffered trading losses that wiped out portions of the $755,000 the SEC says he had in illegal profits.

At some point Finra, the industry self-regulatory group, detected suspicious activity in his wife's account. It referred the matter to the SEC.
The SEC civil complaint against Mr. Johnson is pending. His sentencing in the criminal guilty plea, to a single federal securities-fraud count, is set for Aug. 12. He could receive up to 20 years in prison, but sentencing guidelines suggest he will get significantly less.

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