Galleon Group, the hedge-fund firm at the center of the biggest insider-trading case in decades, pushed its traders so hard to get market-moving information that those who failed were frequently berated or pushed out, former employees and people familiar with Galleon said.

**By Gregory Zuckerman, Don Clark and Susan Pulliam**

Co-founded by Raj Rajaratnam, Galleon is among Wall Street's biggest traders and has a web of contacts among technology and health-care executives, some of whom have been investors in the firm's hedge funds.

Parts of that network appear to have turned on the billionaire investor. Three former colleagues of Mr. Rajaratnam secretly are bolstering the government's probe, say people familiar with the criminal investigation.

They include California hedge-fund managers Ali Far and Choo Beng Lee, who are cooperating witnesses in the case, the people say. Mr. Rajaratnam and five others were detained and charged Friday with involvement in a ring that allegedly traded on nonpublic information involving International Business Machines Corp., Google Inc. and other big companies. (Please see related article on page A5.)

Aggressively pursuing information is commonplace on Wall Street, and the case against Mr. Rajaratnam will likely hinge on whether he crossed the line and profited from information obtained illegally. His lawyer says he did nothing wrong and will fight the charges.

"I get thousands of calls a week with people pitching ideas," Mr. Rajaratnam told one friend on Saturday. He said information he obtained was just another piece of the puzzle the New York hedge-fund firm assembled before buying or selling, according to this person, who said Mr. Rajaratnam seemed in good spirits.

Galleon made its name investing in tech stocks in the 1990s. In that era, analysts and favored clients got early looks at analyst reports, tips about corporate earnings and allocations of hot initial public offerings. That world ended after the tech bubble burst in 2000 and new rules—dubbed Regulation Fair Disclosure—barred companies from disclosing information selectively.

Getting exclusive information remained a crucial part of Galleon's investment strategy, and the firm aggressively pursued rumors and used sources to gain it. Pressure was intense on traders and analysts to get information, especially about coming corporate earnings.

"Get an edge or you're gone," said a former trader. "Galleon is looking for that little bit of extra edge. That's what the firm is about." A spokesman for Galleon wouldn't comment on that but said Friday that the fund firm was "shocked" at the charges, adding that it would cooperate.

The government's case against Raj Rajaratnam, shown with ex-Treasury Secretary Henry Paulson at a 2004 conference in New York, is being aided by three former colleagues, say people familiar with the probe.

Arrested IBM executive was considered a star.
Hedge-Fund Billionaire Pushed Hard for Stock-Trading Tips

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fully and remained "highly liquid."

Federal prosecutors Friday charged Mr. Rajaratnam and three others not at Galleon with securities fraud and conspiracy, and two others with conspiracy; all six also face civil insider-trading charges leveled by the Securities and Exchange Commission. Galleon is a fast-moving firm, which has been making about 1,000 trades a day, according to a source familiar with an investor. Its position as a big commission generator encourages brokerage firms to dole out favors. For instance, the fund firm has been a big recipient of IPOs, generally bestowed on the best clients. One time Galleon went too far. After it bet against a group of 17 stocks in 2005 within five days of a sale of more shares by those companies, the SEC charged the firm with improper trading and creating "sham transactions." Galleon paid a fine of nearly $2 million without admitting or denying the charges.

Mr. Rajaratnam once told an employee he couldn't know where the broad market was going but he could make money if he could get a sense of what a company's earnings might be. After one Galleon analyst in 2004 was repeatedly urged to press a company representative for information about potential acquisition, the analyst became so nervous he consulted an attorney on what to do, the analyst says. The analyst says the lawyer told him he would be "bending the ethics bar," but wasn't sure the analyst would be doing anything illegal. The analyst ended up being let go.

Those who couldn't come up with an edge faced pressure even if they were senior executives, though the pressure usually didn't come directly from Mr. Rajaratnam, a native of Sri Lanka who rose to prominence in the late 1980s as a semiconductor analyst at investment-banking firm Needham & Co. A senior trader, Leon Shaulov, who wasn't named in any federal charges, sometimes berated traders or analysts who couldn't uncover enough information that could move stocks, say several current and former employees. They add that Mr. Shaulov also would sometimes act out with joy when stocks moved the right way. Nearby, Mr. Rajaratnam would listen to the commotion through the glass door to his office. Through it all, Mr. Shaulov declined to comment.

People familiar with the matter say one of Mr. Shaulov's regular targets was Gary Rosenbach, who helped start Galleon with Mr. Rajaratnam. One trader says Mr. Shaulov, in front of the rest of the staff, once turned on Mr. Rosenbach, screaming, "You're a disease, you're a jinx." Mr. Rosenbach ended up leaving the firm for reasons he says were related to a family health issue. "Leon [Shaulov] is a gifted trader," he said. "I don't have a problem with a yeller and screamer. Type A personality."

A Galleon trader who uncovered something particularly interesting would sometimes go into Mr. Rajaratnam's office to share it privately, closing the sliding glass door, says one person who worked at the firm. Then, "Everyone would look and wonder what was going on."

In the case of Google, the SEC civil complaint said that a person the agency identified as Tipper A received information in 2007 about an impending earnings shortfall from an unnamed employee of Market Street Partners, a San Francisco investor-relations firm. The SEC complaint said that Tipper A provided the information to Mr. Rajaratnam and that Galleon traded shares designed to profit on a decline in Google stock, netting $9 million.

The SEC complaint said the informant at Market Street demanded $100,000 to $150,000 a quarter to keep supplying Tipper A with information, but Tipper A refused and the informant stopped providing tips. Google declined to comment. Market Street said it hadn't been contacted by any authority, adding that it fully supports the prosecution of insider trading and will provide any necessary aid in the investigation.

One informant demanded $100,000 to $150,000 a quarter to supply tips but was refused, the SEC says.

The criminal complaint says that in a call intercepted in 2008, Mr. Goel asked Mr. Rajaratnam to "be useful to me" with one of his "powerful friends," as he was "tired" of working at Intel. Reached by phone, Mr. Goel declined to comment, saying he hadn't yet retained an attorney. An Intel spokesman said Friday Mr. Goel had been placed on administrative leave while the matter is investigated.

One topic that commanded Mr. Rajaratnam's attention last year was a restructuring at Advanced Micro Devices Inc., which spun off its chip-manufacturing unit to a joint venture that received funding from investors from Abu Dhabi. Government documents allege that advance information about the transaction came to Galleon from Anil Kumar, a McKinsey & Co. executive also charged with fraud, conspiracy and insider trading. AMD had retained McKinsey as an adviser.

Through his lawyer, Mr. Kumar denied the charges Friday. McKinsey said it had put Mr. Kumar "on an indefinite leave of absence." McKinsey said it was talking to the matter seriously and making every effort to understand the facts of the situation. The consulting firm said it would cooperate if "called by the government. An AMD spokesman said the chip company was reviewing the situation.
How Associates Helped Build Case

BY SUSAN PULLIAM

Former colleagues of hedge-fund titan Raj Rajaratnam secretly are bolstering the government's investigation of a large insider-trading ring, according to people familiar with the criminal probe.

Among those who are cooperating witnesses are California hedge-fund managers Ali Far and Choo Beng Lee, the people say. The U.S. attorney's office in Manhattan on Friday alleged that Mr. Rajaratnam—along with two former Bear Stearns ADS hedge-fund traders, several technology executives, a consultant and a ratings-firm analyst—illegally trafficked in nonpublic information of high-profile tech companies, generating a profit of $20 million.

A spokeswoman for the U.S. attorney's office for the Southern District of New York declined to comment. Messrs. Lee and Far didn't respond to requests for comment. Mr. Rajaratnam's lawyer, James Walden of Gibson, Dunn & Crutcher LLP, said Mr. Rajaratnam "is innocent and he intends to vigorously defend this case in court." The investigation has corporate America and Wall Street buzzing. The allegations, as part of one of the nation's largest-ever insider-trading cases, represent a significant blow to the $1.2 trillion hedge-fund industry, which has been lobbying to avoid heavy regulation in the wake of the financial crisis. Echoing the 1987 movie "Wall Street," prosecutors have used wiretaps and cooperating witnesses to build an insider-trading case.

The paths of Messrs. Far, 48 years old, and Lee, 52, crossed with Mr. Rajaratnam in the early days of the technology-stock boom. Mr. Lee worked with Mr. Rajaratnam at brokerage firm Needham & Co. as a research analyst in the mid-1990s. Mr. Rajaratnam launched hedge fund Galleon Group in 1997. Later, Mr. Far worked for him as an analyst.

In March 2008, Messrs. Far and Lee formed Spherix Capital in California, claiming Mr. Rajaratnam among their investors in a $200 million fund. One of the cooperating witnesses referred to in the complaint also once sought to work with Mr. Rajaratnam at Galleon, the people familiar with the matter say.

For weeks before Friday's arrest of Mr. Rajaratnam and others, some hedge-fund traders inside and outside Galleon had speculated that Messrs. Far and Lee were "wearing a wire," or turning state's evidence in the case, people close to the situation say. Indeed, Mr. Rajaratnam and one of the ex-Bear Stearns traders, Daniello Chiessi, had suspicions that Messrs. Far and Lee might be providing information to the government in an insider-trading case, a person close to the situation says.

Their suspicions grew when Messrs. Far and Lee abruptly closed their hedge fund in March 2009, despite strong investment performance during its inaugural year, according to people close to the situation. Their fund, which was concentrated in technology stocks, was up roughly 10% for the year before they closed, people close to the situation say. Recently, Mr. Rajaratnam grew worried that his phone might be wiretapped, a concern he shared with colleagues and others.

The criminal complaints filed in a New York federal court allege activities of cooperating witnesses in three instances—referring to a "CW" in the Rajaratnam case and "CW1" and "CW2" in the Chiessi case. Some of the witnesses allowed their calls with Mr. Rajaratnam and Ms. Chiessi to be recorded.

It is unclear if Messrs. Far's and Lee's conversations and their efforts to cooperate with the government are among those cited in the complaints against Mr. Rajaratnam and Ms. Chiessi. The government's case also involves cooperating witnesses whose actions aren't cited in the complaints, a person familiar with the situation says.

According to the complaint, one of the cooperating witnesses arranged to have phone calls with Ms. Chiessi recorded by the government in April 2008. In the phone call, Ms. Chiessi is alleged to have talked about her efforts to get information about International Business Machines Corp. earnings for the second half of 2008 and the first quarter of 2009 from Robert Moffat, an IBM executive then in charge of the company's supply chain.

The complaint also alleges that on April 30, 2009, Ms. Chiessi told a cooperating witness that she had asked Mr. Moffat what IBM's first quarter "looked like." "You flat out asked him?" the cooperating witness said, according to the complaint. "Yeah, so here's what I think," Ms. Chiessi said. "They'll miss the news (referring to revenues) by 7 percent" and that IBM would "miss the short term but that the "bottom line" referring to earnings "looks good," she said, according to the complaint.

The complaint suggests Ms. Chiessi was right. When IBM announced results after the stock market closed that day, its earnings missed analysts' expectations, but its long-term contracts posted an increase. An IBM spokesman declined to comment.

Ms. Chiessi's lawyer, Alan Kaufman of Kelley, Drye & Warren LLP, says the complaint doesn't allege that Ms. Chiessi gave anything of value in return for the information.

Kerry Lawrence, a White Plains, N.Y., lawyer who is representing Mr. Moffat, who was charged with conspiracy, said his client "was shocked by the charges and hopes for a favorable outcome." Mr. Lawrence also said "the government didn't allege he profited" from the alleged scheme.

Messrs. Lee and Far are considered bright stars in the tight-knit world of technology hedge funds. Mr. Lee, who worked for an affiliate of Steven Cohen's SAC Capital until 2008 before he and Mr. Far formed Spherix, was considered well connected in Taiwan and China. Before joining Galleon, Mr. Far was a semicon ductor-stock analyst at Prudential Securities, and had earlier worked in product development and marketing for semiconductor companies.

One of the cooperating witnesses for the government has agreed to plead guilty to conspiracy and securities fraud in the hope of receiving a reduced sentence, according to court papers filed Friday in the case.

Inside and outside Galleon Group, some traders suspected Messrs. Far and Lee were "wearing a wire."
Officials Say Investor's Donations Wound Up With Sri Lanka Rebels

Raj Rajaratnam, the hedge-fund billionaire charged as part of a vast insider-trading case, surfaced in an earlier, separate probe into U.S. fund raising by a Sri Lankan terrorist group, people familiar with the probe said.

By Evan Perez in Washington and Eric Bellman in Colombo, Sri Lanka

As part of that investigation, federal agents said they uncovered documents showing Mr. Rajaratnam, founder of the Gallo Group, was among several wealthy Sri Lankans in the U.S. whose donations to a Maryland-based charity made their way to the Liberation Tigers of Tamil Eelam, these people said. The LTTE, known as the Tamil Tigers, fought against the government of Sri Lanka in a brutal separatist war from 1976 until the LTTE was defeated in May.

Mr. Rajaratnam, 52 years old, was among six people arrested Friday in what the Federal Bureau of Investigation said is the largest-ever hedge-fund insider-trading case. Federal prosecutors charged Mr. Rajaratnam with securities fraud and conspiracy to commit securities fraud.

There doesn't appear to be a connection between the two investigations. James Walden, an attorney for Mr. Rajaratnam, said his client is innocent of the insider-trading charges and will fight them. In the terrorism probe, Mr. Rajaratnam wasn't charged, but eight people have pleaded guilty to attempting to provide material support to the group, designated as terrorist. U.S. prosecutors in the cases don't allege Mr. Rajaratnam knew contributions were routed to the Tamil Tigers.

The Tamil Rehabilitation Organization, or TRO, the group to which Mr. Rajaratnam made donations, was involved in coordinating and funding relief activities in early 2005 after a tsunami battered Sri Lanka and other parts of South and Southeast Asia. But the group later came under scrutiny for ties to the LTTE. Mr. Walden said Mr. Rajaratnam made charitable donations "to rebuild homes destroyed by the tsunami" and that he wasn't involved with the LTTE.

The TRO and LTTE are no longer active organizations. In response to an FBI raid on TRO offices in 2006, the organization said it was a relief organization, and that its only relationship to the Tamil Tigers was in the course of the work conducted in regions then controlled by the LTTE. The TRO wasn't charged with wrongdoing.

In court documents related to the terrorism case, an FBI agent cites documents uncovered in court-authorized searches as showing donations to TRO USA made by a person identified only as "individual B." Mr. Rajaratnam wasn't named in the filings but is the person identified as "individual B," according to people familiar with the probe. "Individual B" made donations to TRO USA totaling $1 million in 2000, according to bank records cited by the FBI. In 2004, "individual B" made an additional $1 million donation, according to bank records cited by the FBI. The funds were then wired to the TRO organization's Sri Lanka bank accounts.

Mr. Rajaratnam was a frequent contributor to various causes, from those that promoted development in the Indian subcontinent to programs that benefited lower-income South Asian youth in the New York area.

He was also active politically. Data from the Center for Responsive Politics, a nonpartisan group that tracks political contributions, shows Mr. Rajaratnam donated $26,200 to the Democratic Party's fund-raising arm in 2007. He also provided $4,600 in 2007 to the campaign of Hillary Clinton, now secretary of state, and $4,600 in 2008 to the campaign of President Barack Obama.

A Democratic National Committee spokesman said contributions to the DNC and the Obama campaign from Mr. Rajaratnam will be donated to charity. Representatives at the State Department didn't immediately comment.

His name is well-known in the Sri Lankan investment world, where rumors he could be buying or selling stakes in companies can drive prices on the Colombo Stock Exchange, according to local businesspeople. According to corporate reports as of March 31, Mr. Rajaratnam owned a 5% stake in the conglomerate John Keells Holdings, Sri Lanka's largest listed company, and Gallo Diversified Fund Ltd. owned a 5% stake in Commercial Bank of Ceylon PLC, one of the country's largest banks. Representatives for John Keells and the Commercial Bank of Ceylon couldn't immediately be reached for comment.

—Matthew Rosenberg and Amol Sharma, in New Delhi, and Kara Scannell, in Washington, contributed to this article.
THE INSIDER TRADING ARRESTS

This is not a garden-variety insider trading case,” said U.S. Attorney Preet Bharara on Friday about his arrest of five men and a woman for insider trading. Yet that is precisely what it appears to be, albeit involving more money and more prominent executives than is usually the case. The evidence released so far most closely resembles the Ivan Boesky scam of two decades ago, in which the model for Gordon Gekko profited from insider information. This is not another Madoff fraud perpetrated on unsuspecting investors.

The most arresting part of the case is the prominence of the alleged conspirators, led by fund manager Raj Rajaratnam, and including executives at a well known hedge fund and employees at Intel, IBM and McKinsey. (A tipster from Moody’s is mentioned in the complaint but hasn’t been charged). Mr. Rajaratnam founded the Galleon Group and made himself rich as he became a leading technology investor.

Why a purported billionaire would want to risk all of that for insider trades that prosecutors say yielded some $20 million in total gains is a mystery that we assume further evidence will explain. Perhaps it is as simple as trying to maintain high returns for his fund, though it’s worth noting that the allegedly illegal trades go back to 2006, when markets were still buoyant. Mr. Rajaratnam’s lawyer says his client is innocent.

Mr. Bharara made much of the fact that the case was broken with the help of wiretaps, which are more typically used against the mob or terrorists. The U.S. attorney’s implication is that Wall Street ought to watch out because prosecutors are now treating hedge funds like the mafia. This will play well politically given the public’s anti-Wall Street mood, yet probably cause to justify the wiretaps seems to have been provided thanks to the oldest method in law enforcement—a so far unidentified informant who once worked at Galleon.

As is often the case with such charges, the snippets of wiretapped conversations released by prosecutors certainly look incriminating.

Prosecutors suggest they’re treating hedge funds like the mob.

Danielle Chiesi, one of the defendants and a portfolio manager at the New Castle Partners LLC hedge fund, is alleged to have told an unnamed alleged co-conspirator that “I swear to you in front of God... You put me in jail if you talk.” People who have nothing to hide typically don’t say they’ll be “dead if this leaks.”

Information is the lifeblood of professional stock trading, and the kind that most people exchange is entirely legal. We will be looking in particular to see in the coming weeks how intimately the men from Intel, IBM and McKinsey were involved in the alleged conspiracy. We remember from the Boesky case that prosecutors weren’t above interpreting ambiguous statements as proof of criminal intent.

A longstanding and highly successful IBM executive such as Robert Moffat—said to be a possible CEO candidate—has far more to lose from participating in such a trading ring than the modest profits he might have made. The legal definition of insider trading has also proven to be elastic and ambiguous over the years, which is another reason that the details in this case bear scrutiny. While the Boesky prosecution became part of Wall Street legend due to the Oliver Stone movie, some of the original indictments were later dropped.

Another curiosity about this case is that Galleon had voluntarily chosen to register as a hedge fund with the Securities and Exchange Commission. Yet the SEC did not say in its statement on Friday whether its audits of Galleon had anything to do with the alleged fraud’s detection. The pattern in such cases is that fraud is rarely, if ever, detected by regulators unless someone participating in the fraud comes forward and starts singing.

When Wall Street and business are as politically unpopular as they are now, the media temptation is to chalk up every indictments to “greed” and assume prosecutors are always right. In this case they may be right, but when political calls for scalps are in the air is precisely when the rest of us should reserve judgment until they prove it in court.