



Galleon Insider Trading Scandal Rocks the Investment World

By Don Miller, Associate Editor, *Money Morning*

Wall Street is reeling as investors scramble to redeem their holdings at Galleon Group, the hedge fund rocked by an insider trading scandal.

The unraveling of the hedge fund is one of the latest developments in a massive insider trading case brought by the U.S. Securities and Exchange Commission (SEC) that led to charges and arrests of six people – including Galleon founder Raj Rajaratnam who is now free on \$100 million bail.

In a letter obtained by *Dow Jones Newswires*, Galleon founder Raj Rajaratnam told employees and investors that he is innocent but “that it is now in the best interest of our investors and employees to conduct an orderly wind down of Galleon’s funds while we explore various alternatives for our business.”

So, what really happened at Galleon? Who were the perpetrators? How was this scandal uncovered? Find out the latest on the Galleon insider trading scandal in this free report...

Table of Contents:

- [The Charges Against Galleon](#)
- [Who Is “Tipper A”?](#)
- [What’s Next?](#)

The Charges Against Galleon

The charges at Galleon stem from a series of trades involving a who’s who of technology companies including Intel Corp. (NASDAQ: INTC), Google Inc. (NASDAQ: GOOG), Advanced Micro Devices Inc. (NASDAQ: AMD), Clearwire Corp. (NASDAQ: CLWR) and Akamai Technologies Inc. (NASDAQ: AKAM).

The complaint also includes allegations that Hilton Hotel officials informed an executive at Moody’s Corp. (NYSE: MCO) that their company was being taken private by Blackstone Group LP (NYSE: BX). A cooperating witness provided the information to Rajaratnam, saying that it was “a

sure thing,” according to *Market Folly*.

Rjاراتnam bought 400,000 shares the next day, eventually selling them for a profit of \$4 million. For passing along the tip, the Moody’s analyst received \$10,000, according to the complaint.

That was one of many conversations intercepted by the U.S. Federal Bureau of Investigation (FBI) on court-ordered wiretaps, which were used for the first time in an insider trading investigation.

The SEC targeted five other individuals in the complaint, including an executive from Intel Capital, the venture capital arm of Intel, one from McKinsey & Co. and a high ranking International Business Machines Corp. (NYSE: IBM) executive.

Robert Moffat, a senior vice president at IBM, who was considered a top candidate to succeed CEO Sam Palmisano, allegedly gave insider information about IBM and Sun Microsystems Inc. (NASDAQ: JAVA) to Danielle Chiesi of New Castle Partners, who also was arrested. Moffat has since been placed on leave.

Anil Kumar, who became a star partner at McKinsey, was charged with securities fraud and conspiracy on allegations he gave Galleon information about an impending \$6 billion investment in computer-chip maker AMD by an Abu Dhabi government-owned fund.

Kumar allegedly called Rajaratnam on Aug. 15, 2008 and told him “I think you can now just buy [AMD stock],” after learning the parties had shaken hands on the deal, *The National* reported.

Rajaratnam then bought at least 16 million shares in AMD between August and October of last year, court documents say.

Although Kumar has denied the charges, McKinsey has placed him on indefinite leave, and the scandal has shaken the highly respected and trusted consulting company.

“This case is unprecedented in our history,” McKinsey spokesman Michael Stewart told *The Journal*. “We have never had a case of a partner or anyone else in the firm being charged with criminal activity, if the allegations are true.”

Who Is “Tipper A”?

This case was brought to light thanks to the informant listed in court documents as “Tipper A.”

“Tipper A” has been identified as former Galleon employee Roomy Khan. Khan, who has a history of financial troubles according to the *New York Times*, agreed to cooperate with prosecutors who discovered her role in the insider trading scandal, in hopes of receiving a lighter sentence for her own crimes.

She provided the bulk of the evidence that prosecutors used to bring insider-trading charges against Rajaratnam and his high-profile informants.

However, Khan’s criminal background may be a hurdle for prosecutors. In addition to her role in the insider-trading scandal at Galleon, she also recently settled in a case filed by her former housekeeper. The housekeeper alleged that Khan and her husband paid her only \$250 a week for 80

to 90 hours of work – a violation of labor laws. The case was settled for an undisclosed amount after the judge said Khan fabricated evidence.

What's Next?

The truth behind this case is only just beginning to unfold.

The criminal complaint alleges that the defendants made over \$20 million in illicit gains, but we don't yet have all the facts of the case. Most of the defendants, through their lawyers, have denied any wrongdoing.

We all may have to wait until the case goes to trial before the rest of the details trickle out.

The two things we can expect? The complete dismantling of Galleon Group and a very long trial. 

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