

# Raj Rajaratnam, According To The Billionaire's Apprentice



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Raj Rajaratnam is better known today as the successful Wall Street billionaire who headed the Galleon Hedge Fund and ended up sentenced in the US for Insider Trading. He probably was not alone in the Insider Trading game on Wall Street, but became the famous South Asian target pursued by the US Securities Exchange Commission for flouting the Securities Exchange Code and law.

*Keith D Bernard*

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Until sentenced Raj Rajaratnam was widely regarded in Sri Lanka as a success story. He was well connected in the political and business circles in Sri Lanka, well received from the highest to lowest in the political front and lauded as a hero by many in the Sri Lanka business community. He stood out for his generosity during the tsunami that hit Sri Lanka, and albeit aspersions that he was sympathetic towards the LTTE, he was a major investor in Sri Lanka Inc. He was a significant investor in Sri Lanka's stock market and at one time owned a five percentage stake in a leading Sri Lankan Business Conglomerate. It was no secret that many in the political and corporate community of Sri Lanka intensely desired contact and association with Raj Rajaratnam, the Sri Lankan born Investment magnate who made it big in the US standing shoulder to shoulder among the best of the best down Wall Street.

By 2008, Raj Rajaratnam was so successful that he made it to the Forbes 400 'Richest People in America'. His success made him a business celebrity in the South Asian community. He was one of the six Asians on the Forbes List. By 2009, Galleon Group, the Hedge Fund company owned by Rajaratnam, managed about \$6 billion in assets and employed nearly 130 investment professionals among them analysts and portfolio managers. His sprawling investment empire stretched from Menlo Park to Mumbai.

**By Then The SEC Was Comfortable That It Had Enough Strands Of Suspicious Activity At Galleon To Go After. One Winning Trade That Stood Out Amongst The Winnings In 2006 Was ATI Technologies Which Was Acquired By AMD.**

For stock investors like him, 2008 had been a roller coaster ride, but in the end he had hung on while many failed. In the last few years leading up to his sentence, he had been forging into areas beyond investing. Filmmaking was one passion. Another was philanthropy. He had wanted to build a legacy that outlasted his investment empire. His efforts to help Sri Lankans rebuild destroyed homes and livelihoods after the tsunami in December 2004 had been noticed. When the Sri Lankan President Chandrika Bandaranaike Kumaratunga spoke at the Asia Society in the US in 2005, Rajaratnam posed a question. "Is this the Raj Rajaratnam? President Kumaratunga had supposedly asked when she heard his name.

The book titled *The Billionaire's Apprentice - The Rise of the Indian-American Elite and the Fall of the Galleon Hedge Fund*, authored by Anita Raghavan, dramatically documents the Raj Rajaratnam story and is the inspiration as well as the single source for this article. A large part of the material has in fact been extracted directly from the book. The central character in the book is Rajat Gupta, an Indian from modest but well respected origins who journeys through life's challenges to enter the Indian Institute of Technology (IIT) of Delhi to becoming an early arrival amongst South Asians at the Harvard Business School and then embarking on an illustrious career in the United States and rising as the Managing Director of McKinsey, and after his retirement from McKinsey, a member of boards of global corporate giants such as Goldman Sachs, Proctor & Gamble and American Airlines. The book also tracks the rise of Anil Kumar, yet another intellect from India who qualifies in both India and England before he moves to the United States to enter the Wharton Business School where he meets Raj Rajaratnam. Anil Kumar too just as Rajat Gupta joins the McKinsey Consulting fraternity. The thread that runs through the entire book, *The Billionaire's Apprentice*, and makes it a gripping read is the well documented drama that unfolds on Wall Street with Raj Rajaratnam occupying a central role.

This article sets out to capture in essence the Raj Rajaratnam story because it is enthralling, revealing and not too dissimilar to some of what supposedly happens in the corporate landscape of Colombo.

Raj Rajaratnam, born on June 15, 1957 in Sri Lanka to an elite Sri Lankan family is the second oldest of five children. Having received his early education at St. Thomas' Preparatory School and then St. Thomas' College Mt. Lavinia, at the age seventeen he proceeded to England and studied at the Dulwich College, a boys' school in Southeast London, better known for producing writers such as the Sri Lankan born Michael Ondaatje (*The English Patient*) than for minting hedge fund managers. In 1976 he entered the University of Sussex where he got a bachelor of Science in Engineering before moving on to the Wharton Business School of the University of Pennsylvania in the United States to read for his MBA.

In the Autumn of 1993, with his MBA ticket from Wharton, Rajaratnam joined the Chase Manhattan Bank as an analyst. He had been a math whiz. At Chase Manhattan he discovered two hot industries that analysts were vying to join; electronics and petroleum. After completing the credit programme Rajaratnam was tapped for the electronic group where he earned the nickname "HP Raj"

because unlike his peers he did not need a Hewlett Packard calculator to work out mathematical computations. He could do complex calculations in his head.

### **Khan Informed Rajaratnam Of A Tip She Had Received From A South Asian Informant That The Blackstone Group Was Planning To Acquire Hilton Hotels Corp.**

Although Rajaratnam thrived at Chase Manhattan his passion was elsewhere. He liked the stock market for its unforgiving nature, but more so because he liked the game and the thrill of winning. Years later after starting his own company he had described his drive to compete and supposedly said, "After a while, money is not the true motivation. I want to win every time. Taking calculated risks, gets my adrenaline pumping."

In 1985, Rajaratnam quit Chase to join Needham & Co. a second tier investment bank specialising in technology and healthcare stock trading. At Needham Rajaratnam flourished. He had the vision and fortitude. Lively in character he travelled to Silicon Valley and charmed technology executives and mesmerized them with larger than life stories. It is said that at a trade group conference he related how he went in to training with the Tamil Tigers in Sri Lanka and narrowly escaped death as a bullet whizzed past his ear and that was when he headed to England for studies. A spokesperson for Rajaratnam in a later interview with Forbes had denied that Rajaratnam related such a story claiming that the said insurgent group did not exist at the time Rajaratnam left Sri Lanka.

Rajaratnam was a cut above the typical analyst in the technology sector. He displayed a prodigious knowledge of the industry and an all-consuming desire to learn about the companies operating at the cutting edge. He could comprehend and present a highly technical story well. Fortuitously for him, he arrived on Wall Street just as Silicon Valley was beginning to see an influx of South Asians, with whom he built close ties. Rajaratnam had once declared, "Wall Street was tough for us to get into. Not to be crude but there is a Jewish Mafia and a Wasp Mafia and an Irish Mafia up in Boston... they hire their own, they socialize among their own". He understood how the system worked, and if he couldn't get into anyone else's club, he would have to build his own.

An above average performance by Rajaratnam at Needham led him to the helm of it, but concerns by a few executives about practices resorted to by the bank

between 1993 and 1996 reached uneasy levels. Rajaratnam left Needham to start his own Hedge Fund.

In January 1997 Rajaratnam launched the Galleon Group, a hedge fund targeting wealthy investors and institutions. The name Galleon was taken after the large ships that traded in spices and ivory with Sri Lanka, his birth place. Galleon stuck to its knitting drawing on Rajaratnam's expertise in technology stocks. The Billionaire's Apprentice describes the walls of his office decorated with prints of galleons, the sides of the room displaying models of ships, and on his desk a small flag signifying his support for the Tamil extremist cause. To kick off his new venture he reached out to the prominent Silicon Valley executives he had cultivated over the years.

In setting the backdrop for the Gupta-Rajaratnam saga, the author of the book 'The Billionaire's Apprentice' takes many twists and turns and portrays the various actors, finally connecting the pieces. A selected few anecdotes only are used herein for brevity, but the story line is generally followed to maintain proper sequence.

### **Ever Since Rajaratnam Had Given Testimony In Early June, The SEC Had Maintained A Close Tab On Khan, The Former Intel Employee Who Went By The IM Handle 'Roomy81'.**

An investigation of Raj Rajaratnam and his Galleon Fund according to "The Billionaire's Apprentice" was triggered by a suspicion that arose from an investigation in to Rajaratnam's kid brother's Hedge Fund, Sedna Capital. Sedna Capital had opened a fund titled "The Sedna Strategic Opportunities Fund" an investment pool for friends and family. Between its start date in late July 2006 and late August, a month later, the fund had doubled its money. Two million dollars had ballooned to almost four million dollars. Behind the big gains were ten trades, all winners. There was another irregularity: after a block buster first month, Rajarengan Rajaratnam, known among friends and family as Rengan, forced investors to redeem some of their money. Usually investors prefer to hold their money in a fund that is beating the street; instead in late August Raj Rajaratnam got back half his cast of one million dollars after his brother distributed the funds to investors. Trades on the Arris stock alone netted over \$1.1 million at Sedna. It appeared that Rengan had given his older brother a hand. Hours before Arris reported poor earnings; two Galleon Funds had sold

more than \$1 million Arris stock. Critics alleged that Sedna was engaging in Cherry Picking—allocating the best investments to the Friends and Family Fund.

In consequence to complaints filed against Sedna Capital, the SEC decided to examine the fund. Two trades caught their attention. One was Arris and other Advanced Micro Devices (AMD) call options. On July 31, 2006 Raj Rajaratnam had wired a \$1 million investment into the Friends & Family Fund. Rengan deployed that money along with all his capital and winnings from his trade before Arris's earnings into AMD options—a bold gamble for a hedge fund manager with an ordinary track record. In the case of AMD it was suspected that information had flowed from Raj Rajaratnam to his kid brother. The SEC was convinced that there was no way Raj would give Rengan \$1 million to pour into one stock unless he was certain that the investment would be a winner. That July 31st evening Bloomberg reported that Dell would start selling notebook computers with AMD processor chips as early as October. It did not go unnoticed at the SEC that Rengan's order to buy AMD options was made just hours before the article hit the newswires. Shortly after midnight on the morning of August 1, the Wall Street Journal citing Bloomberg, mentioned that IBM was "increasing its use of semiconductors" from AMD. Later the same day, Rengan queried whether Raj would be holding the AMD and Raj responded affirmatively that he would be holding the stock through August 13, which was a Sunday. Two weeks later Dell released its earnings and said it would unveil desktop computers with AMD processors. That same day, August 17, Sedna Friends & Family Fund sold the options for a gain of \$2.8 million. On October 19, 2006 the SEC issued a subpoena for testimony from Rengan Rajaratnam. Five days before Christmas, on December 20, Rengan Rajaratnam flanked by two of his lawyers faced nearly seven hours of questioning at the SECs New York Offices.

Suspicious of the curious instant messages found between the two brothers, at the tail end of January 2007, the SEC dispatched a team from the SEC's examination staff to Galleon, Raj Rajaratnam's firm. There had been early signs that trading on insider information at the two hedge funds run by the Rajaratnam brothers was widespread and rose to the level of criminal behaviour. By April it was clear to Galleon's lawyers that the SEC was training its sight on Galleon rather than Sedna. Sedna suddenly closed largely on account of poor performance. Its employees were absorbed by Galleon. On May 14, 2007, nine months after a tip off on Sedna Capital, the SEC issued a subpoena to Galleon for

information on all trading activities. A subpoena was also issued for Raj Rajaratnam's testimony. By then the SEC was comfortable that it had enough strands of suspicious activity at Galleon to go after. One winning trade that stood out amongst the winnings in 2006 was ATI Technologies which was acquired by AMD. The SEC were convinced that Raj had an inside source on AMD and he was tipping off his brother.

### **Rajaratnam Told Kumar That There Was A Woman On Wall Street Named Danielle Chiesi... Chiesi Was Rajaratnam's Newest Acolyte.**

One of Rajaratnam's best friends in Silicon Valley was a product marketing engineer at Intel named Roomy Khan. On March 6, 1998, Khan faxed a number of sheets of paper marked 'Intel Confidential' to a fax number in New York. The papers laid out in great detail Intel's most sensitive and closely guarded customer order information. From the information any savvy analyst could derive Intel's future performance. More than two weeks later, on March 24, Khan faxed several pages of hand written notes to a number Intel later learned belonged to Galleon. The notations on the faxed pages showed Intel's average selling price and the units sold for the first quarter of 1998.

In the Spring of 1998, every movement of Rummy Khan was monitored via a purpose set up video recorder by Intel which caught her out faxing confidential financial data to Rajaratnam. Intel however, discontinued the recordings and kept the findings under wraps unwilling to risk the loss of morale after an employee discovered one of the cameras. Subsequently, on receiving a poor performance review from a manager who was not privy to the investigation Khan decided to quit Intel. The investigation on Galleon came to a stall at Intel with Khan's departure.

Galleon by then was thriving and Rajaratnam had opened an office in the heart of Silicon Valley, Santa Clara, California in 1998. One of the new employees was Roomy Khan. She was tasked to analyze stocks in the personal computer industry and strive to find contacts inside companies so that they could give Galleon 'The Edge'. In 1999 Khan parted from Galleon in disagreement with a request to turn over her personal trading account to the Fund (Operating a personal trading account was irregular).

Khan having left Galleon, reestablished contact with Rajaratnam and fed him tips

on Polycom, a video conference equipment maker at which she had an inside informant in the form of Sunil Bhalla, General Manager of Polycom's voice communications division. In January 2006, two days after Khan bought 3000 Polycom call options; Rajaratnam's technology fund started buying the stock. Raj also called his brother about Polycom. Rengan began acquiring Polycom shares in his personal account and his personal account Sedna. After the market closed on January 25, Polycom released its fourth-quarter 2005 earnings which surpassed Wall Street estimates. Khan's tip on Polycom alone netted Rajaratnam's Technology Fund \$482,960.

On July 2, 2007 Khan informed Rajaratnam of a tip she had received from a South Asian informant that the Blackstone Group, the New York private equity firm was planning to acquire Hilton Hotels Corp. The information was red-hot as an announcement to the effect was to be made the next day. Khan had already placed a trade in Hilton for her own account. The next day morning Tuesday July 3, seven minutes after the market opened one of Rajaratnam's lieutenants placed an order with JP Morgan to buy 500,000 shares of Hilton. Of that 400,000 shares or about \$14 million of shares were purchased for the Galleon Technology Fund, the flagship fund at Galleon which Rajaratnam ran—an odd trade for a tech fund. The deal was a windfall for Rajaratnam who netted a profit of almost \$4.1 million. Rajaratnam also bought 7500 shares of Hilton from an Internet Protocol address that were placed in his close friend, Rajiv Goel's account at Charles Schwab. The trade would later prove costly for Goel.

July 3 was only a half trading day because of the upcoming Independence Day holiday. The unprecedented volume of Hilton share trades that day rang alarm bells at the SEC. Immediately after the Independence Day holiday the SEC requested information on trading activity in Hilton from the NYSE. The SEC lawyer investigating the case also called for the Internet Protocol addresses, the unique numerical label identifying certain computers in a network. It would become an important tool in unlocking the Galleon case. Drilling into the Hilton shares trading records there was Galleon that had placed an astonishingly large trade to buy Hilton stocks just seven minutes into the trading cycle. It was not a stock that would usually be identified with Rajaratnam's specialty.

**Minutes After Gupta Hung-Up From The Goldman Board Call, He Spoke With Rajaratnam. Less Than Four Minutes Before The NYSE Closed At 4.00 P.M. Galleon Bought A Total Of Nearly \$25 Million Of Goldman**



## **Stock.**

Buried in the Hilton Stock records, the SEC names Roomy Khan and another name they had found in Rajaratnam's rolodex during their investigations, Rajiv Goel. SEC investigators already had possession of instant-message (IM) traces between Rajaratnam and Khan. With evidence of both Khan and Rajaratnam making large purchases of Hilton shares, there was ammunition to support the SEC suspicion that there was more than casual friendship between Khan and Rajaratnam. They looked more like partners in crime.

Ever since Rajaratnam had given testimony in early June, the SEC had maintained a close tab on Khan, the former Intel employee who went by the IM handle 'roomy81'. In August 2007, after weeks of combing through phone records of Khan, the SEC traced Khan's contact at Polycom. Soon after the large trades in Hilton, the SEC had turned over Khan's name to the FBI. On November 28, 2007 the FBI appeared unannounced at Khan's home and questioned her. She was non-yielding but on confronting her with her IMs in relation to Polycom and other incriminating material, she caved in.

On January 3, 2008 Roomy Khan arrived in New York to lay out information she could provide the government as part of a proffer agreement. She disclosed that in mid-2007 she passed along inside information to Rajaratnam on Google's poor second-quarter earnings. She said that she received the tip from a junior employee of an outside investor relations company to Google. Khan however lied about her trading in Hilton and would not divulge her source for the insider information. She said she made the Hilton trades on the advice of her broker.

Towards tying up other loose ends the SEC requested Charles Schwab & Co. for account statements for Rajiv Goel and his wife together with IP addresses. On receiving documents the lawyers discovered that on the morning of July 3, 2007 before Blackstone unveiled its Hilton deal, someone at Galleon logged into Goel's account at Charles Schwab and bought Hilton stock, making \$78,000 on the trade. In 12 other instances that year, Goel's account had been logged into from Galleon to buy stocks. Some of the stocks were the same ones under scrutiny at the SEC.

Rajiv Goel had been Rajaratnam's friend since the two were at Wharton in the early 1980s, getting their MBAs together. The two remained in touch

intermittently since Wharton, but their friendship grew to a new level after Goel started working at Intel's Treasury Department in January 2000. In 2005, Goel had requested Rajaratnam to trade stocks on his behalf in his brokerage account. Fully trusting in his friend Goel gave Rajaratnam the log-in details and his password to his account at Charles Schwab.

When the SEC examiners were onsite at Galleon's offices in the Spring of 2007 they found an electronic spreadsheet and a hard copy list of investors. Anil Kumar was not in the electronic spreadsheet but was on the hard copy list. Next to Kumar's name was another account holder—Manju Das.

At a cocktail party in September 2003, Kumar recalled Rajaratnam, his Wharton friend, proposing to divert about \$100 million soft dollars he received annually to pay for research of consulting services. Soft dollars were controversial but legal, and many hedge funds viewed them as rebates on fat brokerage commissions paid out each year to Wall Street. Rajaratnam had preferred Kumar as a consultant rather than McKinsey. To circumvent Kumar's contract terms with McKinsey and be inconspicuous the two devised a circuitous route to pay for services or hot tips from Kumar to Rajaratnam. Pecos Trading from Europe would bill Galleon for services and transfer the proceeds to Kumar's housekeeper's account name—Manju Das—at Galleon. A Nominating Letter signed by Manju Das authorised Kumar to act on her behalf allowed Kumar to become the final recipient of the money transferred to the Manju Das account.

Following the meeting at the cocktail party Kumar began feeding information to Rajaratnam. Kumar was a trusted consultant by Advanced Micro Devices (AMD) which was in advanced discussions with HP and Dell. On January 16, 2004 Pecos Trading received the first payment of \$125,000 after Kumar predicted an order by HP to use the AMD Opteron chip in some of its existing servers.

In the Spring of 2006, Kumar alerted Rajaratnam of a possible merger between AMD and graphic chips maker ATI Technologies. Notwithstanding all meticulous planning to keep the deal a secret, AMD's worst fear—a leak—was coming true. Between the start and end of May ATI Technology's stock price had jumped 6.4 percentages. On June 29, before the market opened, as a cover, Rajaratnam had one of his favourite analysts write an email recommending the purchase of ATI stock citing its great product life cycle, increasing margins and its potential to grow market share despite the company's bleak earnings outlook for the rest of

the year. The email was sent to Rajaratnam at 9.10 a.m., and shortly afterward when the market opened for trading, Galleon began loading up on ATI stock. At the same time of negotiating the acquisition of ATI, AMD was in discussions with Dell to use AMD chips in its desktops and laptops. As an AMD confidant Kumar was privy to a tie up announcement date of August 12, between AMD and Dell. A month after its ATI acquisition AMD was poised to unveil another strategic breakthrough to help close the gap with longtime rival Intel. On July 24, AMD and ATI announced a \$5.4 billion merger resulting in a big payback for Rajaratnam who had accumulated \$89.4 million worth ATI shares, booking a profit of nearly \$23 million on the deal. Instead of sending the money through circuitous channels, Rajaratnam simply remitted \$1 million to Kumar's bank account in India. Affixed at the bottom of the fax effecting the transfer was Rajaratnam's signature.

In 2006 soon after Galleon registered with the SEC, Rajaratnam had pressing Kumar to move his money out of the Manju Das account and into an offshore vehicle. Kumar arranged an intermediary in Switzerland who worked with Asian Investors to buy the holdings in Galleon from Manju Das and transfer them to a financial institution called Ambit.

Galleon employees first started noticing Rajat Gupta visiting their offices in the Spring of 2005. Gupta had always been intrigued by the investment business. He was a prodigious investor, with investments from private equity to friends' startup ventures. Gupta had come by to sound out Rajaratnam on the idea of buying an investment management company, but an idea that drew Rajaratnam's imagination was an investment vehicle called Voyager Capital Partners. Voyager essentially was a creation of Ravi Trehan, a friend of Gupta, and the plan was for Voyager to invest in a smattering of funds and strategies —some run by Galleon and some by Trehan's investment firm BroadStreet Group. By design Voyager would be highly leveraged, which amplified its investment firepower. The equity of the fund was \$50 million, with Rajaratnam owning 80 percent and Gupta and Trehan each owning 10 percent respectively. On the back of the \$50 million equity Voyager borrowed \$350 million, giving the Fund a healthy investment capacity, with potential returns accruing to its three partners. From its inception Voyager was lucrative for its partners, but more for BroadStreet which was Voyager's investment manager. In early 2006, Rajaratnam's attempt to wrest control over the Fund's asset allocation caused a dispute that led to Trehan

walking out. Rajaratnam bought out Trehan's share, and in late 2006 Gupta exercised his option to increase his stake in Voyager to 20 percentages.

In early 2006 Gupta confided in Kumar, his McKinsey colleague that he wanted to start a large world-class asset management company with a focus on not only hedge funds but also private equity, investing in South Asia - mainly India, but also China and to a lesser extent the Islamic world, Pakistan and the Middle East. Gupta mentioned he had already teamed up with three other partners, Parag Saxena, an expert in private equity, Rajaratnam, a Hedge Fund Pro, and Mark Schwartz, a former Goldman Sachs executive with many years of work experience in Asia. The foursome had an ambitious goal to raise \$2 billion for the new fund. They were deeply committed to the project and proposed to match the total amount raised—ultimately \$1.25 billion—by investing 10 percent of their own money. The new venture initially called 'Taj Capital' was later renamed 'New Silk Route' or NSR. Gupta poured his energies into raising money for the new fund tapping into his impressive array of contacts.

In 2008 Rajaratnam told Kumar that there was a woman on Wall Street named Danielle Chiesi who he said was close to the AMD CEO. Chiesi was Rajaratnam's newest acolyte. Rajaratnam believed that through the CEO of AMD, Chiesi came to learn of AMD's plans to spin off its computer chip making facility and create a joint venture that would be 50 percent owned by a Middle Eastern Sovereign Wealth Fund.

Also in May 2008 Rajaratnam had mentioned to Kumar of some interesting chatter in the market about Reliance Industries and its interests in semiconductors. Kumar had explained to Rajaratnam that Mukesh Ambani was likely to pursue a smaller acquisition than AMD. Reliance were said to be interested in the purchase of the Far Eastern Assets of a company called Spansion. Again Rajaratnam had an associate create an email trail to cover his tracks. At the same time not too far away from Galleon's mid-town office an FBI agent was sitting in a secure room with about ten other agents, each wearing a headset tuned in real time to a call between Rajaratnam and his associates.

In March 2008, a Federal Judge had approved a wiretap on Rajaratnam's cell phone for 30 days on the grounds that there was criminal activity taking place based on Roomy Khan's calls to Rajaratnam. With the wiretap on the FBI was in a position to get an insider's glimpse into Rajaratnam's relationship with Kumar,

Gupta and a host of others.

In April 2008, Roomy Khan after months of obfuscation and ridiculous explanations had admitted that she had made trades in Hilton stock based on insider information. As part of an agreement with prosecutors Khan had been cooperating, but held out on revealing the Hilton informant.

By the Spring of 2008, after about a year and a half of SEC investigators sifting through trading records, emails and IMs at Sedna and noticed the curious exchanges between the Rajaratnam brothers on stocks like AMD, they had obtained testimony from both brothers and reviewed thousands of pages of documents, yet the only stocks on which they had direct evidence on insider trading by Rajaratnam were Polycom, Google and Hilton. But now sitting in the US Attorney's office with headphones on, listening to wiretaps, the dots began connecting and the wiretaps were yielding heaps of direct evidence that Rajaratnam received confidential non-public information from a wide circle of informants. The SEC attorneys had received from the FBI agent working on the Galleon case a folder of material containing a slug of recordings that soon came to be known as the 'clearwire' calls. The clearwire calls revealed direct evidence of the passing of confidential corporate secrets between Goel and Rajaratnam, the two Wharton friends.

Starting in late March 2008 Goel who worked at Intel Treasury began briefing Rajaratnam on Intel's plans to invest \$1 billion in a new wireless venture with an all-star cast of technology companies, Clearwire, Sprint, Nextel, Time Warner and Comcast, among others. The move was part of a bid by Intel to spur the rapid adoption of a longer-range wireless technology called WIMAX. As the FBI listened in Goel called regularly, filling Rajaratnam in on the details of the Intel Investment. In 2006, Intel Capital had invested \$600 million in Clearwire, a company led by Cellular pioneer Craig McCaw, which was a large holder of frequencies suitable for WIMAX. Between March 24 and 25 Galleon had bought 385,000 shares of Clearwire. The majority of the purchased shares were allocated to the technology fund Rajaratnam ran. Before he could accumulate a bigger position however, he got scooped.

Since May 2008 the FBI agents manning the wiretaps listening to Rajaratnam's cell phone had noticed a new caller. The caller was a woman named Danielle Chiesi. It soon became clear to the agents that she inhabited a world of powerful

men whom she played off one another to make a living. Her galaxy of sources was so impressive that Rajaratnam could not ignore her. On July 24 Chiesi telephoned Rajaratnam shortly after she got off the phone with a family friend who worked as a senior executive in marketing at Akamai Technologies. Chiesi had learned that Akamai which manages Internet Traffic for companies planned to give pessimistic guidance to Wall Street analysts when it unveiled its profits the following week. Chiesi worked for New Castle Partners owned by Bear Stearns, which itself was taken over by J.P. Morgan after it nearly imploded. Soon after the call with Chiesi, Rajaratnam shorted 200,000 shares of Akamai, most of it allocated to the technology fund managed by him. Over the next several days he placed more bearish bets on Akamai selling short an additional 375,000 shares. He also ramped up his negative position in the stock by buying put options. In the technology fund he ran, Rajaratnam made \$5.1 million in profits from the Akamai purchases. Chiesi's New Castle Fund made \$2.4 million on Akamai. Rajaratnam telephoned Chiesi to congratulate her. The entire conversation was on tape.

In August 2008 Kumar had telephoned Rajaratnam to inform him that after months of negotiation, AMD and a Middle Eastern Sovereign Wealth Fund called Mubadala had finally reached an agreement for the Fund to invest between \$6 and \$8 billion in a manufacturing facility to make computer chips. Rajaratnam talked about the AMD development with Chiesi and his brother Rengan. By the end of that day Galleon's Technology Fund had quadrupled its position in AMD stock to \$4 million shares. Listening to the wiretap the FBI agent too was anxious about the AMD deal. When the announcement was eventually made on October 7, contrary to expectations, Galleon lost money on its investment. Technology stocks, like much of the market, got clobbered in the wake of Lehman Brothers move to file for bankruptcy on September 15.

In around the same time Rajat Gupta was furious and upset about his investment—the Voyager Fund. He had reason to believe that Rajaratnam had pulled out money out of the fund without his knowledge. After the collapse of Lehman Brothers Gupta had come to learn that he had lost his investment of \$10 million in the Voyager Fund. The usually unflappable Gupta was so angry that he contemplated suing Rajaratnam. He did not take legal action, and in hindsight it would turn out to be a costly mistake.

In September 2008 Goldman Sachs was preparing to launch a common stock offering of between \$5 and \$10 billion and had succeeded in having Warren

Buffet's Berkshire Hathaway Inc. to be a cornerstone investor of significant size in the capital raising move. As soon as the Goldman corporate team agreed the deal with Buffet an emergency board meeting was arranged the same afternoon. Rajat Gupta, a revered Goldman Sachs board member was out of the country and agreed to participate via phone. Minutes after Gupta hung-up from the Goldman board call, he spoke with Rajaratnam. Less than four minutes before the NYSE closed at 4.00 p.m. Galleon bought a total of nearly \$25 million of Goldman stock. Another Galleon junior trader managed to buy 67,200 Goldman Shares at 124.0343. A total of 217,200 shares purchased between the two traders were allocated to Rajaratnam's portfolio.

On October 23 2008, about eight or nine weeks into Goldman's fourth quarter, Gupta attended the Goldman emergency board meeting via phone. Goldman CEO Lloyd Blankfein informed the directors that Goldman was to post a loss in the fourth quarter contrary to what analysts were expecting. At 4.49 p.m. the board call ended. Twenty three seconds later Gupta's secretary telephoned Rajaratnam's direct work line and patched in the home office number of Gupta. The two talked for twelve minutes and thirty seconds. The next morning as soon as the markets opened,

Rajaratnam who had purchased 150,000 shares of Goldman Sachs for his technology portfolio three days earlier started dumping the stock. The sale saved Galleon \$3.8 million in potential losses. Later that morning, Rajaratnam was catching up with David Lan, the new head of his Singapore office and an old friend from Wharton. In the middle of their conversation Rajaratnam had mentioned to Lan "I heard yesterday from somebody who's on the Board of Goldman Sachs, that they are gonna lose \$2 per share. The street has them making \$2.50... They have zero revenues because their trading revenues are offset by asset losses..." Not one to miss an opportunity to profit, Rajaratnam had said, "I don't think that's built into the Goldman Sachs stock price... I'm gonna whack it you know."

The financial meltdown in September 2008 and the shocking revelations two months later that respected securities industry executive Bernard Madoff was running a Ponzi scheme that went undetected for decades shone a harsh spotlight on the SEC. Then Presidential candidate John McCain, reflecting the mood of the time, called for the firing of SEC chairman Christopher Cox. Morale of the agency had plummeted and pressure for a blockbuster case was mounting. There was no

case more obvious than Galleon.

As it happened, in December 2008, just around the time, the court authorized wiretap on Rajaratnam's phone ended. There was ample material from which prosecutors could draw to build a case against the Galleon Hedge Fund Manager. More important, by wiretapping his cell phone, criminal authorities were in a perfect position to bring cases against key members of his ring —Chiesi, Kumar and Goe—and even widen the probe to ensnare others. One of the more intriguing new suspects was Rajat Gupta, the former McKinsey Managing Director. The October 24 call between Rajaratnam and Lan confirmed the suspicion that Gupta was tipping Rajaratnam to insider information he gleaned from his position on corporate boards. The recordings had by then helped prosecution widen their net.

By the summer of 2009, Wall Street was rife with rumours of an insider trading probe. Rajaratnam confided to Kumar that a previous employee of Rajaratnam was suspected to be wearing a wiretap, and suggested that Kumar buy prepaid phones to call him in the future so that the risk of tracing calls could be avoided.

On Thursday, October 15, 2009 the FBI learnt that Rajaratnam had bought a plane ticket the day before to fly to London Heathrow. He was set to leave two days later. Originally the arrests of Rajaratnam and his ring had been planned for the end of the month. Among the law enforcement offices the takedown was known as the Halloween Day Arrests. Under the plans finalized by the U.S. Attorney's Office in Manhattan, three teams of FBI agents would fan out across Manhattan early Friday morning. One team would head to Sutton Place, where Rajaratnam lived, another to an address nearby where Chiesi lived; a third would head to the Time Warner Center, where Kumar lived. Two other teams were on standby to make additional arrests depending on the outcomes of the Chiesi takedown, and when the West Coast woke up, a sixth FBI arrest team would take Goel into custody.

On the morning of October 16, the FBI arrested Rajaratnam, Chiesi and Kumar. Following wiretaps on Chiesi's phone the FBI also proceeded to arrest two others; Moffat, an informant of Chiesi, and Mark Kurland, a billion dollar hedge fund manager who preyed on tips from Chiesi.

Though the SEC and the US Attorney's office carry out parallel investigations,



their complaints—civil by the SEC and criminal by the Attorney’s office—are generally unveiled simultaneously. Rajaratnam was charged with trading on inside information in a raft of stocks—Akamai, AMD, Clearwire, Google and others. Two of his tippers were identified. They were Goel, the Intel Treasury executive; and Kumar, the McKinsey consultant.

It took prosecutors only two in-person meetings with Kumar before they decided to sign him up as a cooperator. He was the first cooperator in a case that until then had been greeted with great scepticism. Soon he would be regarded as the best cooperator. He was as effective a witness for the government as he was an informant for Rajaratnam.

When the Manhattan US Attorney’s office first indicted Rajaratnam on December 15, 2009, it formally charged the Galleon Chief with trading on inside information in Polycom, Hilton Hotels, and Akamai Technologies, among other stocks.

On the morning of Wednesday, May 11, 2011 the jury of eight women and four men in the United States of America v. Raj Rajaratnam had reached a verdict. The jury declared a guilty verdict on each of the twelve counts. On October 13, 2011 Judge Holwell sentenced Raj Rajaratnam to eleven years in prison, the longest sentence ever for an insider trading case.

As for Rajat Gupta... He rose from humble beginnings to the stature of Managing Director of McKinsey, stood tall among the corporate elite and shook hands with heads of states, but despite his immaculate reputation and honourable and principled life, a lapse in judgment and indiscretion cost him his life’s achievements.

On Friday, June 15, 2012 the jury issued their verdict of which on several counts Gupta was declared guilty. On Wednesday, October 24, 2012, Judge Jed S. Rakoff who presided over the case observed that the immense loss of stature Gupta had suffered meant that severe punishment was unnecessary to keep Gupta from transgressing again; however, a sentence of probation alone would not have the desired effect of deterring others to commit similar acts in the future. While there was no need to prove motive at trial, Judge Rakoff speculated on it in his sentence, saying that Gupta, for all his charitable works, “may have felt frustrated in not finding new business worlds to conquer.” In Judge Rakoff’s mind, “there is no doubt that Gupta, though not immediately profiting from tipping Rajaratnam,

viewed it as an avenue to future benefits, opportunities and even excitement.”

As he arrived at his sentence, the Judge touched on the seemingly contradictory and perplexing threads in the life of the defendant who stood before him.

“The court can say without exaggeration that it has never encountered a defendant whose prior history suggests such an extraordinary devotion, not only to humanity writ large, but also to individual human beings in their time of need,” Judge Rakoff pronounced. “But when one looks at the nature and the circumstances of the offence, the picture darkens considerably. In the Court’s view, the evidence at trial established, to a virtual certainty, that Mr. Gupta, well knowing his fiduciary responsibilities to Goldman Sachs, brazenly disclosed material, non-public information to Mr. Rajaratnam at the very time, September and October 2008, when our financial institutions were in immense distress, and most in need of stability, repose and trust.” Gupta’s tipping of Rajaratnam of the \$5 billion investment by Warren Buffet “was the functional equivalent of stabbing Goldman in the back.”

### **The SEC Attorneys Had Received From The FBI Agent Working On The Galleon Case A Folder Of Material Containing A Slug Of Recordings That Soon Came To Be Known As The ‘Clearwire’ Calls.**

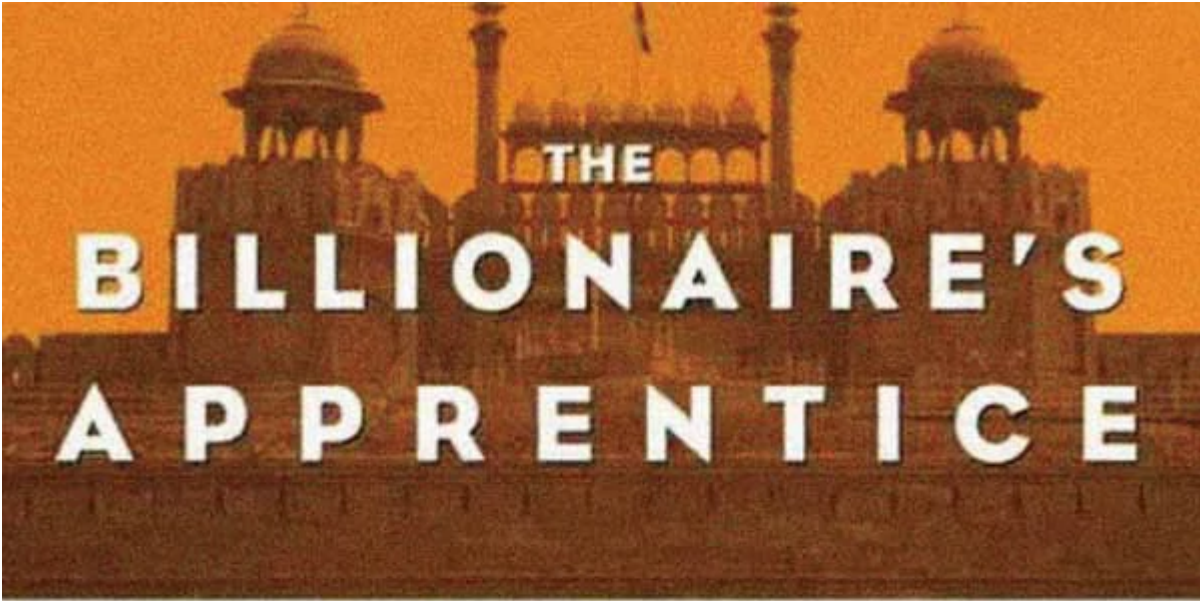
Rajat Gupta was sentenced to two years in prison. And as for the others... In the summer of 2012, Rajaratnam’s nemesis, Anil Kumar, who provided powerful testimony against his onetime friend, was sentenced to probation. His noncustodial sentence came after prosecutors spoke at length of his “extraordinary” cooperation in helping convict Rajaratnam and his former mentor, Rajat Gupta.

Almost three years after he was arrested at his home in California, Rajiv Goel was sentenced on September 24, 2012, to probation.

Roomy Khan, the former Intel employee who had a hard time telling FBI agents the truth, spent 2012 rehabilitating herself and her tattered reputation. In August, she made her debut on the witness stand in the trial of US v. Doug Whitman. Whitman was convicted on two counts of conspiracy and two counts of security fraud. However, on January 31, 2013, Judge Rakoff sentenced her to one year in prison, saying, “This is too serious. You cannot have it both ways—to cooperate and then obstruct justice.”

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