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# Rajaratnam: Relentless Pursuit of Data

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Galleon Group founder Raj Rajaratnam built a business by being at the center of the action. Trading favors and cultivating a network of friends and professional contacts, he tapped into a flow of market-moving information that circulated in Silicon Valley, Wall Street and beyond.

Now the question is whether 52-year-old Mr. Rajaratnam got too close to the action. He is the focus of the most high-profile insider-trading case in a generation, accused of prying corporate secrets out of contacts and illegally trading on the information. Mr. Rajaratnam, free on $100 million bail, has told clients and colleagues he has done nothing wrong. His lawyer declined to comment for this article.

Many hedge-fund managers make their fortunes on unique computer models and fundamental economic analysis. Dozens of interviews with friends, associates, and current and former colleagues say Mr. Rajaratnam did plenty of research but also positioned himself as an essential hub for gathering and spreading information.

He "was so charismatic.... Everyone knew Raj," said Anju Jessani, a former classmate of Mr. Rajaratnam's at the University of Pennsylvania's Wharton School of Business during the early 1980s.

A Sri Lankan who had earned an engineering degree from the University of Sussex, Mr. Rajaratnam's social skills stood out early. "Raj wasn't like all the other Indian students who were much more reserved and kept to themselves. He socialized with lots of people," Ms. Jessani said.

Following a short stint at Chase Manhattan Bank, Mr. Rajaratnam joined then-fledgling investment bank Needham & Co. People familiar with the Needham time described it as a tough place for analysts, who were pushed hard by a stoic boss, George Needham. Their chief duty: Gather information however they could, be it at conferences, in bars, or on flights to visit companies, said the people who worked there.

Mr. Rajaratnam was at the forefront of Needham's move into the volatile semiconductor sector. With analytical skills and a gift of gab, Mr. Rajaratnam proved adept at building contacts and gleaning information from them, said people who are familiar with Needham and Mr. Rajaratnam's career.

As Mr. Rajartnam's reputation grew so did the number of underwriting deals Needham handled for technology companies, which expanded nearly three-fold from 1992 to 1995. When he left the company in December 1996, Mr. Rajaratnam was serving as the firm's president, head of research and ran a Needham investment fund.

The next month he started Galleon, bringing with him such a strong reputation around Silicon Valley, that many technology investors were willing to trust him to manage their money, according to Vish Mishra, president of the Silicon Valley chapter of The Indus Entrepreneurs, a forum for executives from South Asia.

For Mr. Rajaratnam, these weren't just investors -- they also became part of Galleon's information network.

"[T]hey are a great resource," Mr. Rajaratnam once told a reporter. "If we ask any of them which of their customers and suppliers are doing well or badly, we get four stock ideas."

Mr. Rajaratnam relentlessly expanded his contacts at Galleon. He was a frequent speaker at networking events for South Asian young executives, for example, and helped some attendees with their careers, said Yag Patel, who attended some of the get-togethers. In 2004, Mr. Rajaratnam picked up the tab for about 60 Wharton alumni to drink cocktails and dine at Opia, an upscale French and Mediterranean restaurant in which he had an investment.

At Galleon's midtown Manhattan offices, Mr. Rajaratnam's adopted much of what he learned at Needham. Each morning, up to 100 Galleon traders, analysts and fund managers gathered to discuss the day's trading. A stickler for punctuality, Mr. Rajaratnam said he would fine latecomers $25, said people who have participated in the meetings.

Always positioned at the head of the table, Mr. Rajaratnam would call on employees at random, grilling them on their latest views of a given company. If a trader or analyst wasn't prepared, Mr. Rajaratnam would chide them, according to people who attended the meetings.

By 9:15 a.m. traders were at their desk and Mr. Rajaratnam was in his tidy office. Mr. Rajaratnam would spend most days glued to the phone, where "he was trying to get as much information from a many different sources as possible," said people who worked there.

People familiar with Galleon said that traders were pushed to follow that example.

Galleon executive Gary Rosenbach sometimes demanded that his broker at Hambrecht & Quist share with Galleon how many shares of a certain stock some large investment firms, like Fidelity Investments, were trying to sell, according to a trader who worked at Hambecht & Quist. That information gave Galleon a better sense for where the stock was going, but it was supposed to be kept confidential.

A junior trader at Hambrecht was so shocked to see Galleon receiving the information that he said he sent a letter to the Securities and Exchange Commission. No public action was taken. Mr. Rosenbach declined to comment.

The power of the "edge," as Mr. Rajaratnam called it, also was reflected in how Galleon was organized. At most hedge funds, traders are supposed to simply execute a firm's trades, which are dictacted by analysts and portfolio managers. Galleon had a different approach: putting traders in charge of their own capital. A trader who showed promise would sometimes be given $25 million to $50 million to invest in a semi-autonomous fashion.

To be sure, gathering information is the lifeblood of most hedge funds. But when it is material, nonpublic information about a company, it can expose a trader to accusations of insider trading. The latest insider trading charges are not the first time Mr. Rajaratnam has encountered the issue.

In 1998, Galleon received confidential information about Intel Corp. chip shipments from a woman who has emerged as a key government witness against the hedge fund and its founder Mr. Rajaratnam, according to a document filed by the Justice Department in an earlier matter.

The woman, Roomy Khan, was employed at the time by Intel and sent a fax containing "proprietary, non-public and highly confidential" information from the company to Galleon's headquarters in New York City, the two-page charging document from the earlier case indicates. She did so at the request of an unnamed representative of Galleon, the Justice Department alleged.

Ms. Khan pleaded guilty in July 2002 of charges in connection with the incident, according to FBI spokesman Joseph Schadler. She pleaded guilty to wire fraud and received a sentence of six months home detention and ordered to pay a $30,000 fine and $120,000 in restitution. It's not clear whether any action was taken against Galleon.

Employees at Galleon recall some unusual scenes. Last summer, Mr. Rajaratnam asked a junior female analyst to buy a black spandex outfit from retailer Lululemon Athletica Inc. as part of a research project into the company, a hotly traded stock.

He then asked the analyst to wear the outfit at the firm's morning meeting, said people who were there. As employees giggled, Mr. Rajaratnam made the point that few consumers would pay so much money for the expensive outfit in a recession, these people said.

Mr. Rajaratnam then asked the analyst to walk back and forth on top of the conference table, said the people who attended. At that point, the firm's chief financial officer, Rich Scutte, urged the presentation to stop.

The analyst declined to comment. Jim Walden, attorney for Mr. Rajaratnam said, "This is a complete misrepresentation of a serious research discussion about Lululemon's products."

As Galleon got larger, its trading became more heated. At one point, Galleon was conducting 1,000 trades a day, leading to more ancillary benefits from Wall Street firms, who doled it shares of initial public offerings. At times, a "substantial portion" of the firm's profits came from IPOs, according to a regulatory filing.

Two years ago, when Galleon's assets peaked at around $7 billion, Mr. Rajaratnam boasted to a group of investors at a conference that Galleon paid about $250 million to brokerage firms each year, making it among the biggest payers of commissions.

—Shelly Banjo, Eric Bellman, S. Mitra Kalita and Don Clark contributed to this article.

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