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Trader Draws Record Sentence

Rajaratnam Slapped With 11-Year Prison Term for Orchestrating Insider Scheme

By SUSAN PULLIAM And CHAD BRAY

Raj Rajaratnam's remarkable journey from Sri Lanka to the heights of the hedge-fund world to felon ended Thursday when he was sentenced to 11 years in prison, the longest-ever term imposed in an insider-trading case.

In a defining moment for the government's campaign to stamp out what it describes as rampant illegal trading on Wall Street, U.S. District Judge Richard Holwell in New York said during sentencing that the billionaire investor's crimes "reflect a virus in our business culture that needs to be eradicated." The judge also ordered Mr. Rajaratnam, who was convicted of securities fraud and conspiracy in May, to pay a $10 million fine and forfeit $53.8 million. The defense plans an appeal.

The sentencing caps a case that captivated Wall Street and corporate America for nearly two years, replete with a colorful cast of characters and drama that included a tip—about a Warren Buffett investment in Goldman Sachs Group Inc.—allegedly passed by a Goldman director to Mr. Rajaratnam at the peak of the 2008 financial crisis.

Mr. Rajaratnam, 54 years old, is the highest-profile person to be prosecuted in the government's wide crackdown on insider trading. After declining to take the stand at trial, he passed on the opportunity to speak when offered the chance at Thursday's sentencing hearing. "No, thank you, your honor," Mr. Rajaratnam said, sitting quickly back down.

Mr. Rajaratnam's lawyers asked that their client be sent to the Butner Federal Correctional Complex near Raleigh, N.C., where convicted Ponzi-scheme operator Bernard Madoff is serving a 150-year sentence.

The Butner complex includes an on-site medical center. According to a court filing on Mr. Rajaratnam's behalf, he suffers from anemia and Type 2 diabetes, which has caused nerve and kidney damage, and had a severe stroke in February 2007. His doctors are seeking to obtain a kidney transplant.

"It is a sad conclusion to what once seemed to be a glittering story," Preet Bharara, the U.S. Attorney in Manhattan, said in a statement. He added, "Privileged professionals do not get a free pass to pursue profit through corrupt means."

The sentence marks the denouement in an extraordinary fall from grace.

The son of a sewing-machine factory manager, Mr. Rajaratnam told people his name meant "king of kings." He regaled friends with stories of his upbringing, including how his family had to dodge bullets during Sri Lanka's civil war. He attended college in England and later got a master's degree at the University of Pennsylvania's Wharton School.

He cut his teeth in the investment world when the technology boom was young as a stock analyst at Needham & Co., cultivating contacts in the early 1990s with Silicon Valley's Indian expatriate community and using them to meet other tech executives. Later, some of those early contacts would lead to tips that became a hallmark of Mr. Rajaratnam's trading.

He set up the Galleon hedge fund in 1997 and began days with a meeting where traders and analysts were grilled for anything that might move stocks. At times, he knew more than analysts about a company's coming earnings, colleagues say.

The firm became known for a bawdy culture. Employees got massages at the office on Thursdays. On Super Bowl weekend in 2007, Galleon rented a mansion on exclusive Star Island in Miami Beach for $250,000 a week and technology executives hobnobbed with rent-a-dates around the pool, according to people familiar with the situation.

Others visited a large shower for an all-female sex show, said people familiar with the matter. A spokeswoman for Mr. Rajaratnam's legal team declined to comment.

Mr. Rajaratnam also had a fondness for highjinks. He once offered $5,000 to any employee who would agree to be shocked by a Taser stun-gun when executives of Taser International Inc. came to visit the firm, according to people who were there. A female trader took him up on the offer and employees gathered around as the stun gun was applied, her legs buckling under her.

His insider-trading troubles took root in 2007, after he provided documents to the Securities and Exchange Commission in connection with an investigation of a younger brother that never resulted in charges.

Tucked away in them was a text message that launched what would eventually become the largest insider trading investigation ever: Don't buy Polycom's stock "till I get guidance; want to make sure guidance OK," wrote Roomy Khan, a former Intel Corp. employee who had long been suspected by the authorities of providing inside information to sources.

In November 2007, confronted with the text, Ms. Khan agreed to work with authorities, becoming the first in a series of cooperating witnesses who would help the government convict Mr. Rajaratnam and close Galleon after Mr. Rajaratnam's arrest on Oct. 16, 2009. Ms. Khan pleaded guilty to securities fraud, conspiracy and obstruction of justice, and is awaiting sentencing.

Mr. Rajaratnam's case was full of colorful characters. Danielle Chiesi—a former beauty queen and a brassy hedge-fund manager who swapped insider tips with Mr. Rajaratnam—allegedly slept with some of the individuals with whom she is alleged to have swapped inside information, according to court filings in the case.

Anil Kumar, a former McKinsey & Co. partner with a regal air, collected $2 million for tips he provided to Mr. Rajaratnam after the fund manager told him he was underappreciated at McKinsey, prosecutors alleged.

Ms. Chiesi pleaded guilty to conspiracy to commit securities fraud and was sentenced to $2\frac{1}{2}$years in prison. Mr. Kumar pleaded guilty to securities fraud and conspiracy, cooperated, and is awaiting sentencing.

On Thursday, Mr. Rajaratnam showed no emotion as the sentence was pronounced in a packed courtroom at the federal courthouse in lower Manhattan. His wife, seated in the third row wearing an off-white trench coat, stared ahead.

Thirty minutes later, as Mr. Rajaratnam made his way with his lawyers to meet a throng of waiting photographers and TV cameras, he appeared stunned.

The 11-year sentence falls far short of a range sought by prosecutors, who had argued that Mr. Rajaratnam should get up to 24 years and five months. Still, it exceeds the previous record of 10 years for insider trading, given last month to Zvi Goffer, a former Galleon trader convicted in a related scheme.

Thursday's action comes amid considerably harsher sentences for insider trading in recent years. In the past two years, defendants sent to prison on insider-trading charges in New York federal courts have received a median sentence of about $2\frac{1}{2}$ years, an analysis of 108 insider trading cases by The Wall Street Journal shows. That's up from an 18-months median in the past decade.

At the hearing, assistant U.S. Attorney Reed Brodsky described Mr. Rajaratnam as the "modern face of insider trading."

Lawyers representing Mr. Rajaratnam, whose net worth once was an estimated at $1 billion, argued for a sentence of no more than eight years and a month. Family members, friends and associates wrote the court more than 200 letters to support him.

His lead lawyer, John Dowd, didn't appear. Terence Lynam, another lawyer, cited his client's charitable giving and work with a Harlem youth organization.

"Raj Rajaratnam has attempted to make the world a better place," Mr. Lynam said. "If there is a ledger in one's life, he should have some credit to draw upon in that ledger now that things have gone bad."

Judge Holwell said the sentence was "sufficient but not greater than necessary." He cited Mr. Rajaratnam's health. But he denied a bid by Mr. Rajaratnam to remain free on bail while his appeal is considered and told him to report to prison Nov. 28.

During the trial, which began in March and ended in May, witnesses described a fund manager who systemically developed relationships from which he could extract inside information.

In a dramatic moment, prosecutors alleged that Mr. Rajaratnam gained access to information about a $5 billion investment in Goldman by Berkshire Hathaway Inc. during the financial crisis.

In one tape played at trial, Mr. Rajaratnam called a contact and said: "I heard yesterday from somebody who's on the board of Goldman Sachs that they are going to lose $2 per share." The government is investigating former Goldman director Rajat Gupta, who has denied wrongdoing.

Mr. Rajaratnam's legal team argued that the information provided by his contacts wasn't material and was already public. Mr. Dowd questioned the witnesses' credibility and said one, Mr. Kumar, told a "monstrous lie." In the end the jurors didn't buy it, convicting him after 12 days of deliberation.

—Robert A. Guth and Justin Scheck contributed to this article.

Notes

[1] http://online.wsj.com/article/SB10001424052970203914304576627191081876286.html