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Galleon Chief Attacks Government's Case Against Him

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Five weeks after he was arrested on charges of masterminding a vast insider-trading scheme, [Raj Rajaratnam](#), the billionaire money manager, answered his accusers on Tuesday with a sharp-edged attack on the government's case against him.

Responding for the first time to civil charges brought by the [Securities and Exchange Commission](#), Mr. Rajaratnam said that his New York hedge fund, the Galleon Group, had based its investments on savvy research and not, as the authorities claim, on inside information.

Mr. Rajaratnam also struck at the heart of the government's case by arguing that the authorities violated his constitutional rights by clandestinely recording telephone conversations between Mr. Rajaratnam and various corporate insiders. The case is the first insider-trading prosecution based on wiretaps, which are typically reserved for investigations into organized crime, drug syndicates and suspected terrorism.

In documents filed in federal court in Manhattan, Mr. Rajaratnam's lawyers argued that the authorities resorted to wiretaps without first demonstrating that conventional investigative techniques were inadequate, as required under the Wiretap Act of 1968. Mr. Rajaratnam's lawyers are expected to use similar arguments in the criminal case against him.

Like a thunderclap, Mr. Rajaratnam's arrest on Oct. 16 stunned the financial community. The hedge fund manager, who has maintained his innocence, has long been regarded as a high-stakes player in technology stocks. Rival money managers feared that the case — as the authorities characterize it, a tale of corporate intrigue stretching from Wall Street to Silicon Valley — might be the first of many insider-trading prosecutions aimed at hedge funds.

But despite persistent buzz on Wall Street, no other major cases have emerged. If Mr. Rajaratnam succeeds in having the wiretap evidence suppressed — an outcome legal experts said was possible, although unlikely — the case against him, as well as the government's effort to bring similar cases, might unravel.

"If the wiretaps are suppressed, it won't completely destroy it, but will definitely pull the rug out from under the government's case," said Joseph DiBenedetto, a criminal defense lawyer not involved in the case.

John Nester, a spokesman for the S.E.C., said the commission was looking forward to proving its case in court.

After his arrest, Mr. Rajaratnam shut Galleon after anxious investors withdrew their money from its funds. Five other defendants have pleaded guilty to the charges and are cooperating with the investigation.

In their filing Tuesday, Mr. Rajaratnam's lawyers argued that the government misled courts in seeking

authority for the wiretaps in 2007. Investigators argued that forgoing wiretaps would be “too risky” and could “seriously compromise the entire insider trading investigation.” But Mr. Rajaratnam’s lawyers wrote that the money manager had, by that time, already been interviewed under oath by the S.E.C. in another unnamed hedge fund investigation and had been questioned about the investments that eventually led to the charges against him. Galleon had also submitted more than four million pages of documents at the S.E.C.’s behest during the investigation while they were seeking authority for the wiretaps, the filing claims.

That, Mr. Rajaratnam’s lawyers argued, contradicted the government’s assertion that the wiretaps were necessary because there was no other way to conduct the investigation of him and his firm, rendering the surveillance unconstitutional.

As recently as a month before he was arrested, Mr. Rajaratnam had not been contacted about his suspected insider trading, his lawyers asserted. They also said that, in obtaining authorization for the wiretaps, the S.E.C. made false statements about the government’s key cooperating witness, Roomy Khan. The S.E.C. told the court that she had no criminal history. In fact, she had been convicted of wire fraud in a California federal court in 2001.

While striking at the evidence obtained through wiretaps, Mr. Rajaratnam also maintained that his trading was based on careful research — and that any inside information he may have received was less precise and less detailed than Galleon’s own research. His lawyers also asserted that most of the information in question had been made public through reports by analysts and the media.

Defense lawyers plan to cite Galleon’s trading in the chipmaker [Advanced Micro Devices](#), among others, according to people briefed on their plans.

Authorities contend Mr. Rajaratnam and several others bought A.M.D. securities two months before the company announced that it would spin off its semiconductor manufacturing business into a joint venture. But news of the move was reported months before the sale in the news media and by analysts.

“The S.E.C. will have to separate out the alleged inside information from just market noise if they want to win this case,” said Peter J. Henning, a law professor at Wayne State University who studies white-collar crime and is not involved in this case. Information, he said, is the common currency of Wall Street. “In many ways, trading information is what these guys do for a living.”

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