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Inquiry of Hedge Fund Chief Halted in '02

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By 2002, investigators across the United States appeared to be closing in on [Raj Rajaratnam](#), a wealthy hedge fund executive, for insider trading.

Federal prosecutors and officials from the [Federal Bureau of Investigation](#) and the [Securities and Exchange Commission](#) were investigating instances of Mr. Rajaratnam receiving confidential Intel sales data from a then-employee, Roomy Khan. Government interviews with Ms. Khan had indicated that Mr. Rajaratnam had set up a network of informants to feed him nonpublic information from several public companies.

But the F.B.I. and the S.E.C. were unable to prove that Mr. Rajaratnam had profited from Ms. Khan's information, according to documents unsealed this week in a 2001 criminal case against Ms. Khan.

And for reasons that remain unclear, the authorities appeared to lose interest in Mr. Rajaratnam and this matter after 2002, not charging him or even requesting information from him or his firm, the Galleon Group. This was despite indications in the court filing of a continuing investigation and aid from Ms. Khan, who agreed to participate in undercover operations related to the case.

Seven years later, Galleon — which grew from \$800 million to as much as \$8 billion in assets — is in the process of shutting down, after Mr. Rajaratnam and nearly two dozen other individuals were charged with running elaborate insider-trading rings that are accused of making millions of dollars in profits.

The S.E.C. in particular has taken fire from critics recently for missing clues about continuing criminal frauds — most notably the \$64 billion [Ponzi scheme](#) run by [Bernard L. Madoff](#) for decades.

“I am concerned about all cases of securities fraud, just as I am alarmed about failures to detect them,” said Representative Paul E. Kanjorski, Democrat of Pennsylvania, who has introduced legislation that would revamp the S.E.C.'s fraud-detection policies.

The S.E.C. has sought to bolster its antifraud staff and has pointed to the recent charges against Mr. Rajaratnam as evidence it is cracking down on white-collar crime.

The details about the earlier case against Ms. Khan, in which she was convicted of wire fraud in 2001, came from court documents unsealed late Wednesday by a federal judge in San Jose, Calif., at the request of The New York Times and other news organizations.

Executives at Intel had developed suspicions about Mr. Rajaratnam in his pre-Galleon days at the

investment bank Needham & Company because of his eerily accurate quarterly sales predictions, the documents said. The company conducted an internal investigation — which included the use of hidden video cameras — and discovered that Ms. Khan had sent faxes and notes to Mr. Rajaratnam with detailed sales data.

Ms. Khan later admitted to sending the data and pleaded guilty to wire fraud.

As part of the case, “she submitted to several debriefings, described her activities and those of other individuals involved in Rajaratnam’s efforts to obtain material, nonpublic information at several publicly traded companies,” prosecutors said in the documents.

But the prosecutors also said that despite her help, they were unable to prove that Mr. Rajaratnam had traded on the Intel information.

Exactly what happened next is a mystery. The case made its way from California to New York, according to the documents.

Lawyers for the United States Attorney’s Office for the Eastern District of New York were brought in because of a separate investigation into Mr. Rajaratnam’s purported ties to the [Liberation Tigers of Tamil Eelam](#), a Sri Lankan terrorist group commonly known as the Tamil Tigers, according to a person briefed on the matter.

A spokesman for the Eastern District declined to comment.

The case may have fallen through the cracks between regional government offices. Even though they had some evidence that inside information was being passed to Mr. Rajaratnam, investigators may also have held off filing charges because they didn’t believe they had enough for a conviction or because they were investigating other individuals, said Joseph DiBenedetto, a criminal defense lawyer who is not involved in the Galleon case.

“It sure seems like something should have been done much earlier in this case, though,” Mr. DiBenedetto said.

Legal experts also questioned why the S.E.C. did not file civil charges against Ms. Khan, especially after she pleaded guilty. The S.E.C., which is responsible for overseeing public companies, typically files civil charges in conjunction with a criminal complaint.

In a statement Friday, an S.E.C. spokesman, John Nestor, said, “Prior decisions on how to proceed were made in consultation with our law enforcement partners.”

Michael J. de la Merced contributed reporting.

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