

GSB

# Insider Trading

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### Insider Trading

#### ***Insider-Handel: IBM-Manager beurlaubt (20.10.2009)***

San Francisco - IBM hat eine Führungskraft beurlaubt, die wegen Insider-Handels angeklagt wurde. Robert Moffat ist einer von sechs Managern, die am Freitag vergangener Woche verhaftet wurden.

Der Senior Vice President soll vertrauliche Informationen über IBM-Bilanzen und Transaktionen mit Partnerunternehmen weitergegeben haben. Die Teilnehmer an dem Insider-Handel sollen durch das Ausnutzen solcher Informationen an der Börse mehr als 25 Millionen Dollar an illegalen Profiten erzielt haben. Ob der 53-jährige Moffat ebenfalls davon profitiert hat, ist unklar.

#### ***IBM und Intel-Manager Moffat und Goel beurlaubt (20.10.2009)***

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San Francisco (RPO). Der Insider-Skandal an der Wall Street fordert Konsequenzen. Die US-Firmen IBM und Intel haben nun ihre Top-Manager beurlaubt. Die Manager Robert Moffat und Rahiv Goel sind unter den sechs Verdächtigen des Hedgefonds-Insiderskandals, die letzte Woche verhaftet wurden.

IBM beurlaubte Top-Manager Robert Moffat, der Chiphersteller Intel seinen Manager Rahiv Goel. Moffat und Goel sind zwei von sechs Verdächtigen, die am Freitag vergangener Woche verhaftet worden waren. Die Teilnehmer an dem Insider-Handel sollen durch das Ausnutzen vertraulicher Informationen an der Börse mehr als 25 Millionen Dollar an illegalen Profiten erzielt haben.

Moffat soll vertrauliche Informationen über IBM-Bilanzen und Transaktionen mit Partnerunternehmen weitergegeben haben. Ob der 53-jährige Moffat finanziell davon profitiert hat, ist unklar. Ein Anwalt Moffats erklärte, dies sei definitiv nicht der Fall gewesen. Die Staatsanwaltschaft legt Moffat, der als einer der Nachfolger von IBM-Chef Sam Palmisano gehandelt wurde, unter anderem zur Last, die Hedge-Fonds-Managerin Danielle Chiesi über Details zu IBM-Gewinnen informiert zu haben. Chiesi arbeitete nach Angaben der Staatsanwaltschaft für den Hedgefonds New Castle von Bear Stearns Vermögensverwaltung. Bear Stearns war im vergangenen Jahr durch einen Notverkauf an JPMorgan vor dem Aus bewahrt worden.

#### ***Ex-IBM exec sentenced for insider trading (14.09.2010)***

Former IBM executive Robert Moffat on Monday was sentenced to six months in jail and pay a fine of \$50,000 for his part in a major insider trading scheme, according to news reports.

In March, the former IBM executive pleaded guilty to revealing insider information about IBM, Lenovo, and Advanced Micro Devices to New Castle Funds consultant Danielle Chiesi, with whom he allegedly claimed an intimate relationship, according to a Bloomberg report.

Beyond involving Moffat and Chiesi, the crime allegedly spread to 12 other people--in two related insider-trading schemes--including Raj Rajaratnam, founder of hedge fund Galleon Group. Rajaratnam and the others have been charged with securities fraud by federal prosecutors alleging that they were involved in the insider trading of several tech companies, including Intel, Google, IBM, and AMD.

### ***IBM insider on layoffs (30.09.2009)***

*It's kinda like sheep going to the slaughter!!* – IBM veteran on fellow workers' reactions to spreading layoffs.

**RESEARCH TRIANGLE PARK, N.C.** – Having escaped recent rounds of layoffs, longtime IBM veteran I. B. Gone could have felt survival was his destiny. Then came Thursday, March 26 – the day Big Blue said I.B. was truly gone. I.B., soon to be I. Wz., was “RA’d,” or resource action-ed. I.B. has until May 26 to find another position within Big Blue or catch on with the company that is to benefit from the outsourcing of I.B.’s job, along with hundreds of others. What mystifies I.B. (a fictitious name to protect the vet’s identity) beyond losing a job with a very profitable company is how fellow Big Blue workers are reacting.

Is there a sense of outrage? Frustration? “Yes, on both counts, but amazingly (at least to me), they aren't doing anything about it!!” I.B. told The Skinny. “Just waiting for it to happen to them!! “It's kinda like sheep going to the slaughter!!” And worse news may be coming. “Most people that I've spoken with expect more to happen,” I.B. said. “The rumor is that more RAs [resource actions] could happen around June.”

IBM is cutting some 5,000 jobs from its steadily shrinking U.S. workforce, outsourcing or offshoring jobs to less-costly contractors or other countries. So what’s it like working at Big Blue right now for those still standing?

“Morale is in the toilet!!,” I.B. stressed. “People in some areas have been working weekends for months, and worry that once they’re done, then it will be their turn in the June RAs. They were exempt from the RAs back in January!!”

What alternatives do workers have other than trying to make themselves more valuable? Look elsewhere for jobs, which is hardly a bright prospect in the current economy. Another is to join Alliance@IBM, the fledgling union that is seeking to organize Big Blue’s work force. The union is calling for more openness by IBM in disclosing job action information and also calling for a halt to the overseas job exodus. The fear is that more cuts are coming that will make previous U.S. cuts look small.

“Everybody assumes there's more to come,” I.B. says. “The main rumor going around is that IBM wants to drastically lower the population in the U.S. I've seen numbers like down to 70,000 from last year’s 115,000. “This is how IBM is coping with the downturn in the

economy, by cutting the population in the U.S. and sending the work to low cost countries like the BRIC countries [Brazil, India, Russia, China], and Poland I've also heard about." So are more people joining Alliance as a result? "I think some new people have joined," I.B. said, "but not as many as you'd expect."

### ***IBM, McKinsey: Insider-Skandal zieht weitere Kreise (06.01.2010)***

fkl / Quelle: [sda](#) / Mittwoch, 6. Januar 2010 / 09:04 h

New York - Der bislang grösste Fall von Insiderhandel bei Hedge Fonds zieht immer weitere Kreise. Die US-Staatsanwaltschaft kündigte an, ihre Anklage gegen den Milliardär Raj Rajaratnam auszuweiten.

In einer Mitteilung der Regierung an einen Richter in Manhattan hiess es, man gehe davon aus, dass sich die illegal erwirtschafteten Profite auf mindestens 36 Millionen Dollar beliefen - fast doppelt so viel wie zunächst angenommen. In die Anklage würden nun auch Insidergeschäfte zwischen März und Juli 2006 im Zuge des Kaufs von ATI Technologies durch Advanced Micro Devices (AMD) aufgenommen. Rajaratnam und sein Hedge Fonds Galleon stehen im Zentrum des Insiderskandals, der im Oktober bekanntgeworden war.

Darüber hinaus sollen Mitarbeiter mehrerer Grosskonzerne an dem Insiderring beteiligt gewesen sein, etwa von IBM, McKinsey & Co und Intel Capital, einer Tochter des Chipriesen Intel. Insgesamt werden 21 Personen beschuldigt.

### ***Dangerous liaisons at IBM (06.07.2010)***

#### **Inside the biggest hedge fund insider-trading ring**

Robert Moffat, who was a top manager at Big Blue, was considered a candidate for CEO. Then he met Wall Street analyst Danielle Chiesi. Both were consumed by the flames of the Galleon hedge fund scandal. By James Bandler with Doris Burke July 6, 2010: 5:51 PM ET

FORTUNE -- At 7:30 in the morning on Oct. 16, 2009, Robert Moffat had already been at his desk at IBM's headquarters in Armonk, N.Y., for an hour and a half. As he had almost every day in his 31-year career at the company, he had left home at 5:30 a.m. to get a jump on work. He had just finished his first call of the day when his phone rang. It was his wife, Amor. He needed to come home immediately, she said. Five FBI agents were at the house to arrest him for conspiracy related to insider trading. "What's going on?" Amor implored.

"I don't know," Moffat said. He hung up and called a senior IBM (IBM, Fortune 500) lawyer, who gave him the name of a white-collar criminal defense attorney. His heart pounding, Moffat bolted across the marble lobby and nearly bowled over a startled colleague. By the time he reached the parking lot he was sprinting hard for his Lexus. It was the last time anyone saw him at IBM.

Moffat, the senior vice president of IBM's systems and technology group, was the most prominent tech executive arrested in the federal dragnet that snagged Raj Rajaratnam, founder of the Galleon Group hedge fund. The bust sent tremors through Wall Street, exposing a world of illicit, back-channel dealings between prominent hedge fund managers and senior executives in the high-tech industry. Among those caught in the federal bust were a McKinsey & Co. director, a high-level Intel (INTC, Fortune 500) executive, and the head of New Castle Partners, a hedge fund that was once part of Bear Stearns. So far, 11 of 21 people charged have pleaded guilty.

While the scandal seemed to many people a confirmation of all they've suspected is wrong with Wall Street and the hedge fund industry, Moffat's arrest was utterly shocking to the people who knew him. He wasn't a speculator. He was a confidant of IBM CEO Samuel Palmisano and widely considered a candidate to succeed him. He had plenty of money and a family who adored him. On so many levels it didn't compute. IBM itself, with a squared-away corporate culture and a stock favored by long-term investors, was one of the last Fortune 500 companies you'd expect to be dragged into an insider-trading case. Moffat didn't make a penny from the information he provided, nor did he trade a share of stock. And of all the buttoned-down executives at Big Blue, Moffat was the last one that old friends could imagine being caught up in a scandal, let alone a crime. The former Eagle Scout had a reputation for loyalty as solid as his 6-foot-2, 265-pound frame.

Kenneth Hammer, a former IBM attorney who had worked with Moffat, recalled his reaction on hearing of the arrest: "There was no planet on which I could have understood what was being said about Bob. I just shut down."

Moffat was a number cruncher of the first order: He had been, among other things, the head of IBM's supply chain. Spreadsheets sang to him; he carried three-ring binders stuffed with data about the business. Some people might think his work was dull. But in 2002 he met a hedge fund analyst who found what he did insanely alluring. Danielle Chiesi, a former teenage beauty queen, was a woman for whom business information was the ticket to gratification. She liked older men, and she enjoyed pushing their buttons. "I love the three S's," she would tell them. "Sex, stocks, and sports."

Chiesi, arrested on the same day as Moffat, maintained a stable of highly placed sources at the tech companies she covered for New Castle. She has pleaded not guilty to charges of securities fraud and conspiracy. The government alleges that she was one of Rajaratnam's many gatherers of insider information and that both their hedge funds illegally profited from trading on it. "Moffat's terrific," Chiesi told Rajaratnam, according to an excerpt of a government wiretap. "He's a huge coup for me."

The ballad of Moffat and Chiesi is a classic tale of desire and betrayal. Chiesi had an affair with Moffat, but the person she truly loved was her boss, Mark Kurland, the co-founder of New Castle. But Kurland wouldn't leave his wife and ultimately renounced Chiesi.

Sex was part of the picture, to be sure, but the dangerous elixir that really bound these people to one another was information. It enriched some of them, it thrilled all of them, and it eventually ruined their careers. Trading business information, Chiesi would say, was "like an orgasm."

### **Moffat's path to prominence at IBM**

The late Jerry York, IBM's legendary former CFO and one of the great turnaround artists in American business, had an indelible memory of working with Moffat when Moffat was just a second-tier finance guy at the company's personal computer division. "He was highly regarded and considered to be a real comer," York told Fortune last spring, days before he died suddenly of a brain hemorrhage.

In the mid-1990s, York, a famously tough boss, had a difficult inventory task for Moffat. Assigning him the job, York produced a sheet of paper and said, "Please sign this." The document said that if Moffat didn't have the problem fixed by the year's end, he would agree to resign immediately. Moffat signed it without hesitation.

Moffat rose from the very bottom rung of IBM to steps from the pinnacle. His main attributes were loyalty, inhuman work habits, and the mental bandwidth of an orchestra conductor. He moved his family around the world as the company asked him to. Approached several times with offers to run rival tech companies, he turned them down. He worked so hard that on one rare date night with his wife, he fell asleep at the restaurant table. She told a friend she worried that by the time he retired there would be nothing left for her but a skeleton.

Moffat grew up in a small, two-story wood frame house in a working-class neighborhood in Stamford, Conn. His father, Robert Moffat Sr., was a typesetter and his mother, Edith, a stay-at-home mom. They instilled in their children a love of hard work, competition, and abiding loyalty to the Moffat clan.



The eldest boy in the family of five children, Moffat was idolized by his siblings. He seemed to excel at everything he did. His older sister, Susan, expected he'd go into medicine or science. He could analyze almost any issue or problem. "He was such a geek," she recalled. Moffat was a precocious track athlete, and his father told him that running would be his ticket to college. Every day he would run the seven miles to school, and his father would follow in the car with lunch and gear. To boost his confidence, he took to wearing a Superman shirt, even wearing it outside his singlet in one race. (For a long time his kid brother, Stephen, actually believed Bob was the caped crusader.) He got into Union College in upstate New York.

His freshman year in college, Moffat met the woman who would be his wife. She was a year older and a manager of the track team. Like his mother, Amor Boulosa was slight, raven-haired, and beautiful.

It was by no means love at first sight. Walking from the field house to the cafeteria, she overheard an upperclassman ask Moffat how he thought he would do in the next day's race. "You'll be eating my dust," the lanky freshman boasted. Amor raised her eyebrows. Sure enough, Moffat won the race. Amor still thought he was a cocky jerk. (By the time he graduated, Moffat was a three-time All American middle-distance runner.)

A few months later Amor and Bob had their first date, and her opinion changed. "Moff," as she later called him, seemed so grounded. He proposed to Amor on Christmas Day of his senior year in front of his entire family. She opened a refrigerator box to find a smaller box inside. Many boxes later she found the ring. Another woman might have been put off by the presumption and the pressure. But Amor was moved by his old-fashioned devotion.

The couple was married in June 1978, right after Bob's graduation. The day after they got back from the honeymoon, Moffat started at IBM with a \$15,120-a-year job as a junior programmer. Their first child, Bobby, was born in 1983. But the joy was tempered by terrible news. Three months after Bobby's birth, Amor lost sight in her left eye. Two days later she couldn't walk. The doctors finally gave her the terrifying diagnosis: multiple sclerosis. The disease could be managed but never cured. Flare-ups seemed particularly acute in times of stress.

As Moffat advanced at IBM, the family moved to Minnesota, to France, back to New York, and to North Carolina. They had three more children. In Raleigh, Moffat took a finance job in the personal computer division. He quickly bonded with his boss, Sam Palmisano, the head of the PC business. Like Moffat, Palmisano came from a simple background, spoke bluntly, and had little tolerance for people who made excuses. When Palmisano moved on to take over the enterprise systems group in October 1999, he asked Moffat to come with him. "I need someone I trust," Palmisano told Moffat. Another executive took the helm of the PC unit, and the business foundered.

In the fall of 2000, Moffat was asked to come back to the PC division, which by then was losing around \$1 billion a year. Except for Palmisano, almost every head of the business had failed at the job. "Look at the tombstones before you accept the job," then-CEO Louis Gerstner warned Moffat.

Soon Moffat was getting a reputation outside IBM. Forbes and the Wall Street Journal wrote profiles about the miracle worker who was turning the troubled PC division around. The image of Moffat that emerged was that of a stoic soldier. He told the Journal, "I've never missed a commitment to Sam Palmisano."

The close ties between the two men became something of a joke among Moffat's staff. Once they superimposed the boss's face over the office photographs of Moffat's wife and kids. Moffat took the prank well, but behind the kidding lay a hard truth: In Moffat's world, Sam Palmisano and IBM were starting to crowd out the family.

In 2002, after Palmisano was named CEO, he asked Moffat to take IBM's disparate supply chains and integrate them into one smoothly running operation. It was a task to rival the cleanup of the Augean stables, but Moffat was up to it. In his first year he slashed \$5.6 billion in costs. His team built a system to track every silicon chip, diode, and widget in IBM's supply chain from purchase to sale. Later Moffat devised an ingenious, albeit spooky, system for including humans in the supply chain too -- categorizing each employee's skills and strengths. But Moffat's human taxonomy system had its limits. It couldn't tell which employee's character was strong or which was weak. It couldn't tell loyalist from traitor, or predict how a middle-aged man would behave after colliding with a force of nature like Danielle Chiesi.

### **Danielle Chiesi: from pageant queen to corporate "yenta"**

Blond, blue-eyed, and petite, Chiesi grew up in Binghamton, N.Y., where she won the regional Southern Tier beauty contest at age 15 wearing a tiara and a black size-0 dress made by her mother, Gloria. Her father, Alex, an insurance executive, was an accomplished gourmet chef, the son of Alex Chiesi, a Swiss immigrant who had studied under Auguste Escoffier and owned the Hapsburg House restaurant in New York City.

Danielle earned a bachelor's degree in economics from the University of Colorado in 1988, then moved back east to seek her fortune on Wall Street. She got a job as an analyst at a brokerage called Mabon Nugent & Co. There she met the man who would be her boss and eventually her lover on and off for the next two decades, an analyst named Mark Kurland. He became Chiesi's tutor, in a way, driving her to dig hard for information on stocks. Her friends say he pushed her relentlessly. She took to the game with zeal, developing a fascination with the powerful men who ran the companies she covered. Eventually, the feds allege, their partnership became part of a criminal enterprise.

It is not clear when exactly Chiesi's romance with Kurland began, but a person close to her says it started when she was 27. She left Mabon in 1991 and moved from job to job, married, divorced, and became engaged at least two more times. One of her betrothals even made the news. As vice president of sales at Arnhold & S. Bleichroeder, she fell in love with Stephen Morris, the head of Digicall, an Australian mobile-phone reselling company that Arnhold was backing.

"Chiesi, whose gregarious nature and stunning diamond engagement ring left a dazzling impression as she swept through Sydney on Stephen's arm last October, helped sell the Digicall story in the U.S.," the Sydney Morning Herald reported on Sept. 7, 1996. But

Digicall's stock crashed, and so did the engagement. Co-workers remember Chiesi at the time as talented, resourceful, and hardworking. "In all of her dealings that I observed, nothing was unethical," says Steve Gluckstein, a former Arnhold analyst.

She left Arnhold in 1997 and was soon working again for Kurland, who had become CEO of Bear Stearns's asset management business. He persuaded management to let him form an equity hedge fund within Bear called New Castle.

Chiesi covered technology companies at New Castle. Her pay was not outsize for Wall Street. She earned less than \$1 million most years and \$2 million in her best year. A lengthy profile on her in Bloomberg Markets after her arrest said that she favored low-cut tops and short skirts. She knew her powers. Some men would fall in love with her voice, others with her body and the close cut of her suit. She knew it was manipulative, but as a person close to her explained to Fortune, this was Wall Street: "You do what you do to get information."

Behind her tradecraft lay a genuine affection for the companies she covered and the men who ran them. She loved underdogs. Like a devoted sports fan, she rooted for chipmaker AMD (AMD, Fortune 500) in its war with Intel (INTC, Fortune 500) and was continually trying to connect the company with other companies and analysts that could be helpful. "She struck me as sort of a yenta -- get this person with that person," says Deborah Stapleton, who runs an investor-relations firm in Palo Alto.

One of her contacts was John Joyce, then IBM's CFO. Chiesi had approached Joyce in the late 1990s at an investors' conference. You need to do a stock split, she told him, watching him carefully to gauge his reaction. If he liked the idea, she surmised, it would mean he had confidence in IBM. Joyce wasn't keen on the idea, but he seemed to like Chiesi, and a long-term friendship commenced.

In 2002, Chiesi asked Joyce to introduce her to an up-and-comer at IBM, a person, as she put it, with "game." Joyce suggested Moffat.

An introduction was arranged at a conference in New York. The encounter was brief, but it made a big impression. Afterward Moffat told his friend and colleague Ken Hammer about the meeting with this aggressive, in-your-face woman. "She told him it was urgent that she see him again," Hammer recalls. "It was the kind of story guys share -- 'Hey, this woman is stalking me' -- a way of elevating himself in the eyes of other guys. I think he was kind of flattered."

He was a perfect contact. As head of the global supply chain, he spoke regularly with the biggest technology companies in the world, both vendors and customers. He had the ear of the CEO.

Moffat was under pressure, at home and at work. He was uprooting the family from Raleigh to the countryside of Connecticut. The transition was rocky. And Moffat's mother, Edith, was dying. Repeatedly when Moffat was traveling, Amor would have to take her to the hospital and spend nights there with her. When she died in September 2002, Moffat was devastated. Months later Chiesi was also grieving over the loss of her father, who had accompanied her to analyst conferences.

Chiesi and Moffat struck up a business friendship. With an impressive array of sources who confided in her, Chiesi had her finger on the industry pulse, Moffat soon discovered. She talked with everyone. She was brimming with ideas about which alliances IBM needed to build and which companies IBM needed to stand up to. In time the conversations took on the intensity of pillow talk, as Chiesi's voice would modulate from sultry whisper to squeak with excitement and delight. I think you should do this! Baby, you gotta pay attention! Some time in 2003, Chiesi and Moffat began sleeping together.

Chiesi's Sutton Place apartment overlooking the 59th Street Bridge was becoming an East Coast salon for Silicon Valley executives. A guest on one occasion was Hector Ruiz, the CEO of AMD. Some guests found the gatherings odd. "She sort of flitted around," recalls Deborah Stapleton, who was invited to one. "It seemed odd that someone of Hector Ruiz's stature would be in this tiny apartment drinking wine and eating cheese balls," Stapleton says. A person close to Ruiz said there was nothing odd about the gathering, which he described as a typical industry function attended by analysts and tech industry executives.

### Trading secrets and buying stock

In the summer of 2008, AMD was in talks to spin off its manufacturing business, Fabco, creating a joint venture that would be 50% owned by a Middle Eastern sovereign wealth fund. IBM was involved in the discussions because it had been asked by AMD to provide a license for the use of its technology as part of the reorganization. Moffat was IBM's point man for the talks. With access to the two men in charge of the deal, Chiesi was soon getting detailed information that no other analyst had. Amazingly, she persuaded Ruiz to let her sit in on one of the confidential meetings between him and Moffat. As the deal progressed, Moffat kept her updated, telling her in August that it would be completed by September 9. She in turn regularly briefed Kurland about the developments, according to the criminal complaint against her. "I'm working hard on this AMD thing," Chiesi told Kurland, adding that she would be meeting with Moffat "on fucking Sunday at my mom's house." When Kurland asked whether AMD's stock price would rise after the spin-off, Chiesi said she'd try to get the "lay of the land" from Moffat, talk to Ruiz, and then "triangulate" with Moffat. Kurland directed her to buy several hundred thousand shares of stock. "Don't put anything in e-mail," Kurland told her. "Be careful." New Castle bought 199,400 shares.

Kurland pushed her to get better and more specific information about the deal and its timing. On Aug. 22, Moffat told Chiesi, "The Arabs are gonna pay \$2.1 billion...for a 50% stake in Fabco." As Moffat talked, Chiesi allowed Kurland to eavesdrop on the conversation.

Kurland wasn't the only person to whom Chiesi was giving information. She was also feeding the information she gleaned from Moffat and Ruiz to her friend Raj Rajaratnam.

Rajaratnam then was one of the 300 richest men in the world, with a net worth of around \$1.8 billion. The Sri Lankan native's hedge fund, Galleon, was worth around \$7 billion at its peak. His sources of business information included highly placed individuals at McKinsey & Co. and Intel Corp. According to the government, Rajaratnam paid at least one of his sources for his help and traded information with others. Chiesi, who had met him at an analysts' conference, appeared to fall into the second category. Rajaratnam's Sutton Place apartment was only blocks from hers. At one point he talked about helping her break loose from New

Castle and putting up some money to set up her own hedge fund. The fund was to be called Hapsburg Capital, after her grandfather's New York restaurant, but the deal was never done. All summer long, the government alleges, Chiesi fed Rajaratnam information she'd gleaned from Moffat. Rajaratnam and Chiesi talked about the importance of keeping the information confidential. "If this leaks, I think I'm out of business," Chiesi told him. "Because...who knows IBM? And who's in bed with AMD?"

By the end of September, New Castle had upped its stake in AMD to 2.3 million shares. Galleon owned more than 8 million shares.

What they didn't realize was that the government was listening to their telephone conversations. The feds had been investigating Rajaratnam since 2007. The probe had started with information supplied by a confidential informant and then led to a tap on the Galleon head's phone. By the summer of 2008 wiretaps expanded to include other associates of Rajaratnam's, including Chiesi. In addition to recording her conversation with Moffat about the AMD deal, the government soon was gathering evidence suggesting that Moffat was telling Chiesi about confidential results at IBM and about takeover talks between IBM and Sun.

The government wiretaps show Chiesi to be a formidable digger. At times Moffat seemed almost to give up confidential information by accident after she caught him off-guard. Chiesi befriended his secretary and even gave her a gift. One day in September 2008, the assistant told Chiesi that her boss was at a meeting with Lenovo. When Moffat emerged from the meeting, the secretary connected him with Chiesi. He was cranky and tired, and when she asked him how the meeting went, he blurted out that Lenovo's results would be poor. They're going to crap the bed, he said, according to a person familiar the probe.

Talking with Steve Fortuna, a hedge fund adviser in Westwood, Mass., Chiesi noted Moffat had recently purchased a new Audi R8, a \$100,000 sports car. IBM must be doing well if he went out and spent all that money on a car, she told Fortuna, the person familiar with the wiretaps says. It isn't clear whether anyone traded on this particular bit of information, although Fortuna did plead guilty to charges of conspiracy and securities fraud in connection with the Galleon investigation.

All told, according to the government, Galleon and New Castle made \$20.8 million from insider information provided by Chiesi and other sources. But even with the help of Moffat's insider information, New Castle and Galleon didn't always make money. They lost money on AMD, for example -- partly because of the financial crisis of 2008, and partly because they misjudged Wall Street's reaction to the deal.

### **The fallout: An industry's golden boy loses his good name**

In late 2009 the government had amassed a rich trove of evidence. In the predawn hours of October 16, FBI agents on two coasts made the move to arrest the first confederates of the Galleon ring.

Amor Moffat was still in her pajamas when she heard the doorbell's insistent ring. Trailed by her two black dogs, she walked downstairs, where she was surprised to see metal badges

pressed up against a stairwell window. Five federal agents stood on the porch. "Open the door," one of the agents said. "We're here to arrest Robert Moffat."

She recoiled but opened the door as instructed and then retreated to the kitchen with the agents in tow. "He's long gone," Amor said. The agents looked at each other quizzically and started peppering her with questions. Did her husband normally go to work this early?

Two agents emerged from the Moffats' bedroom. One asked if anyone else was there. Amor looked at them incredulously. "Look, I am standing here in my pajamas, my dogs have already managed to get their hair all over your uniforms," she told them. "What you see is what you get." She picked up the phone and dialed her husband.

After turning himself in to the FBI, Moffat was transported by agents to Manhattan, where he was fingerprinted, photographed, and given a urinalysis. U.S. marshals ushered him to a holding cell with Kurland and Rajaratnam -- both of whom Moffat had met through Chiesi. They'd been arrested that morning too. Also in the cell was a twentysomething African American. Moffat asked him how he'd landed in jail. "Gun possession," said the young man. "Maybe we should swap," Moffat joked. "No, you don't want to do that," the man said. "This is my third offense."

At 7 p.m., Moffat was released on \$2 million bail. He hugged his kid brother Stephen, who had once believed he was Superman. "Did you do this?" Stephen asked. "No," Moffat replied, looking his brother in the eye.

No one said much during the ride out of Manhattan. Moffat was too ashamed. In the Bloomingdale's parking lot next to the FBI office in White Plains, Moffat picked up his Lexus and drove home with Amor. "I'm so sorry," Moffat said. She listened quietly and then told him that she would give him time to mourn the loss of his career and reputation. "I won't stand by and let you be destroyed by this," she said firmly. He decided that weekend to resign from IBM.

For months Moffat lived in a sort of legal limbo. He'd been criminally charged but not indicted. He told friends that he was innocent and intended to fight the charges. To gain a conviction, the government didn't need to prove that Moffat had profited financially, only that he had obtained a benefit of some kind. The bad news for Moffat: The affections of a comely woman qualified.

After agonizing for months, Moffat agreed to plead guilty to one count of conspiracy and one count of securities fraud involving insider information he had passed to Chiesi. A court fight, he and his wife decided, would be too risky.

On a rainy March morning in New York, Moffat, accompanied by his lawyer, Kerry Lawrence, raised his right hand and swore to tell the truth. Then, voice trembling, he admitted guilt. "I disclosed this information to Ms. Chiesi intentionally, and I knew that what I was doing was wrong," he said in his allocution, describing Chiesi as a "friend." Moffat was allowed to remain free on bail that day. Prosecutors are expected to recommend that he spend six months in prison, the minimum in the sentencing guidelines.

## GSB Insider Trading

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Mark Kurland was the first of the Galleon defendants to be sentenced. He admitted his crimes but attempted to minimize their significance, saying he was only a "minor" player in the ring. Kurland argued he was significantly less culpable than Moffat, the tipper, and should receive a similarly light sentence. He also threw his former star employee and lover under the bus. Chiesi, he declared, actively solicited inside information. His lawyer wrote in a brief, "Chiesi is responsible for involving him in the unlawful inside-trading conspiracy."

In handing down a sentence, the judge sternly rebuked Kurland for trying to evade responsibility: "In this court's view of matters now of common knowledge, to some extent this country's financial meltdown was fueled precisely by the attitudes manifest by Mr. Kurland in this proceeding." Kurland, he added, abused his power and surrendered "to the spree of the financial market's virtual mob mentality that nearly brought down this nation's economy in the quest for bigger and faster gains." He sentenced the former hedge fund chief to 27 months in prison and ordered him to pay the government \$900,000.

Some of Chiesi's other friends have also paid a price, including friends who have not been implicated in wrongdoing. Among them was John Joyce, IBM's former CFO, who introduced Chiesi and Moffat. He resigned this spring from private equity firm Silver Lake Partners amid questions from Fortune about his friendship with Chiesi. Joyce, who remains a director of Hewlett-Packard (HPQ, Fortune 500), declined to comment.

Hector Ruiz, the former CEO of AMD, is under investigation by federal authorities in connection with his dealings with Chiesi, according to a person familiar with his legal situation. He also declined to comment.

Chiesi has tough choices ahead. She can stand and fight and risk the possibility of decades in jail, or she can try to work out a deal with the government. So far she has indicated that she plans to fight. One possible defense would be that she had been a pawn of Kurland. "She is a victim of a man who was supposed to be her mentor," says William Bischoff, a former fiancé. "I think Mark was a psychologically abusive person who took advantage of her and pushed her to the limit. She's a fundamentally good person." In the meantime she is trying to look ahead. Following in her grandfather's footsteps, she has enrolled in the French Culinary Institute. Alan Kaufman, a lawyer for Chiesi, declined to comment on her legal situation, saying he would make her defense in court.

As for Moffat, he has struggled to adapt to his new life outside IBM as a convicted felon. The toll on the family has been hardest on his wife, Amor. She believes the stress since his arrest has caused her MS to flare after decades of dormancy. On some days her eyesight is so blurry that she can't drive to the grocery store, and her legs are so weak that she can't make multiple trips up and down the stairs.

In an interview with Fortune, Moffat came across as emotional, repentant, and chastened. He wept describing the embarrassment he'd brought upon IBM, his colleagues, and family. While he showed little self-pity, he rebuffed the notion that he hadn't paid a price for his crimes, noting that by leaving IBM he was giving up an estimated \$65 million in lost stock options and pension that he would have collected when he retired at 60. "The biggest thing I've lost," he said, "is my reputation." Moffat was not allowed by his lawyer to discuss his case or his relationship with Chiesi, but when told that Fortune intended to write about the affair, he said this: "Everyone wants to make this about sex. Danielle had an extensive network of business

people. And she added clarity about what was going on in the business world...I know in my heart what this relationship was about: clarity in the business environment." He may even believe that.

Moffat often thinks back to some jail-cell advice he got from the young felon. "Remember," the young man said, "what is important in your life is your family."

The words were meant to comfort. But they also chilled. When his son asked him whether all the long hours at IBM had been worth it, Moffat couldn't answer.



### ***LINKS:***

<http://www.ibmemployee.com/insiderTrading.shtml>

<http://finance.yahoo.com/q/it?s=ibm>

***LINKS***

<http://www-05.ibm.com/de/ibm/unternehmen/geschichte/1940.html>

<http://www.spiegel.de/wirtschaft/0,1518,329387,00.html>

[http://www.focus.de/fotos/ibm-mit-seinen-25-000-mitarbeitern-zahlt-kein-weihnachtsgeld\\_mid\\_52428.html](http://www.focus.de/fotos/ibm-mit-seinen-25-000-mitarbeitern-zahlt-kein-weihnachtsgeld_mid_52428.html)

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