

# The Woman Who Sank Galleon

*Danielle Chiesi, a beauty queen turned stock analyst, allegedly steered tips from high-ranking tech executives to hedge funds. She left a trail of evidence on FBI wiretaps.*

By ANTHONY EFFINGER, KATHERINE BURTON and IAN KING

Photograph by LOUIS LANZANO/AP WIDEWORLD

**D**ANIELLE CHIESI SPENT a lot of time in hotel ballrooms and bars during the past decade. As an analyst at New Castle Funds LLC, a New York hedge fund firm that manages about \$1 billion, she was a regular at conferences on technology stocks, where she could get face time with executives and press them on how many microprocessors and how much software they were shipping that quarter.

Chiesi wore short skirts and low-cut tops, according to people who saw her over the years. One ploy was to go barhopping with a group and then peel someone off to talk to on the dance floor, a person who attended conferences with her says.

A blond, blue-eyed former teenage beauty queen, Chiesi used her sexuality to build sources at male-dominated tech companies, says Deborah Stapleton, president of Stapleton

Communications Inc., an investor relations company in Palo Alto, California. "It amazes me that grown, wealthy, successful, hardworking men fell for that," Stapleton says. Chiesi was proud of her network, too. "She bragged about her contacts in public," Stapleton says. "She was like a teenager who wanted everyone to know she knew some rock star."

U.S. authorities say Chiesi, 44, crossed the line in her pursuit of secrets. They charged her and 19 others with securities fraud in the largest insider-trading case prosecuted since the 1980s, when stock market arbitrageur Ivan Boesky paid a \$100 million fine and spent three years in prison.

Chiesi, they say, got tips from executives at technology companies and passed them along to other hedge fund managers, including Raj Rajaratnam, billionaire co-founder of New York-based Galleon Group LLC, who was also arrested



**Chiesi** after her arrest in New York on Oct. 16 for securities fraud

in the scheme. Rajaratnam, who is liquidating his hedge funds, has denied wrongdoing. Chiesi's lawyer, Alan Kaufman, says his client intends to plead innocent.

The one-time sorority sister at the University of Colorado is a small fry compared with Rajaratnam, who managed \$7 billion in 2008. Of all the alleged conspirators, though, she had the highest-placed sources. She was in regular contact with Hector Ruiz, Advanced Micro Devices Inc.'s former chairman and chief executive officer, according to a person familiar with the investigation. Government prosecutors say she was friends with Robert Moffat, a senior vice president of International Business Machines Corp., who was a candidate to succeed CEO Sam Palmisano. An unidentified family friend at Akamai Technologies Inc. allegedly gave her a tip so accurate that New Castle made more than \$2.4 million in one week.

The prosecution marks the first time the U.S. government has tapped phones to get evidence against hedge funds, the lightly regulated partnerships that control \$1.4 trillion. After two rounds of arrests—one on Oct. 16 and another on Nov. 5—Preet Bharara, U.S. attorney for the Southern District of New York, says he's just getting started. "No one should assume that our aggressive policing of the hedge fund industry will stop at these two cases," Bharara said at a press conference after the second roundup.

Bharara's promise of a wider crackdown has hedge fund managers thinking twice about picking up the phone, according to an executive at one multibillion-dollar fund. And everyone is wondering whose conversations will spill into the public domain next.

The ones released so far show that Chiesi may have been

## *‘This is what I think you should do more of,’ Kurland told Chiesi on a phone call taped by the FBI. ‘You know, get more relationships.’*

the most aggressive of those charged when it came to pursuing tips and tipsters. Her only competition is Zvi Goffer, 33, a former trader at Schottenfeld Group LLC in New York known to some members of the ring as Octopussy, a nod to the 1983 James Bond movie starring Roger Moore, “because he had arms in so many sources of inside information,” according to a Nov. 5 complaint filed by the Securities and Exchange Commission, which is also pursuing the case.

While Chiesi may have had fewer sources, they were well placed, and she worked them hard. She made plans to meet with IBM’s Moffat at her mother’s house in Sherman, Connecticut, on a Sunday, government wiretaps show. She talked into the evening with Ruiz from AMD, and she sought to re-establish the trust of the family friend at Akamai so she could pump him for information.

Chiesi, one of only two women charged—the other is cooperating with prosecutors—sparred with Rajaratnam over who had the best sources.

“I must defer to you on IBM,” Rajaratnam told Chiesi on a call taped by the Federal Bureau of Investigation on Sept. 23, 2008.

“And Akamai, too,” Chiesi said.

“But AMD?” said Rajaratnam. “Bring it on, baby.”

Chiesi’s comments on wiretaps read like dialogue from a Quentin Tarantino movie. “Unless you were on the phone with [the AMD executive] and had Moffat at your house last

night, who the f—k would be buying it, honestly?” she asked Mark Kurland, her boss at New Castle, about AMD on Sept. 9, 2008.

Chiesi may have been breaking the rules for years. Officials at Bear Stearns Cos., which owned New Castle until January 2009, investigated Chiesi for insider trading at least once in the past five years, according to people familiar with the probe. They suspected Chiesi received nonpublic financial information from an executive at AMD, the Sunnyvale, California–based chipmaker. The investigation was inconclusive, the people say.

**K**URLAND, MANAGING GENERAL partner at New Castle, encouraged Chiesi’s source building, according to government wiretaps. “This is what I think you should do more of, what you’re doing more of now,” Kurland, 61, who was also arrested, said on a phone call taped on Aug. 22, 2008. “You know, get more relationships. Why don’t you just worry about getting the information, and don’t worry about the numbers.” Kurland declined to comment.

The source building paid off: New Castle made \$3.8 million in six months, starting in July 2008, using information gathered by Chiesi, the government says. And that’s only on the trades detailed by the U.S. Department of Justice.

For someone allegedly dealing in illegal secrets, Chiesi didn’t care much about her cover. At conferences, she would brag in a loud voice that she could get AMD’s Ruiz on the phone anytime, according to a person who heard her.

Such brashness was nothing new. When she worked at New York brokerage Furman Selz LLC in the early 1990s, she would show up in a tight red suit with red fishnet stockings, says a person who worked there at the time. She dated a man on the trading desk and didn’t try to hide it, the person says.

Chiesi, who grew up in Binghamton, New York, is the daughter of an insurance executive and the granddaughter of a restaurateur, according to an obituary of her father published by the University of Michigan, his alma mater, after he died in 2002 at 65.

Her grandfather, Swiss-born Alex Chiesi, studied with French chef Auguste Escoffier, who invented the Peach Melba dessert while running the restaurant at the Savoy Hotel in London in 1893. Alex moved to the U.S., where he owned several restaurants, including the Hapsburg House on East 55th Street in New York, according to the obituary.

In 1956, Alex took his family on vacation in Europe. On the way home, his son, Alex Chiesi Jr., met



**Chiesi** as Miss Southern Tier Teenager in 1981 and at a sorority party in 1987

FROM LEFT: COURTESY OF THE PRESS & SUN-BULLETIN, BINGHAMTON, NY; NO CREDIT



a 17-year-old Italian woman named Gloria who was scheduled to take the SS *Andrea Doria* to the U.S. By luck, she missed its departure, according to the obituary. The *Andrea Doria* collided with the Swedish liner *Stockholm* and sank off Nantucket that July, killing 46 on the *Andrea Doria* and five on the *Stockholm*.

Alex Jr. and Gloria married in 1963. He became an executive at Binghamton-based Security Mutual Life Insurance Co. of New York, according to the obituary. The couple raised three children in New York state's Southern Tier, the area along the Pennsylvania border.

Their middle child, Danielle, was named Miss Southern Tier Teenager in 1981 and appeared in the local paper wearing a tiara. She went west for college, enrolling at the University of Colorado at Boulder, where she rushed the Pi Beta Phi sorority. "Danielle was really social, gregarious and popular," says Stacey Maggio, a sorority sister. "She was a knockout with a big heart."

Chiesi graduated in 1988 with a bachelor's degree in economics. She moved to New York, where she took a job at Mabon, Nugent & Co., a small brokerage. There, she got to know Kurland, then an analyst following paper and packaging companies, according to a person who worked at Mabon at the time.

Chiesi bounced around after Mabon. Her first stop was Furman Selz, one of the first brokers to target hedge funds as clients. In 1994, she landed at securities firm Arnhold & S. Bleichroeder Advisers LLC, where hedge fund legend George Soros worked from 1963 to 1973. In 1996, she joined Kurland, who had started New Castle a year earlier with another Mabon alumnus. The same year she joined New Castle, Chiesi divorced her husband, Brian Feeney, after a 16-month marriage.

Kurland was head of research at the



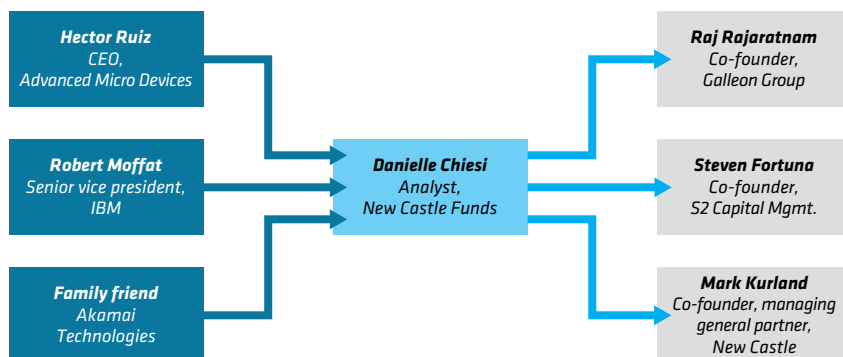
**Raj Rajaratnam**, co-founder of Galleon Group, outside FBI headquarters in New York after his arrest in October

brokerage division of Bear Stearns before starting New Castle. "He wasn't much of a stock picker when I was there," says Tad LaFountain, an analyst who worked for him at Bear Stearns from 1993 to 1995. "I only would have given Mark my lunch money to invest if I had wanted to lose weight," says LaFountain, who left the industry four years ago and lives in Princeton, New Jersey. LaFountain says Kurland once prodded him to raise his rating on Vishay Intertechnology Inc., a publicly traded electronics maker, in response to pressure from Bear Stearns's investment bankers. LaFountain refused, and Kurland switched coverage of Vishay to another analyst who raised the rating, LaFountain says.

Vishay picked Bear to manage the sale of 5 million shares at

## Chiesi's Network

Chiesi allegedly passed information from executives at technology companies to hedge funds.



Sources: U.S. Department of Justice and Securities and Exchange Commission documents

a split-adjusted \$19.23 a share in September 1995. Vishay stock tumbled after the offering, touching \$11.63 a share three months later. “They damn near top ticked it,” LaFountain says.

As a technology analyst at New Castle, Chiesi spent much of her time visiting companies and contacts on the West Coast, according to former Bear Stearns employees. One of those contacts, says a person familiar with the matter, was Ruiz, 63, the former CEO of AMD, Intel Corp.’s smaller competitor in the microprocessor market.

**R**UIZ, WHO HASN’T been charged with any wrongdoing and who declined to comment through a spokesman, isn’t a child of privilege like Chiesi. A Mexican immigrant, he walked 45 minutes each way to high school in the south Texas town of Eagle Pass and graduated as valedictorian. He went on to get a doctorate in engineering in 1973 from Rice University in Houston and worked at Motorola Inc. for 23 years.

He joined AMD in 2000 and succeeded founder Jerry Sanders as CEO two years later. Where Sanders was flashy—he wore handtailored suits, one of which had his name sewn over and over in faint pinstripes—Ruiz was staid. “He’s the quintessential engineer,” says Robert Enderle, a technology analyst at Enderle Group in San Jose, California. “He’s very comfortable in a pocket protector, not so comfortable in an Armani suit.”

It isn’t known when Ruiz and Chiesi met, when he started sharing information with her, or why. Chiesi’s contact with someone at AMD prompted the Bear Stearns investigation of her trading, according to the people familiar with the probe. They say they didn’t know the executive’s identity.

While the investigation turned up nothing untoward, it did anger Kurland, the people say. Kurland suspected someone on Bear Stearns’s trading desk, which bought and sold stocks for all of the internal funds, of raising concerns about Chiesi’s



**Robert Moffat**, an IBM senior vice president, leaves federal court.

sources. He pushed even harder for his own trading desk, something that he had long wanted, the people say. He also tried to promote Chiesi to senior managing director several times in recent years, they say. Each time, Bear Stearns turned him down.

Mary Sedarat, a spokeswoman for JPMorgan Chase & Co., which bought Bear Stearns last year, declined to comment.

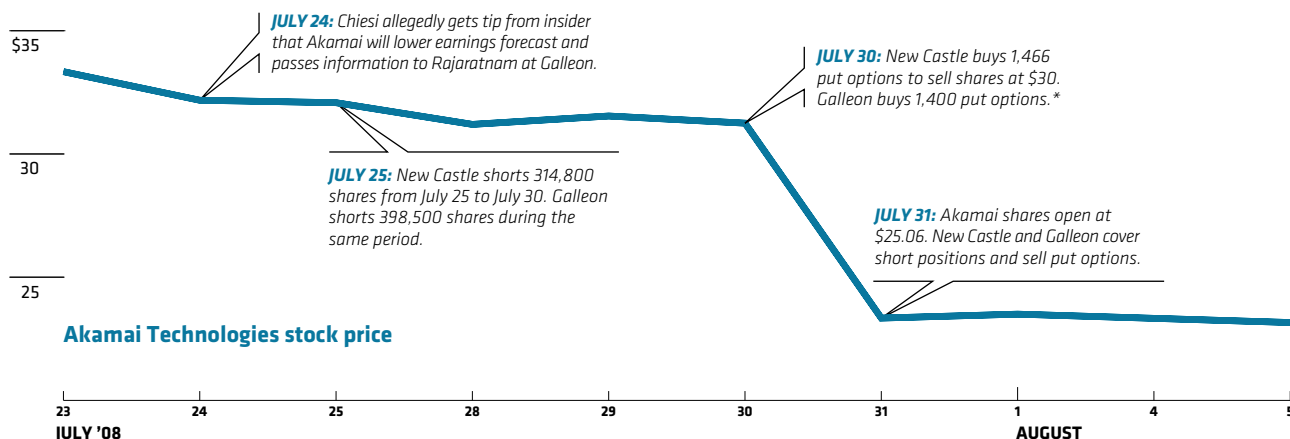
Moffat, Chiesi’s alleged source at Armonk, New York–based computer-services provider IBM, was almost as valuable as Ruiz in terms of his clout. The 53-year-old senior vice president ran the systems and technology group, which had sales of \$19 billion in 2008. “He’s a huge coup for me, having him at IBM,” Chiesi said on a taped call with Rajaratnam in September 2008.

Chiesi met Rajaratnam at a conference about five years ago, according to a person familiar with the matter. They enjoyed the bull market together. On a 2007 boat ride around Manhattan hosted by Galleon, Chiesi danced suggestively, according to an attendee. On another occasion, Rajaratnam

STEVEN HIRSCH

## A Trading Tip That Worked ...

New Castle, the hedge fund firm where Chiesi worked, allegedly made \$2.4 million by acting on a tip she received about earnings at **Akamai Technologies**. Galleon is accused of having made \$3.5 million.



\*The complaint doesn't give the strike price for Galleon's options. Sources: Bloomberg; U.S. v. Danielle Chiesi, Mark Kurland and Robert Moffat; U.S. v. Raj Rajaratnam, Rajiv Goel and Anil Kumar



**Mark Kurland**, co-founder of New Castle, in handcuffs in October

hired country singer Kenny Rogers to perform at a party. Chiesi brought her mother and was more restrained, an attendee says.

For a hedge fund analyst, Chiesi had some unusual money problems. In 2006, the board at her co-operative apartment building at 418 E. 59th St. in New York requested an eviction warrant for nonpayment of an \$11,301 debt, according to court records. On Aug. 12, 2008, in the midst of the alleged insider-trading spree that earned New Castle almost \$4 million, the Internal Revenue Service filed a lien against her apartment for \$63,226 in unpaid taxes.

In 2000, New York courts issued a warrant for possession of an apartment she lived in at 333 East 56th St. for nonpayment of \$5,223.

Prosecutors say they've been investigating the insider-trading case since at least November 2007. The FBI got permission from a judge to tap Rajaratnam's mobile phone on

March 7, 2008, according to the government's complaint.

Agents started listening in time to hear Chiesi and Kurland make what was allegedly their biggest killing. Chiesi's contact at Akamai called her cell phone at 8:52 p.m. on July 24, a Thursday, and said the Cambridge, Massachusetts-based company, the largest supplier of software and services to make Web sites load faster, was going to lower its earnings forecast when it reported results the following Wednesday.

Chiesi hung up and called Kurland. Then she called Rajaratnam. "Akamai," she said. "I'm trading it tomorrow. They're gonna guide down. I just got a call from my guy."

The next morning, she called Steven Fortuna, 47, co-founder of S2 Capital Management LP, a hedge fund firm with offices in New York and in Boston, near where Fortuna lives.

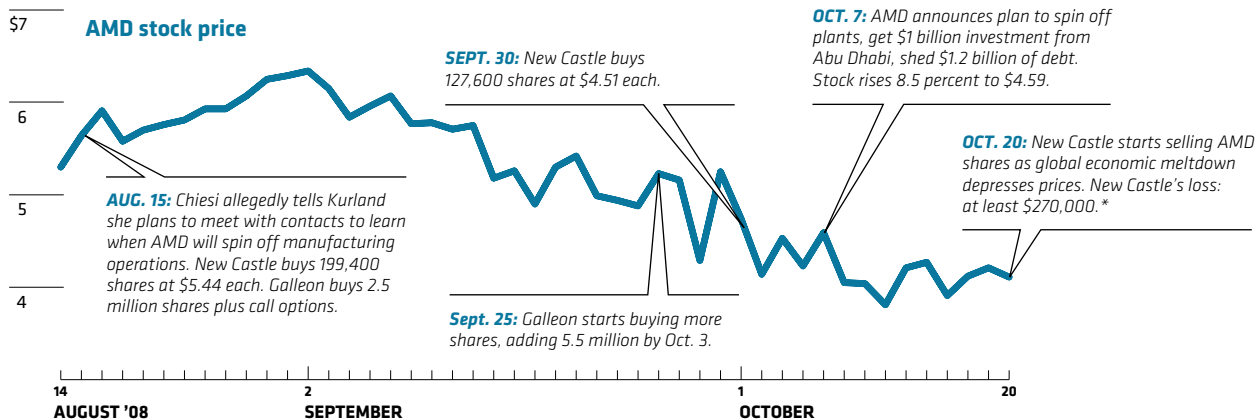
New Castle, Galleon and S2 all sold short Akamai shares. In a short sale, a trader borrows shares from an investor and sells them, hoping to buy them back at a lower price later, return the shares and keep the profit. New Castle also bought put options, giving it the right to sell a fixed number of Akamai shares at a certain price. Like a short sale, a put option is a bet that prices will fall.

On Wednesday, July 30, after the market closed, Akamai cut its profit forecast to a range of \$1.63 to \$1.69 a share from an earlier \$1.68 to \$1.71 a share. Akamai shares took their biggest-ever tumble the next day, dropping 25 percent. New Castle covered its short position and sold its put options, making about \$2.4 million, according to the Justice Department. Galleon made \$3.5 million, and S2 made \$2.4 million. Fortuna pleaded guilty to securities fraud and is co-operating with the government.

New Castle also traded on AMD and IBM tips, the government says. Chiesi spoke with Ruiz in August 2008 about AMD's plan to spin off its manufacturing plants, a move she expected would boost the company's stock. New Castle bought at least

## And One That Didn't

Acting on information that Chiesi allegedly got from Hector Ruiz, CEO of **Advanced Micro Devices**, and Robert Moffat, senior vice president of IBM, New Castle and Galleon bought shares in AMD. New Castle lost at least \$270,000, and Galleon, \$23 million.



\*Based on the opening price on Oct. 20, 2008, the date on which the U.S. Justice Dept. said New Castle started selling shares. Sources: Bloomberg, U.S. v. Danielle Chiesi, Mark Kurland and Robert Moffat

Moffat, a 31-year IBM veteran, allegedly helped with the Sun trade, too. He was on a team doing due diligence on the Santa Clara, California-based server-computer maker, which was up for sale, according to the Justice Department. Talking about

It could become hell for more people if the government's insider-trading investigation widens. If that happens, the probe is unlikely to turn up anyone who did the job with Chiesi's enthusiasm. Unless they get swept up in the case, the men who sell silicon chips and software will miss the exuberant blonde who lit up the dance floor at those industry events. **B**

To write a letter to the editor, **type MAG <Go>** or send an e-mail to [bloombergmag@bloomberg.net](mailto:bloombergmag@bloomberg.net).



**Hector Ruiz**, former CEO of AMD

## Tracking Insider-Trading Cases

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09 MAG 250  
COMPLAINT

UNITED STATES OF AMERICA

-v.-

TAMMILLE CHERRY,  
MARK HURLAND, and  
ROBERT HOFFAT,

Defendants,

Violations of  
18 U.S.C. § 372;  
18 U.S.C. §§ 793(b),  
793e; 17 C.F.R. §§  
240.12b-5 and  
240.12b-3

COUNTY OF OFFENSE:  
NEW YORK

SOUTHERN DISTRICT OF NEW YORK, ss.

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