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Investigation Is Sending Shock Waves Through Silicon Valley

By DON CLARK

A widening insider-trading probe is causing new tremors in Silicon Valley, as prosecutors say a network of employees at technology companies acted as paid informants for managers of a San Francisco hedge fund implicated in the case.

A criminal complaint filed Thursday by the Manhattan U.S. Attorney's office says employees at six unnamed technology companies provided information to Richard Choo-Beng Lee, co-founder of the hedge fund Spherix Capital LLC. Employees at four unnamed companies provided information to Ali Far. Mr. Lee's partner at Spherix, according to a separate complaint. It isn't clear whether some or all of those companies are the same.

The two men have pleaded guilty to charges including conspiracy and insider trading and are cooperating in the hope of getting lighter penalties, investigators say. They were previously identified by The Wall Street Journal as cooperating witnesses in the case, which initially focused mainly on Galleon Group of New York, and expanded with complaints against additional defendants Thursday. Jeffrey L. Borstein, a lawyer for Mr. Lee, on Thursday said his client "intends to fully cooperate" with the government. Steven Kohre, a lawyer representing Mr. Far, also said his client is "trying to be cooperative with the government." The two attorneys declined additional comment.

Some of the informants received \$2,000 per quarter, the complaint states. Mr. Lee routed the money to them using wire transfers sent from a "foreign entity" controlled by an unnamed conspirator who formerly worked in Asia for one technology company, according to the complaint. Mr. Lee arranged for payments of \$1,000 per quarter to that conspirator, the document adds.

For example, the complaint states, Mr. Lee received a call in January 2009 from an unnamed employee who worked in Asia for the same technology company. The same day, Mr. Lee caused Spherix to sell short 205,000 shares of stock in that technology company, the document states. Short sales are transactions that allow an investor to benefit when a stock declines.

Other unnamed employees worked in California for technology companies, prosecutors said. The complaints say Mr. Lee and Mr. Far also received information from unnamed hedge funds.

According to the complaints, the insider-trading activity took place between 2007 and March 2009, the month that people familiar with the situation say Spherix closed and Messrs. Lee and Far began cooperating with the government. The government alleges that Mr. Far and Mr. Lee earned profits, or avoided losses, of more than \$5 million through their trading activity.

Through the technology companies aren't identified in the two complaints, other documents say the wireless chip maker Atheros Communications Inc. figured in trading by Spherix.

Prosecutors allege that Ali Hariri, a vice president of broadband carrier networking at Atheros, passed inside information related to the company's earnings announcements to an investor who worked at a hedge fund and made a total of \$870,000 in profit trading on the information.

A criminal complaint charges Mr. Hariri with conspiracy and securities fraud. The document doesn't name the investor, whom it says allowed federal agents to record phone conversations in which Mr. Hariri passed on confidential information. A civil complaint by the Securities and Exchange Commission alleges that Mr. Hariri passed Atheros tips to Mr. Far at Spherix.

Mr. Hariri, who briefly appeared in court in San Francisco Thursday following his arrest, couldn't be reached for comment. Atheros, which is based in Santa Clara, Calif., said it learned about the allegations against Mr. Hariri on Thursday. "The company has launched an internal investigation, and placed Mr. Hariri on leave pending the results of that investigation and the unfolding legal proceedings," an Atheros spokesman said in a statement. "If requested, Atheros will cooperate fully in any government investigation," he added, stating that the company has no further information about the matter.

The government complaints do not accuse Atheros of any wrongdoing.

The insider-trading case against Galleon founder Raj Rajaratnam and his alleged conspirators—who have denied wrongdoing—had previously pointed to leaks regarding Silicon Valley companies that include Intel Corp., Advanced Micro Devices Inc. and Polycom Inc. Those companies, which haven't been accused of wrongdoing, have said they are investigating the incidents.