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The Confessions of an Inside Trader

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LONG BEACH, N.Y.—Kenneth T. Robinson knew he should walk away. But in an interview with The Wall Street Journal, he says he just couldn't stop trafficking in insider-trading tips.

ON THE INSIDE

35	1373	49.80		22	23.65
dd	4716	4.10			6.70
46	z11381	7			13.25
dd	6701	3			38.73
...	z94609				5.49
dd	z23586				65.19
dd	z11564				112.86
50	z33501				37.58
21	z17014				1.0
18	114				28.95
15	z5696				0.5
dd	33	12.75	-0.04		-3.1
					27.55

THE MIDDLEMAN

It was September 2009—a full 15 years after he'd first gotten involved in an alleged multimillion-dollar fraud that ranks among the longest-running insider-trading cases in U.S. history. The scheme was showing serious cracks: One of Mr. Robinson's two partners in the alleged crime, his close friend Garrett Bauer, had started throwing around big money—buying fancy homes in Manhattan and Florida and paying with millions in cash.

"I told Garrett it was stupid," Mr. Robinson said in the interview. He urged Mr. Bauer that they all stop before the cops caught on.

But Mr. Robinson, flipping burgers one recent afternoon in his backyard on Long Island, said he failed to take his own advice. Within just a few weeks, he resumed trying to profit from inside information. "I didn't think anyone would notice," he said.

For a decade and a half, investigators say, the plan worked flawlessly. Mr. Robinson acted as a middleman—taking tips about corporate mergers from one friend (a lawyer, Matthew Kluger) and passing them to another friend (Mr. Bauer, a trader), who bought stock on behalf of all three men.

This setup stymied investigators for years because they couldn't figure out where the trader was getting his hot tips. The three men reaped at least \$37 million over the years, according to Judith Germano, a federal prosecutor in New Jersey.

In late 2009, Mr. Robinson, a mortgage banker, made his fatal blunder—he traded in his own name rather than through Mr. Bauer. That trading and another instance in 2010 (which netted him and Mr. Kluger a relatively paltry \$693,000, investigators say), helped federal authorities connect the dots.

The interview with Mr. Robinson took place this past





Reuters

Kenneth T. Robinson, middleman in the alleged trading scheme

Wednesday on a warm spring evening in the postage stamp of a yard outside his family's 85-year-old home, three blocks from the beach. The conversation provides a rare inside view into the motives and mindset that drove the alleged scam.

Mr. Robinson, the 45-year-old father of two young boys, said he never thought he would trigger their undoing with his own trading. "It didn't seem like it would raise eyebrows when it wasn't millions of dollars."

I wish it all would have ended, and we could have remained friends.

Kenneth T. Robinson

During the interview, as Mr. Robinson tended the cheeseburgers on a grill, his sons played with a remote-control flying toy in the driveway. Getting involved with the alleged fraud "was 100% stupidity," Mr. Robinson said. He didn't need the money, or even make that much, he said—the broker, Mr. Bauer, reaped more than 90% of the take, prosecutors say.

But when offered "a shortcut," Mr. Robinson said, he couldn't resist.

Last week, federal authorities brought charges of securities fraud, conspiracy and obstruction of justice against Messrs. Bauer and Kluger, who were also named in a civil complaint by the Securities and Exchange Commission. Mr. Robinson has pleaded guilty to securities fraud and conspiracy. He helped the authorities make their case by secretly recording his alleged partners, whom he had counted as friends.

"I wished it would go away," Mr. Robinson said of the inside information that tempted him. "I wish it all would have ended, and we could have remained friends."

His saga is part of an unprecedented crackdown on insider trading on Wall Street and in corporate America. Never before have there been so many major, unrelated insider-trading cases brought by authorities.



This past week, in a separate case, a former hedge-fund manager was charged with paying a tipster with envelopes of cash. (He denied the charges.) And the high-profile Galleon Group insider-trading trial is about to enter its seventh week.

"I wish I could say we are just about finished investigating pervasive insider trading," Manhattan U.S. Attorney Preet Bharara said. "Sadly, we are not."

The Robinson case has captivated Wall Street because it allegedly lasted so long and involved so much money. The three men are accused of trafficking in inside information since 1994 on deals that Mr. Kluger learned of through jobs he held at prestigious law firms. The



Associated Press

Garrett Bauer, friend who allegedly traded on the insider tips on the other men's behalf

deals involved major corporate names: Oracle Corp.'s purchase of Sun Microsystems Inc. and Intel Corp.'s acquisition of McAfee Inc., for instance.

Neither Mr. Kluger nor Mr. Bauer has yet entered a plea. Mr. Kluger, of Oakton, Va., was scheduled to be released on a \$1 million bond after a bail hearing Friday in federal court in Newark, N.J. His lawyer, Alan L. Zegas, said he couldn't discuss the case.

I am waiting for the FBI to ride into my apartment. And I am on edge all night.

Garrett Bauer

On Monday, a judge granted Mr. Bauer's release on a \$4 million bond. His lawyer, Michael Bachner, said Mr. Bauer "is waiting for the opportunity to review the evidence in the case, and at that time will make decisions, with counsel, about his defense."

Mr. Robinson's yellow stucco home, with stained glass and tile trim, is among the tidiest in a neighborhood of stylish yet closely packed houses in the suburban community of Long Beach, N.Y. Property records indicate it has a market value of just under \$700,000.

"He's not flashy," said Dennis Smith, a teacher living two doors down. "He's a great neighbor. He always does the extra stuff for you." When it snows, Mr. Robinson shovels his elderly neighbor's walk.

In the early 1990s, Messrs. Robinson and Kluger worked together at a real-estate firm. The friendship they struck up there formed the roots of their later alleged fraud.

The insider-trading scheme took shape in the summer of 1994, when Mr. Kluger, then a student at New York University law school, was a summer associate at the law firm Cravath, Swaine & Moore LLP, prosecutors say. He contacted Mr. Robinson with a tip about a merger he had caught wind of at the firm, according to the complaint filed last week.

"I've got something," Mr. Kluger told Mr. Robinson, the complaint says. At that time, Mr. Robinson worked at a small securities firm.

Mr. Kluger, the son of Richard Kluger, the Pulitzer-Prize winning author of "Ashes to Ashes," a book about the fight against cigarette smoking in the U.S., suggested that Mr. Robinson find a trader who could trade stocks for them, according to the criminal complaint. Mr. Robinson put the idea to Mr. Bauer, who had been his co-worker at the securities firm, prosecutors say.

As the alleged scam evolved, Mr. Robinson developed starkly different relationships with the two men.



Lynn Dykstra

Matthew Kluger

He and Mr. Bauer became best friends, people who know the two men say. Mr. Bauer would invite Mr. Robinson to his spacious apartment on Manhattan's Upper East Side for New Year's Eve and Super Bowl parties, a former friend says.

The two spoke as often as every day on the phone and exchanged emails about their daily lives, people familiar with the situation said. They used disposable phones to communicate when working on an insider deal, one of the people said.

They also traveled to Atlantic City together, hanging out at the beach and casinos—a move prosecutors allege helped cover up large cash withdrawals.

A person who knows Mr. Bauer said they went there to have fun, and that any use of the trip to hide their

scheme was an afterthought.

Mr. Robinson said in the interview that he assumed Mr. Bauer made a lot of money trading legitimately, but wasn't familiar with his friend's finances. "I would ask and he wouldn't tell me," Mr. Robinson said.

As long as Mr. G keeps his mouth shut and I keep mine and you keep yours, I don't think they're gonna find enough of anything.

Matthew Kluger, lawyer and alleged tipster, speaking with Mr. Robinson about Mr. Bauer

Mr. Robinson's relationship with Mr. Kluger, on the other hand, was more secretive, according to Mr. Robinson and the complaint. The two spoke only on payphones and disposable cell phones, Mr. Robinson said at his plea hearing, and only when necessary.

They saw each other when Mr. Kluger drove up from Washington to New York to pick up his share of the profits, the criminal complaint said.

Mr. Robinson blamed Mr. Kluger for pressuring him to trade on inside tips. "He always had information, and he always wanted to make trades," Mr. Robinson said. "Matt was always pushing."

Mr. Kluger's lawyer and father declined to comment on Mr. Robinson's statements.

In 2009, the trio made the bulk of their profit, investigators say. The take included \$11 million on a purchase of 4.5 million shares of Sun when it was bought by Oracle that year. They also made \$8.3 million on 1.3 million shares of software maker Omniture Inc., which was bought by software maker Adobe Systems Inc., according to the criminal complaint.

That same year, Mr. Bauer's lifestyle shifted. In August 2009, he paid \$6.65 million in cash for a five-bedroom duplex in Manhattan with a wrap-around terrace a few blocks from Central Park, real-estate records show. He bought expensive furnishings in hues of cream and yellow, according to Susan Langone, his interior designer, who says she met Mr. Bauer the afternoon before his arrest to pick out

throw pillows for his den.

Mr. Bauer also paid \$875,000 in cash that fall for a home in Boca Raton, Fla., according to the criminal complaint.

It was then, Mr. Robinson said in the interview, that he grew concerned and told Mr. Bauer "he should stop."

For his part, Mr. Bauer was ready for a break, a person familiar with his thinking said. He considered the inside tips "a pain" because they weren't always reliable.

If Mr. Robinson had heeded his own warning, it's possible the three men might never have been caught. Investigators were already suspicious about the propriety of Mr. Bauer's trading, but couldn't make a case against him.

Then, in October 2009, Mr. Robinson received the tip that led to his downfall: Hewlett-Packard Co. was acquiring 3Com Corp. Mr. Robinson—who said he had already been trading in 3Com on his own—decided to buy some more.

He and Mr. Kluger made nearly \$200,000 on that deal, the complaint says. Mr. Robinson also says he executed trades for himself and Mr. Kluger last summer on a tip that chip giant Intel Corp. was buying computer-antivirus company McAfee Inc. Their take was nearly \$500,000.

Mr. Robinson expected the trades would go undetected. "It seemed like such small amounts," he said.

On the Inside

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But someone did notice.

Investigators already had a list of Mr. Bauer's associates, and Mr. Robinson's name was on it, according to a person familiar with the matter. So, when Mr. Robinson began trading ahead of deals involving the law firm Wilson Sonsini Goodrich & Rosati PC (where Mr. Kluger had worked since 2005), regulators grew to suspect he was involved with Mr. Bauer in the scheme, the person says.

SEC officials called in the Federal Bureau of Investigation and federal prosecutors last summer, authorities have said. They still didn't know the name of the leaker at Wilson Sonsini, according to the person familiar with the situation. For more than six months, they waited for the suspects to make another move.

Their moment came in January. Mr. Bauer started buying 1.4 million shares of video-technology firm Zoran Corp. on a tip that it would soon merge with CSR PLC, a maker of wireless products. The trade earned the trio almost \$2 million, according to the criminal complaint.

On March 3, Mr. Robinson came to Mr. Bauer's apartment and picked up his share: \$182,000 in cash to split with Mr. Kluger, according to Mr. Robinson and court documents.

Five days later, Mr. Robinson said, FBI agents showed up at his yellow home in Long Beach. Agents confronted Mr. Robinson with their evidence, the criminal complaint says.

They also told him that Mr. Bauer had made far more in the scheme than he and Mr. Kluger did, Mr. Robinson said.

Mr. Robinson agreed to help gather evidence against his friends. On March 17, he started recording their phone calls. He told Messrs. Bauer and Kluger that he'd been visited by the FBI, but hadn't cracked. Mr. Robinson was able to get both men to incriminate themselves, according to the criminal complaint.

In the calls, Mr. Bauer told Mr. Robinson he worried that his fingerprints were still on some cash he had given Mr. Robinson, according to the complaint. They discussed running the money through a dishwasher, although Mr. Bauer was skeptical. "I mean, I've seen that in the movies, but I don't know," he said.

Mr. Bauer then suggested this: "You know what, if you feel better burn the money and I'll give it back to you."

"Burn it?" Mr. Robinson asked.

"I would burn it in a fire," Mr. Bauer said. As for his own cash withdrawals, Mr. Bauer said, "I will say I bought prostitutes if it comes down to it."

Mr. Robinson faces a sentencing recommendation of about 70 to 87 months, although a judge will have the final say. He could have faced up to 20 years on each of two counts of securities fraud he was charged with, plus five years for conspiracy.

Standing at his grill this week, wearing a light jacket, New Balance sneakers and jeans, Mr. Robinson said he worried he will be portrayed as "a monster" who betrayed his friends. In the next breath, he said, "I'm horrible."

"You make mistakes in life, and you hope one day you can get past them," Mr. Robinson said. Picking up the cheeseburgers, he turned and walked into his home.

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