Silicon Valley culture ripe for insider trading

Gabriel Madway and Dan Levine, Reuters

Insider trading charges buffeting the technology industry have laid bare what people who work in Silicon Valley already know: leaks happen, and a morsel of information can turn into treasured commodity.

Even a company like Apple Inc, renowned for its obsession with secrecy, was not safe from well placed leakers looking to peddle their information. Well before Apple's hit tablet computer was introduced to the world as the iPad, it was known to leakers by its code name: K48.

Three technology executives and a salesman for an "expert network" firm have been arrested and charged with leaking confidential information about Apple and a host of other technology heavyweights, U.S. federal prosecutors said on Thursday.

The defendants are accused of illegally passing on tips to at least two unidentified hedge funds.

The complaint filed by prosecutors details a recorded phone call in October 2009 in which defendant Walter Shimoon, who worked at contract electronics manufacturer Flextronics International Ltd, divulged confidential information about Apple's next-generation iPhone and the iPad, which at that time was only a rumor.

Flextronics, an iPhone supplier, was informed about the iPad project in 2009.

"It's a new category all together," Shimoon is quoted as saying, before speculating -- correctly -- that the iPad would not come equipped with a camera.

In the same conversation, Shimoon also correctly predicts that the next-generation iPhone will have two cameras.

"It'll be a neat phone 'cause it's gonna have (a) 5-megapixel auto-focus camera and it will have a VGA forward-facing video conferencing camera," Shimoon said, according to the complaint.

In a phone call in March of this year, Shimoon shared Apple's production plans for the new iPhone 4, which had yet to even be announced.

Apple has declined to comment on the case.

Prosecutors also detailed leaks related to chip maker Advanced Micro Devices Inc, personal computer maker Dell Inc.

The expert networking firms at the center of the case may have gained popularity in the Valley because of the area's "highly refined gossip mill," said Robert Weisberg, a professor at Stanford Law School.

"Things are probably looser and more informal here than they are in the East Coast financial world, so it's both ripe for this expert niche, but also ripe for all these clever new forms of misappropriation," Weisberg said.

Because IT is a high-growth business driven by new and surprising technologies that emerge every day, a single piece of data can give disreputable investors the edge they need to cash in, experts say.

Long-time technology analyst Rob Enderle of the Enderle Group said technology is a key focus for many powerful investors, and the industry is simply wading through the sorts of insider trading scandals that once rocked pharmaceutical companies.

"There's just a huge amount of investment dollars focused on tech, and financial analysts chase each other for who has the best information," Enderle said.

"If you find out the next piece of information about the next Chevy truck, for example, I don't think it's going to move the stock very much. In tech, a little bit of information can make a big difference."

Charles King, who follows the tech sector as the principal analyst at Pund-IT, said, "I don't think greed and hubris are limited to tech."

"But any time that a market heats up or a company like Apple builds up a dominant position, then investor attention increases in lockstep. And as soon as you have the willing engagement of investors to get out ahead of the crowd, you create the possibility of corruption."

(Reporting by Gabriel Madway and Dan Levine. Editing by Robert MacMillan)

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