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INDIAN ACCOUNTING SCANDAL

Prosecutor: Satyam paid ghost employees

Allegedly, 13,000 fictitious workers on books for $4-million in monthly salaries

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The disgraced former chairman of **Satyam Computer Services Ltd.**, B. Ramalinga Raju, used salary payments to 13,000 fictitious employees to siphon millions of dollars from the Indian outsourcer for land purchases, prosecutors said yesterday.

Prosecutors in the southern Indian city of Hyderabad, where the technology outsourcing firm is based, told a criminal court that Satyam has only about 40,000 employees instead of the 53,000 it claims.

Prosecutors claimed the money, in the form of salaries paid to ghost employees, came to around $4-million (U.S.) a month. The money was diverted through front companies and through accounts belonging to one of Mr. Raju's brothers and his mother to buy thousands of acres of land, the prosecutors said. Prosecutors say they are investigating but didn't allege that Mr. Raju's mother or brother were involved. They didn't offer further details on how the alleged diversion of funds took place.

Prosecutors made the claims in a hearing yesterday where the state police for the state of Andhra Pradesh asked for more time to interrogate Mr. Raju and Satyam's former chief financial officer, Srinivasan Vadlamani, who is also in custody.

"The funds of Satyam have been diverted to many other companies," K. Ajay Kumar, assistant prosecutor, told a packed courtroom. Investigators need more time with Mr. Raju and Mr. Vadlamani to figure out where the money has gone, Mr. Kumar said.

> *The funds of Satyam have been diverted to many other companies.*
> K. Ajay Kumar, Assistant prosecutor

S. Bharat Kumar, a defence lawyer for the Raju family and Mr. Vadlamani, said the prosecution's claims are based on speculation and are "absolutely false." He said B. Ramalinga Raju stood by his original confession and that he didn't profit from the fraud and no funds were diverted. "It is nothing but their imagination," Mr. Kumar said.

The defence lawyer also said that Mr. Raju's mother and a brother, B. Suryanarayana Raju, weren't involved in Satyam or the fraud in any way.

Prosecutors didn't provide any evidence in open court to substantiate their claims. But the allegations suggest that the fraud at Satyam ran much deeper than the scheme admitted to earlier this month by Mr. Raju, the company's founder, even as Satyam's senior executives across the globe scramble to retain large corporate clients and employees in an effort to move beyond the scandal.

In a letter to the board released Jan. 7, Mr. Raju outlined a years-long fraud that he said inflated the company's results, including a fictitious bank balance of more than $1-billion (U.S.).

But in the letter he said neither he nor any family member benefited financially from the fraud. He also stated that no other family member except one brother, former Satyam managing director B. Rama Raju, was aware of the scheme, and that he concocted it to protect Satyam from becoming a takeover target.

Since then, the Raju brothers and Mr. Vadlamani have been arrested on charges of forgery, cheating and breach of trust.

Mr. Kumar, the defence lawyer, said it would be impossible for anyone to juggle 13,000 fake employee accounts. He also denied the prosecution's claim that Mr. Raju admitted to the fake employee accounts under interrogation.

Prosecutors alleged that funds were diverted from Satyam through accounts owned by Mr. Raju's mother and B. Suryanarayana Raju. In addition to denying either relative had any role in Satyam or the fraud, defence lawyer Mr. Kumar said B. Suryanarayana Raju's home and office were raided by authorities Wednesday and a truckload of documents were removed.

After yesterday's hearing, the court awarded the police one more day to interrogate B. Ramalinga Raju and Mr. Vadlamani. B. Rama Raju also is in custody but isn't currently being interrogated, according to defence lawyers working on the case. A hearing on bail for all three men is scheduled for today.

A Satyam spokeswoman said the company is co-operating fully with authorities, but declined to comment further on the allegations because the matter is still under investigation.

The Raju family has been a big investor in land around Hyderabad for decades but has snapped up thousands of acres in the past five years.

Much of their land holdings have ended up in the company Maytas Properties Ltd., which is also being investigated by authorities in connection with the Satyam fraud.

Apart from the police, Satyam is also being probed by the government's Serious Fraud Investigation Office and the Securities and Exchange Board of India, the financial markets regulator.

As the investigations gather pace, Satyam executives have been pushing to retain the clients and employees the company needs to survive the crisis.

Anil Kumar, head of the Satyam's division for banking and financial services clients, has been going door to door to meet each of Satyam's largest banking customers in New York.

"It was a road show of sorts," said Mr. Kumar, who added that he has been on the phone almost constantly since news of the fraud broke.

The company's hundreds of relationship managers are talking to customers and offering them the chance to talk directly to the new board of directors that was installed by the government in the wake of Mr. Raju's confession and resignation as chairman.

Satyam managers are sending daily e-mails to employees to keep them focused on work. Satyam has in some cases asked its customers to put on town-hall-type meetings to reassure Satyam staff that the contracts are safe. "If there is business, there are jobs," Ashish Patharkar, head of the Microsoft technology account, says he tells his workers regularly.

"Everything like salaries will fall in place."

At the top of the list of concerns coming from customers and employees are the company's cash flow problems. The new directors have said they are approaching customers and asking them to pay what they owe as early as possible so that the company has sufficient operating funds to survive.

Satyam suffered a major blow earlier this week when State Farm Insurance of the U.S. announced that it was ending its business with Satyam. A number of others could likely follow suit, industry analysts say. Among the outsourcer's remaining top clients are Citigroup Inc., Caterpillar Inc. and Coca-Cola Co. A Citigroup representative said it is continuing its relationship with Satyam; a Caterpillar spokesman declined to comment. A Coca-Cola spokeswoman said the company is reviewing its relationship with Satyam.

» Timothy Martin in Chicago and Betsy McKay in Atlanta contributed to this article.

ALLEGED PONZI SCHEME

Madoff case has SEC working backward

BY KARA SCANNELL
AND AMIR EFRATI

The unusual nature of how Bernard Madoff's alleged $50-billion (U.S.) Ponzi scheme surfaced is complicating a high-profile investigation by the Securities and Exchange Commission.

The SEC recently issued a subpoena to a Madoff lieutenant, and is preparing to issue a second subpoena to another Madoff associate, according to a person familiar with the matter. The developments – six weeks after Mr. Madoff confessed to the scheme and was arrested – signal that the agency now is seeking to find out who else could have helped Mr. Madoff, who said he acted alone.

Typically, investigators begin with a tip or whistle-blower and cut deals with lower-ranking employees to build a case against the suspected mastermind of a fraud. In this case, investigators started with a confession from the alleged mastermind, Mr. Madoff, according to a government affidavit, and they are trying to work backward to piece together what happened.

According to people familiar with the matter, authorities are skeptical that Bernard Madoff acted alone. ASSOCIATED PRESS

People familiar with the investigation say the Madoff firm's records on what it was actually doing with investors' money are either in disarray or non-existent. That has forced investigators to seek statements received by Madoff investors and other information from outsiders that might help the probe.

Investigators have stepped up efforts to gain information from those who worked with Mr. Madoff. A long-time employee, JoAnn "Jodi" Crupi, received a subpoena Jan. 16 for documents about her compensation and her dealings with certain firm clients including charities, according to a person familiar with the matter. The agency also asked for access to her personal computer, this person said. Her response is due next week.

"We have been served with a subpoena and we will comply with it as the law requires," said Ms. Crupi's lawyer, Eric R. Breslin.

Ms. Crupi and a more-senior employee, Frank DiPascali, were part of a group that dealt with clients who deposited and redeemed funds from the firm. The SEC now is preparing to issue a subpoena to Mr. DiPascali in the case, according to the person familiar with the matter. Marc Mukasey, Mr. DiPascali's lawyer, has said his client hopes investors get back as much money as possible.

The group also helped generate monthly and quarterly client statements that are now believed to be fraudulent. Ms. Crupi and Mr. DiPascali haven't been charged with any wrongdoing.

Investigators are also delving further into the role of Mr. Madoff's wife, Ruth. Authorities have found information that Ms. Madoff had reconciled the firm's bank accounts, according to another person familiar with the matter.

That development by itself isn't an indication that she was aware of the fraud. And there is nothing public that has surfaced that indicates that Ms. Madoff knew of her husband's activities. She hasn't been accused of any wrongdoing.

Authorities don't believe Mr. Madoff's assertion that he acted alone in pulling off a scheme that is believed to date back at least three decades and involve thousands of investors, people familiar with the matter say. But no one else has been charged in the case. Family members who worked at his securities firm say they knew nothing of the alleged fraud.

The government had to ask for additional time to file an indictment against Mr. Madoff, a formal charging document from a federal grand jury that starts the clock for a speedy trial. Mr. Madoff agreed to the extension, and the new deadline for an indictment is Feb. 11.

The SEC is casting a wider net in trying to discern where investors' money went and how Mr. Madoff pulled off the alleged fraud. Early on, the SEC focused on family members and hedge funds who acted as feeders for Mr. Madoff's money-management business. More recently, the focus has extended to include certain people who aren't investment advisers or hedge-fund managers but acted as intermediaries in luring money to Mr. Madoff's funds, one person familiar with the matter said.

Also, prosecutors in Manhattan have joined the SEC in looking at the big feeder funds that took billions of dollars of their clients' money and invested it with Mr. Madoff, according to a person familiar with the matter.

Yet another tentacle of the Madoff affair getting attention from prosecutors is the role of vendors that did work for the Madoff firm. To create the appearance of a legitimate investment advisory business, Mr. Madoff apparently paid an unnamed research firm for work, even though the Madoff firm's investment arm made few, if any, trades for its clients, according to a person familiar with the matter.