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## Mountain Of Suits Expected After Huge Satyam Fraud

By Sara Stefanini

Law360, New York (January 07, 2009) -- Following an astounding admission of massive accounting fraud by the head of Satyam Computer Services Ltd. on Wednesday, attorneys in the U.S. are bracing for a mountain of new securities class actions expected to pile up soon against the Indian outsourcing firm and its business partners.

In a letter sent to Satyam's board announcing his resignation, B. Ramalinga Raju, the company's chairman and founder, candidly revealed that the \$1 billion (53.6 billion rupees) Satyam had previously listed as assets for the quarter that ended in September actually did not exist, according to widespread news reports.

Anticipating the large-scale litigation expected from the announcement, many quickly dubbed the case "India's Enron" and "India's Madoff."

"This strikes me as a uniquely massive case of fraud. It's shocking in terms of the length and scope of it and the fact that the chairman gave such a lengthy and detailed admission," said Sanford Dumain, chairman of the executive committee at Millberg LLP.

"There's clearly going to be litigation in the U.S. in connection with the American Depositary Receipts, and I'm sure that litigation is going to involve PricewaterhouseCoopers and possibly other defendants," Dumain added, noting that India does not have a class action system.

Raju's letter, which was not immediately available Wednesday, stated that Satyam had inflated its operating profit for the quarter to about \$132 million (6.49 billion rupees) from the \$12.5 million (610 million rupees) it had previously reported. The company's revenues were also exaggerated to about \$554.4 million (27 billion rupees) from \$433.7 million (21.12 billion rupees), news reports stated.

The announcement pushed Satyam's Indian stocks down by 78 percent, and it sent the

Bombay Stock Exchange's Sensitive Index plummeting by 7.3 percent.

The problem started with a small discrepancy that quickly grew uncontrollable, The New York Times reported.

"What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of the company grew," Raju said, according to the Times. "It was like riding a tiger, not knowing how to get off without being eaten."

The admission of fraud is likely to draw lawsuits from both U.S. and foreign investors who purchased Satyam stocks on the New York Stock Exchange using ADRs, which represent ownership in the shares of a foreign company. The litigation is expected to resemble the expansive, long-running cases over the collapse of Enron Corp. and Parmalat SPA, among other companies.

As in those cases, investors are also likely to launch actions against Satyam's U.S. business partners, accusing them of taking part in the fraud, attorneys said.

PricewaterhouseCoopers LLP, Satyam's financial auditor, has already been named as a likely target in the litigation, Dumain said.

Plaintiffs who assert claims against Satyam's business associates, however, will have to contend with the higher burden set in the U.S. Supreme Court's landmark decision to strike down "scheme liability" and the U.S. Court of Appeals for the Second Circuit's ruling on foreign investors' suing in the U.S.

In the high court's ruling on Stoneridge Investment Partners LLC v. Scientific-Atlanta Inc. almost one year ago, the majority declined to hold third parties responsible when their deceptive acts contributed to another party's fraud as long as they did not omit material information from those to whom they had a duty to disclose.

The Second Circuit, meanwhile, ruled in October that rather than pass a bright-line test to prove that a foreign investor can sue in the U.S., plaintiffs must follow a tougher analytical framework to argue their case.

Given the scale of the Satyam case, however, domestic and foreign investors are likely to take a stab against all potential defendants, said James F. Moyle, a securities class action attorney and head of the New York commercial litigation practice at Morgan Lewis & Bockius LLP.

"If you have a U.S. investor in the ADRs traded in the U.S., they may bring claims against the company for damages," Moyle said. "What you find is, if you have cases like this where the 'Enron' word is being thrown around, where billions of dollars are collected, there's no doubt that an Enron-style fraud will have plaintiffs' lawyers scrambling to find deep-pocketed defendants and jurisdictional hooks."

Milberg, one of the leading plaintiffs' securities firms in the U.S., has already started receiving calls from Satyam investors, Dumain said. The firm immediately initiated an investigation to determine what investors may be able to claim.

"I think we'll see them very soon, we have been contacted today by several investors," he said, referring to the lawsuits.

American regulators such as the U.S. Securities and Exchange Commission may also consider taking action against Satyam, depending on the degree to which the company's fraud impacted the U.S. markets and when any of the misconduct took place in the U.S., attorneys said.

Raju's announcement, however, may already be impacting a slew of big-name clients, including General Electric Co., General Motors Corp., Nestle and the U.S. government, the Times reported.

The company, the first in India's booming outsourcing industry to go through such a scandal, does work for more than a third of the Fortune 500 firms, it said.

Ram Mynampati, Satyam's interim CEO, swiftly attempted to quell concerns following the release of Raju's letter.

"We are obviously shocked by the contents of the letter," Mynampati said. "The senior leaders of Satyam stand united in their commitment to customers, associates, suppliers and all shareholders. We have gathered together at Hyderabad to strategize the way forward in light of this startling revelation."

Satyam is based in Hyderabad, India, and has a work force of about 53,000. The company was ranked No. 7 of the 50 best-managed outsourcing vendors and No. 2 among the top 10 business process outsourcing vendors, according to the 2008 "Black Book of Outsourcing."

The company specializes in integrated engineering solutions.