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Ex-Livedoor chief denies he knew of fraud

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By Jonathan Soble

TOKYO (Reuters) - Takafumi Horie, the founder and former chief executive of Japanese Internet firm Livedoor, told a court on Tuesday he knew nothing of the accounting problems that led to his arrest for fraud in January, blaming the market-shaking scandal on his top financial adviser.

Abandoning the swagger that made him a celebrity and rankled Japan's business establishment, the 34-year-old Horie said he was ignorant of financial matters and relied so heavily on his chief financial officer, Ryoji Miyauchi, that the CFO came to dominate the company.

"Miyauchi's influence was very strong. I thought if he left then everyone would leave," Horie said in his first testimony since he pleaded not guilty in September to filing false financial statements.

Horie's defense amounted to a repudiation of his own energetically promoted image as a savvy businessman and guru to would-be entrepreneurs, the author of a dozen advice books such as "How to Make 10 Billion Yen" and "The Easy Way to Build a Money-Making Company."

In its place, Horie, who dropped out of the elite University of Tokyo to found Livedoor a decade ago, all but endorsed a picture painted by his critics even before his arrest: that of a limelight-loving shill with little idea of how to run a business.

"I never studied accounting," Horie said. "A management book I read said to leave that to specialists, so that's what I did."

'NAKED EMPEROR'

Prosecutors contend that Horie pressured Miyauchi, a 39-year-old tax accountant, and other aides to inflate Livedoor's earnings in 2004 by diverting gains from the sale of the company's own shares to its bottom line and booking phony sales orders from friendly firms.

A verdict in the case is expected early next year. If convicted, Horie faces up to five years in prison and fines of up to 5 million yen (\$42,000).

He must also contend with lawsuits from shareholders over the \$5 billion in market value shed by Livedoor following his arrest, which sparked a share sell-off that swamped the Tokyo Stock Exchange's computer system, keeping it on shortened trading hours for three months.

Miyauchi and three other former executives being tried in the affair have testified that they kept Horie informed about the shady bookkeeping at Livedoor, a sprawling group whose assets included an Internet portal, a securities brokerage and a used car dealership.

Yet much of their testimony has also portrayed "Horiemon" -- so nicknamed for his resemblance to a rotund cartoon cat called Doraemon -- as out of touch with the Livedoor's financial affairs.

In an e-mail exchange presented during the trial and reported by Japanese media, a Livedoor accountant told his predecessor that Miyauchi was "the real problem." In reply, the predecessor called Horie a "naked emperor."

In his testimony, Horie said he had not realized that companies are required to book proceeds from sales of their own shares as increased capital, not profits.

He also denied responsibility for the phony-sales scheme, which Miyauchi acknowledged engineering in testimony in September in response to what he said was pressure from Horie to hit profit targets.

Horie said he had only pushed managers to improve Livedoor's underlying business, in particular its money-losing media arm, not to fudge the books.

"I saw it as my job to say, 'Try harder and make the business profitable.' Even if I didn't think it could be done, I couldn't very well say, 'Don't worry about it, it can't be helped.'"

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