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Ernst & Young Settles Cendant Case For \$298M

By [Elaine Chow](#)

Law360, New York (February 19, 2008, 12:00 AM EST) -- Auditing firm [Ernst & Young LLP](#) has settled a lawsuit brought by fraud-riddled travel and real estate giant Cendant Corp. for almost \$300 million. The accounting firm allegedly failed to detect huge anomalies in company audits, according to a securities filing by a former Cendant subsidiary.

Buried within [Realogy Corp.](#)'s 8-K filing with the [U.S. Securities and Exchange Commission](#) was the news that its former parent, Cendant Corp., had entered into a settlement with Ernst & Young on Dec. 21, 2007 for an aggregate amount of \$298.5 million.

Real-estate brokerage company Realogy is one of four units Cendant Corp. broke into in 2006. The other three are [Wyndham Worldwide Corp.](#), Travelport and Avis Budget Car Rental LLC.

Cendant was created in 1997 by the merger of real estate companies CUC International and HFS Inc., which ran a membership marketing operation. The alleged accounting fraud at the heart of the settlement between Cendant and Ernst & Young predated the company, beginning at CUC in the 1980s.

The filing said that Cendant would receive approximately \$128 million of the net proceeds under the agreement, left over after it has satisfied its obligations to other parties, including class members in various securities actions and certain officers and directors of HFS Inc.

Of the net proceeds, Realogy would receive around \$80 million, and Wyndham would receive \$48 million.

“This case was about a collusive management fraud that occurred over 10 years ago and led to two convictions and three guilty pleas by Cendant's former executives,” Charlie Perkins, a spokesman for Ernst & Young, said Monday.

“While we had a strong case and believe we would have prevailed before a jury, this settlement allowed us to put this matter behind us and bring an end to nearly a decade of litigation and its attendant costs,” Perkins said.

“The settlement of this matter concludes all but one of the more than 70 cases that had been brought against Cendant and other defendants after the April 15, 1998 announcement of the discovery of accounting irregularities in the former business units of CUC International, Inc.,” Realogy's filing said.

The settlement is the latest chapter to close in a scandal that dates back more than a decade, when regulators discovered a scheme to inflate the stock of CUC International, by \$500 million.

The alleged fraud led to financial restatements in 1998, which caused the company's stock value to plummet \$14 billion in one day. Several former Cendant executives were indicted and convicted as a result of the scheme.

The company filed a lawsuit against Ernst & Young in 1999, arguing that it had violated professional standards when it certified CUC International's false financial statements.

Ernst & Young "did not detect these false statements in any of the three years because, in part, it did not perform the audits in accordance with professional standards required and discharged its duties with gross negligence," according to Cendant's complaint.

The auditing firm had already paid out \$335 million to Cendant shareholders in 2000 as a result of the fraud – the largest-ever settlement by an auditor for the work it had done for a single client.

Former Cendant Chairman Walter Forbes was sentenced in January 2007 to more than 12 years in prison and was ordered to pay \$3.275 billion in restitution for his role in one of the largest accounting fraud causes brought before a U.S. court.

Though Forbes originally faced 16 charges, prosecutors reduced that number to one count each of conspiracy to commit securities fraud and securities fraud, and two counts of false reporting to the SEC.

Forbes claims to have known nothing of the firm's accounting woes, which led to the conviction of former Cendant Vice Chairman E. Kirk Shelton in January 2005.

Shelton was ordered to pay the company \$15 million in restitution toward a total of \$3.27 billion in damages. He is expected to pay \$2,000 to the New York-based company every month after he completes his 10-year prison term. He has been out on bail since his conviction but is under house arrest.

The SEC alleged the men and several other executives were so embroiled in fraud that some in the group went as far as keeping a log to track the fraud throughout the years.

In December 2005, the company agreed to pay \$32.5 million to settle a related shareholder lawsuit stemming from the drop in the stock's price caused by the alleged fraud. The settlement affected shareholders who purchased Cendant Income PRIDES or Cendant Growth PRIDES between April 16, 1998, and Aug. 28, 1998.

The case is *In re Cendant Corporation Securities Litigation*, case number 00-cv-3328, in the U.S. District Court for the District of New Jersey.

--Additional reporting by Bailey Somers

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