

PwC to Pay \$55 Million to Settle Madoff-Related Lawsuit

Investors had accused PwC of negligence in auditing Madoff feeder fund

By

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PricewaterhouseCoopers agreed to pay \$55 million to settle a class-action lawsuit accusing it of misleading investors in feeder funds that funneled their cash to **Bernard Madoff**. The cash deal, filed Wednesday in a Manhattan federal court, heads off a trial that would have begun this week in which investors in Fairfield Greenwich Ltd. were set to accuse PwC affiliates of negligence in connection with their work auditing Fairfield's funds, which invested with Mr. Madoff.

Investors have asked a federal judge to schedule a hearing in the spring to consider the deal, reached with PwC's Canadian and Dutch units as well as with PricewaterhouseCoopers International Ltd.

About 2,960 investors in Fairfield-managed funds lost more than \$3.2 billion in the 2008 collapse of Mr. Madoff's Ponzi scheme, investor attorney David Barrett of Boies, Schiller & Flexner LLP said Thursday. With this week's settlement, they will be able to boost their litigation recoveries to at least \$235 million, although another \$30 million could be available depending on the outcome of other legal proceedings.

"We believe that this recovery of \$235 million for the Fairfield investors is the largest recovery that has been obtained on behalf of any group of Madoff feeder fund investors," Mr. Barrett said.

According to the investors, PwC units auditing the Fairfield funds in the years before Mr. Madoff's fraud was exposed wrongly gave them a clean bill of health and failed to uncover that the funds' investments with Mr. Madoff were based on phony transactions.

The settlement doesn't include an admission of guilt, and PwC continues to deny the allegations.

"We believe strongly that our audit work complied with professional standards, but we pursued a settlement to avoid the uncertainties and unrecoverable legal costs of a lengthy jury trial. At no time was Madoff a firm client," a PwC Canada spokesman said Thursday, adding that the deal will have "no impact" on the firm's services.

The PwC deal, if approved by the court, will wrap up Fairfield investor litigation that has been pending for more than seven years. Prior settlements have brought in \$210.25 million.

Court papers show the investors' attorneys---lawyers at Boies Schiller as well as Wolf Popper LLP and Lovell Stewart Halebian Jacobson LLP---intend to seek approval for payment of up to 30% of the settlement proceeds, court papers show. If \$265.25 million, the full amount of settlement proceeds, is available for distribution, that could see the firms share in a payout of nearly \$80 million. They also intend to seek reimbursement of up to \$2.5 million in expenses related to the PwC litigation.

Lawsuits from investors who sue auditors for their alleged negligence tend to settle to avoid a trial. An exception was last fall's trial at which a state court jury found auditor Ernst & Young liable for the losses sustained by another Madoff feeder fund, FutureSelect Portfolio Management Inc., upon the collapse of Mr. Madoff's fraud. Ernst & Young denies wrongdoing.

Arrested in December 2008, Mr. Madoff is currently serving a 150-year prison sentence for operating a multibillion-dollar fraud, the largest Ponzi scheme ever.