
Hughes Hubbard & Reed

Hughes Hubbard Assists Deloitte in Defeating Claims Over ChinaCast Audits

News & Events | Deals & Matters

Hughes Hubbard & Reed LLP • A New York Limited Liability Partnership
One Battery Park Plaza • New York, New York 10004-1482 • +1 (212) 837-6000

Attorney advertising. Readers are advised that prior results do not guarantee a similar outcome. No aspect of this advertisement has been approved by the Supreme Court of New Jersey. For information regarding the selection process of awards, please visit <https://www.hugheshubbard.com/legal-notice-methodologies>.

Hughes Hubbard & Reed helped win dismissal of a complaint blaming Deloitte & Touche for tens of millions of dollars in investor losses at ChinaCast Education Corp.

On July 21, U.S. District Judge Edgardo Ramos dismissed claims that the Chinese firm Deloitte Touche Tohmatsu CPA (DTTC) and Hughes Hubbard's client, the US firm Deloitte & Touche LLP, were responsible for the losses due to their failure to properly audit ChinaCast, which provides post-secondary education and e-learning in China.

ChinaCast was founded in 1999 by Ron Chan. In 2006, it began trading on the Nasdaq exchange after a reverse merger with a U.S. company. In March 2012, after a bitter proxy fight, the board ousted Chan and announced that it had uncovered "questionable activities and transactions" involving Chan that "raise the specter of possible illegal conduct."

The lawsuit by a group of investment funds and individuals alleged Chan engaged in "brazen looting" by diverting \$35 million in cash to parties outside the company. They sued DTTC and Deloitte & Touche LLP in Feb. 2013, alleging tens of millions of dollars in damages. They claimed that DTTC was liable under Sections 10(b) and 18 of the Exchange Act because it issued audit opinions on financial statements that were almost entirely false. Plaintiffs also alleged that Deloitte & Touche LLP was liable under Sections 20 and 18 of the Exchange Act because it allegedly controlled DTTC's audits.

Judge Ramos dismissed all the claims against DTTC and Deloitte & Touche LLP without prejudice.

With respect to the claims against DTTC, Judge Ramos found that the plaintiffs had not adequately alleged fraudulent intent, writing, "Rather than recklessness, the more compelling inference is that Ron Chan deceived DTTC, or that DTTC was merely negligent."

As for the claims against Deloitte & Touche LLP, Judge Ramos accepted Hughes Hubbard's argument that culpable participation was an element of a control person claim, and concluded "plaintiffs fail to provide specific facts from which the Court might conclude that Deloitte U.S. culpably participated in fraud."

Bill Maguire represents Deloitte & Touche LLP.

Related People



William R. Maguire

Related Areas of Focus

Professional Services

Class Actions

Securities Litigation