US files charge against Toyota, $1.2B penalty

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Attorney General Eric Holder, left, accompanied by Transportation Secretary Anthony Foxx, announces a $1.2 billion settlement with Toyota over its disclosure of safety problems, Wednesday, March 19, 2014, during a news conference at the Justice Department in Washington. (AP Photo/Susan Walsh)

The U.S. government announced a $1.2 billion settlement with Toyota Motor Corp. on Wednesday and filed a criminal charge alleging the company defrauded consumers by issuing misleading statements about safety issues in Toyota and Lexus vehicles.

Attorney General Eric Holder said it is the largest financial penalty of its kind ever imposed on an auto company. Under a deferred prosecution agreement, an independent monitor will review policies, practices and procedures at the company.

The action concludes a four-year criminal investigation into the Japanese automaker's disclosure of safety problems, which focused on whether Toyota was forthright in reporting problems related to unintended acceleration troubles.

"Rather than promptly disclosing and correcting safety issues ... Toyota made misleading public statements to consumers and gave inaccurate facts to members of Congress," Holder told a news conference.

Toyota said that at the time of the recalls, "we took full responsibility for any concerns our actions may have caused customers, and we rededicated ourselves to earning their trust," said Christopher P. Reynolds, chief legal officer of Toyota Motor North America. "In the more than four years since these recalls, we have gone back to basics at Toyota to put our customers first."

Toyota said it had "made fundamental changes to become a more responsive and customer-focused organization, and we are committed to continued improvements."

Starting in 2009, Toyota issued massive recalls, mostly in the U.S., totaling more than 10 million vehicles for various problems including faulty brakes, gas pedals and floor mats. From 2010 through 2012, Toyota Motor Corp. paid fines totaling more than $66 million for delays in reporting unintended acceleration problems.

The National Highway Traffic Safety Administration never found defects in electronics or software in Toyota cars, which had been targeted as a possible cause.

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In this Nov. 5, 2010 file photo released by the Utah Highway Patrol, a Toyota Camry is shown after it crashed as it exited Interstate 80 in Wendover, Utah. Police suspect problems with the Camry's accelerator or floor mat caused the crash that left two people dead and two others injured. The Wall Street Journal is reporting Wednesday March 19, 2014 the U.S. Justice Department may reach a $ 1 billion settlement with Toyota Motor Corp., ending a four-year criminal investigation into the Japanese automaker's disclosure of safety problems. (AP Photo/Utah Highway Patrol, File)

The settlement continues a string of bad publicity for Toyota, which before the unintended acceleration cases had a bulletproof image of reliability. Since the cases surfaced, the company's brand image has been damaged and it has lost U.S. market share as competition has intensified.

Last year, Toyota agreed to pay more than $1 billion to resolve hundreds of lawsuits claiming that owners of its cars suffered economic losses because of the recalls. But that settlement did not include wrongful death and injury lawsuits that have been consolidated in California state and federal courts.

In December, Toyota filed court papers after a four-year legal battle saying that it's in settlement talks on nearly 400 U.S. lawsuits, but other cases aren't included in the talks.

The negotiations come less than two months after an Oklahoma jury awarded $3 million in damages to the injured driver of a 2005 Camry and to the family of a passenger who was killed.

The ruling was significant because Toyota had won all previous unintended acceleration cases that went to trial. It was also the first case where attorneys for plaintiffs argued that the car's electronics—in this case the software connected to a midsize Camry's electronic throttle-control system—were the cause of the unintended acceleration.

At the time, legal experts said the Oklahoma verdict might cause Toyota to consider a broad settlement of the remaining cases. Until then, Toyota had been riding momentum from several trials where juries found it was not liable.

Toyota has blamed drivers, stuck accelerators or floor mats that trapped the gas pedal for the acceleration claims that led to the big recalls of Camrys and other vehicles. The company has repeatedly denied its vehicles are flawed.

No recalls have been issued related to problems with onboard electronics. In the Oklahoma case, Toyota attorneys theorized that the driver mistakenly pumped the gas pedal instead of the brake when her Camry ran through an intersection and slammed into an embankment.

But after the verdict, jurors told AP they believed the testimony of an expert who said he found flaws in the car's electronics.

Toyota also had to pay millions for recalls, as well as a series of fines totaling $68 million to the NHTSA, the U.S. government's road safety watchdog, for being slow to report acceleration problems.

Still, the payments won't hurt Toyota's finances very much. In its last fiscal quarter alone, Toyota posted a $5.2 billion profit, crediting a weak yen and strong global sales.

Toyota's U.S. market share, however, has fallen more than 4 percentage points since unintended acceleration came to the forefront in August of 2009, when a California Highway Patrol officer and three others were killed in a fiery crash. The officer's runaway car was traveling more than 120 mph when it crashed and burst into flames. One of his family members called police about a minute before the crash to report the vehicle had no brakes and the accelerator was stuck.

At the time, Toyota controlled 17.8 percent of the U.S. market. Gas prices were high, playing to Toyota's fuel-efficient small cars and hybrids. Detroit automakers were in serious financial trouble and had few fuel-efficient cars for sale.

By last month, though, Toyota's share fell to 13.3 percent, according to Autodata Corp., as the company faced intense competition in small and midsize cars from resurgent Detroit automakers and Korean brands Hyundai and Kia.

The Toyota criminal charge and settlement could foreshadow what's in store for General Motors. The same U.S. attorney's office is investigating the Detroit auto giant for its slow response to a faulty ignition switch problem in older compact cars that has been linked to at least 31 crashes and 12 deaths. NHTSA also is investigating whether GM withheld information about the problem and could fine the automaker $35 million.