Courthouse News Service

Wednesday, December 04, 2013 Last Update: 6:59 AM PT

Class of Shareholders Sues Lumber Liquidators
By RYAN ABBOTT

NEWPORT NEWS, Va. (CN) - In a federal class action, shareholders claim Lumber Liquidators' environmental misdeeds cost them 13 percent of their stock equity, after the company could no longer prop up the share price with lies.

Lead plaintiff Gregg Kiken accused Lumber Liquidators Holdings and its top executives of securities fraud.

Kiken claims the company imported illegally harvested timber and sold wood with illegal levels of formaldehyde.

According to the complaint and an investigation conducted by the nonprofit group Environmental Investigation Agency, Lumber Liquidators imported the illegal lumber from Russia through a Chinese wood-flooring company called Suifenhe Xingjia Economic and Trade Company.

The class claims the Chinese operation conceals its illegal logging through falsified documents and bribes.

"The EIA Report further alleges that analysis of U.S. import records and other undercover sources indicate that Xingjia's largest customer is Lumber Liquidators," the complaint states. "According to the EIA Report, Lumber Liquidators has done business with Xingjia since at least 2007. The EIA Report further claims that the head of Lumber Liquidators' sourcing operations visited Xingjia's office and sawmills in the RFE [Russian Far East] in May 2012, and that thereafter Lumber Liquidators made Xingjia its chief Chinese supplier of solid oak flooring."

The complaint adds: "The EIA Report includes photos of what are alleged to be boxes of oak flooring stacked at one of Xingjia's factories bearing one of Lumber Liquidators' brands - Virginia Mill Works Co."

According to Lumber Liquidators' website, the company has "hundreds of stores" nationwide, selling engineered hardwood, bamboo, cork, laminate, vinyl and solid hardwood flooring.

"Illegal logging is having unprecedented environmental, social and economic impacts in the Russian Far East, threatening indigenous communities and the last remaining Siberian tiger habitats in the world," the Environmental Investigation Authority said in a statement. "The illegal trade in wood also harms the billion-dollar forest products industry in the United States."

The class claims Lumber Liquidators' actions also hurt shareholders.

"On September 26, 2013, agents from the DHS, FWS, and DOJ [Department of Homeland Security, Fish and Wildlife Service, and Department of Justice] executed sealed search warrants at Lumber Liquidators' corporate offices in Toano and Richmond, Virginia, related to the importation of certain wood products.

"On this news, Lumber Liquidators shares declined $5.83 per share or more than 5 percent, to close at $107.13 per share on September 27, 2013," the class claims.

The share price dropped another $16.07, or 13 percent, down to $99.29 per share after "well-known hedge fund manager Whitney Tilson criticized the company for importing illegally sourced timber from Russia in direct violation of U.S. laws," according to the complaint.

Lumber Liquidators reported $813.3 million in net sales in 2012.

Its CEO Robert Lynch, CFO Daniel Terrell and chairman and founder Thomas Sullivan are also named as defendants.

The complaint states: "Throughout the class period, defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the company's business, operations, and prospects. Specifically, defendants made false and/or misleading statements and/or failed to disclose that: (1) certain of the company's products failed to comply with applicable laws and regulations government formaldehyde emissions from composite wood products; (2) the company imported flooring products sourced from illegally logged wood in the RFE in violation of the Lacey Act; (3) as a result of the foregoing violations, the company faces the risk of large fines, penalties, forfeitures, judgments and/or settlements in connection with government regulatory actions and/or consumer class actions; and (4) as a result of the foregoing, the company's statements were materially false and misleading at all relevant times."

The class wants the company and its executives to pay damages to be determined at trial.

They are represented by Steven Toll, with Cohen Milstein Sellers & Toll, in Washington, D.C.