

In re Lumber Liquidators Holdings, Inc. Securities Litigation

COURT: United States District Court for the Eastern District of Virginia
CASE NUMBER: 13-cv-00157
CLASS PERIOD: 2/22/2012 – 2/27/2015
CASE LEADERS: Gerald H. Silk, Avi Josefson, Scott R. Foglietta

This action asserts claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against defendants seeking to recover for their fraudulent course of conduct that artificially inflated the price of Lumber Liquidators, Inc. (“Lumber Liquidators” or the “Company”) common stock from February 22, 2012 through February 27, 2015 (“Class Period”).

Lumber Liquidators is one of the largest specialty retailers of hardwood flooring in the United States. The Company sells directly to homeowners or to contractors acting on behalf of homeowners through its network of approximately 300 retail stores in 46 states. Throughout the Class Period, Lumber Liquidators and its founder and top officers reported record gross margins which were significantly higher than its major competitors. Defendants misrepresented that the major driver of these high margins were legitimate “sourcing initiatives” implemented by the Company in China designed to reduce the cost of goods, cut out middlemen, increase control by the Company, and strengthen relationships with their suppliers. As a result of these misrepresentations, Lumber Liquidators stock traded at artificially inflated prices during the Class Period.

Aspects of Defendants’ sourcing scheme were only revealed when analysts began to do their own investigations into the Company’s unusual margins. For example, on June 20, 2013, an article published on Seeking Alpha revealed that testing of one of Lumber Liquidators’ branded wood flooring products (imported from China and sold in California) at two independent laboratories found that formaldehyde emissions were over 3.5 times the maximum legal limit imposed by CARB standards, even though the product was labeled as being compliant with CARB formaldehyde regulations. On this news, the Company’s stock price declined \$5.53 per share, or 6.73%.

Defendants’ sourcing scheme ultimately came to the attention of federal authorities. On September 26, 2013, agents from the DHS, FWS, and DOJ executed at the Company’s corporate offices sealed search warrants related to the Company’s importation of wood products from forests in far eastern Russia. On news of the search warrants, the Company’s stock price declined \$5.83 per share, or 5.16%.

Finally, on the evening of March 1, 2015, *60 Minutes* news broadcasted a detailed report into Lumber Liquidators laminate wood products. Based on an extensive investigation, tests performed on the products, and undercover surveillance, the report demonstrates that the products had higher levels of formaldehyde than competitors’ products and violated California formaldehyde standards. The day following the broadcast, March 2, 2015, Lumber Liquidators’ stock price declined \$13.03 per share, or 25.13%.

On March 23, 2015, Judge Arenda L. Wright Allen appointed David Lorenzo as a Lead Plaintiff and Bernstein Litowitz Berger & Grossmann as Co-Lead Counsel. On April 22, 2015, Lead Plaintiffs filed a Consolidated Amended Complaint. On June 2, 2015, Defendants filed a motion to dismiss the Consolidated Amended Complaint and Lead Plaintiffs filed their opposition on July 14, 2015. On December 21, 2015, the Court denied Defendants’ motion in its

entirety. On April 29, 2016, the parties announced a settlement agreement, resolving all claims in this consolidated action. On July 8, 2016, the Court granted preliminary approval of the settlement. Among other things, the Court's Order directed that Notice of the proposed settlement be provided to potential class members. A settlement fairness hearing was held on November 17, 2016. The Court granted final approval of the settlement on November 17, 2016.

The claims administration process has concluded and the net settlement fund has been fully disbursed. This matter is considered closed.

Case Documents

- November 17, 2016 - Judgment Approving Class Action Settlement
- July 8, 2016 - Notice of (I) Pendency of Class Action, Certification of Settlement Class and Proposed Settlement; (II) Settlement Fairness Hearing; and (III) Motion for an Award of Attorneys' Fees and Reimbursement of Litigation Expenses
- July 8, 2016 - Order Preliminarily Approving Settlement and Providing for Notice
- December 21, 2015 - Order
- April 22, 2015 - Consolidated Amended Complaint
- September 17, 2014 - Complaint for Violations of the Federal Securities Law