

Public Employees' Retirement System of Mississippi v. Mohawk Industries, Inc.

COURT: United States District Court for the Northern District of Georgia
CASE NUMBER: 4:20-cv-00005-ELR
CASE LEADERS: John C. Browne, Jonathan D. Uslaner
CASE TEAM: Richard D. Gluck, Lauren M. Cruz, Alexander T. Payne

This is a securities fraud class action filed on behalf of all purchasers of Mohawk Industries, Inc. (“Mohawk” or the “Company”) common stock from April 28, 2017 to July 25, 2019, inclusive (the “Class Period”), alleging claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Mohawk and certain of its executive officers. On March 18, 2020, the Court issued an Order appointing Public Employees' Retirement System of Mississippi as Lead Plaintiff, and approving their selection of BLB&G as Lead Counsel for the Class.

On June 29, 2020, Lead Plaintiff filed the consolidated class action complaint. Defendants moved to dismiss the complaint on October 27, 2020. Lead Plaintiff filed an opposition to Defendants' motion on December 28, 2020, and Defendants filed a reply brief in further support of their motion to dismiss on January 27, 2021.

Mohawk's Alleged Fraud

This action concerns Mohawk's fraudulent scheme to fabricate revenues through fictitious “sales” of products that were not delivered to customers and to conceal from investors the true reasons for the Company's ballooning inventory. When the truth was finally revealed to investors through a series of partial disclosures beginning in July 2018, the price of Mohawk common stock plunged, wiping out \$7.4 billion in shareholder value. Throughout the Class Period, and unknown to investors, at the end of each financial quarter, employees in Mohawk's North American distribution centers were instructed to load goods on Company trucks on Fridays and pretend to deliver the goods on Saturdays to customers they knew were closed for deliveries and, thus, not there to accept or reject them (the “Saturday Scheme”). Mohawk would nevertheless book the revenue from these “sales” as soon as the products were put on Mohawk's trucks. Eventually, many employees stopped even pretending to deliver the products and simply scanned them as having been delivered and recorded the “sales” without the products ever leaving the Company's warehouses. Defendants also made repeated false statements to misrepresent and conceal the truth behind the Company's rising inventory levels and slowing inventory turnover. Defendants attributed these developments to such things as “geographic expansion” and “rising raw material costs.” In reality, however, Mohawk's bloated inventory resulted from both a conscious scheme to overproduce inventory in order to report higher operating margins and from a glut of unsalable products caused by systemic flaws in Mohawk's production lines. Defendants' scheme, and their many false statements and omissions in support of it, allowed them to misrepresent and conceal from investors (i) the true reasons for the Company's supposedly record sales and margins, (ii) the true reasons for the Company's ballooning inventory levels, and (iii) the rampant manufacturing problems that were creating huge stockpiles of unsalable, defective goods that the Company nonetheless carried on its books as “first quality” inventory.

Case Documents

- January 3, 2020: Mohawk Industries - Press Release

- January 3, 2020: Mohawk Industries - Initial Complaint
- June 29, 2020 - Consolidated Class Action Complaint for Violations of the Federal Securities Law