

Auto supplier management accused of fraud

Class action contends improper accounting led to company's collapse

By: Michigan Lawyers Weekly Staff in Verdicts & Settlements October 15, 2010

In a class-action lawsuit filed in U.S. District Court for the Eastern District of Michigan, plaintiff Craig D. Epstein and approved class members sought damages from defendants Heartland Industrial Partners, L.P.; Heartland Industrial Associates, L.L.C.; David A. Stockman; J. Michael Stepp; and Bryce M. Koth, asserting loss of securities values because of fraud involving Collins & Aikman Corp.

Plaintiffs contended that Heartland Industrial Partners overstated the value of Collins & Aikman – a 24,000-employee Tier Two automotive supplier – via a series of accounting schemes involving related party transactions and false documentation.

As well, it was asserted, Collins & Aikman engaged in deliberate, premature or improper accounting for vendor rebates; mischaracterization of rebates on capital equipment; use of round-trip transactions that should have had no net effect; and pre-billing of receivables under a factoring arrangement to inflate the company's borrowing base and create the appearance of liquidity. Such actions, it was added, made it appear the business was operating successfully.

Upon the market learning of the improper accounting and the company's true financial situation, its stock and publicly traded fixed-income securities fell precipitously. On May 17, 2005, a month after the initial complaint in this action was filed, Collins & Aikman filed for bankruptcy protection, then liquidated, and no longer exists as an operating business.

The lawsuit then named Heartland Industrial Partners and Heartland Industrial Associates (private equity firms invested in the company); Stockman (Collins & Aikman's chief executive officer); and Stepp and Koth (chief financial officers).

Defendants contended no fraud was committed, and further explained that other auto suppliers and similar companies in the auto industry had been suffering financial losses.

The matter settled with the defendants agreeing to provide recovery of \$12,262,500 to class members.

Type of action: Securities fraud class action

Type of injuries: Loss in value of securities because of false and misleading statements about earnings

Name of case: *Epstein, et al. v. Heartland Industrial Partners, L.P., et al.*

Court/Case no./Date: U.S. District Court, Eastern District of Michigan; 2:06-CV-13555; June 10, 2010

Name of judge: Gerald E. Rosen

Settlement amount: \$12,262,500

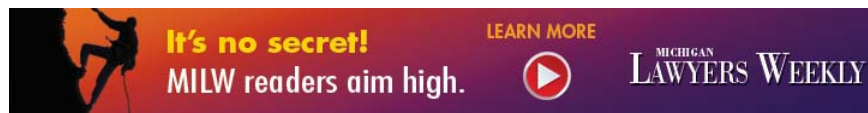
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