SEC Charges Lumber Liquidators With Fraud

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Washington D.C., March 12, 2019 —
The Securities and Exchange Commission today announced charges against Lumber Liquidators Holdings Inc. for making fraudulent misstatements to investors. The charges stem from Lumber Liquidators' false public statements in response to media allegations that the company was selling laminate flooring that contained levels of formaldehyde exceeding regulatory standards. Lumber Liquidators agreed to pay more than $6 million to settle the SEC action.

The SEC's order finds that in early 2015, Lumber Liquidators, a discount retailer of hardwood flooring, made public statements in response to a "60 Minutes" news program episode that showed undercover video of Lumber Liquidators' suppliers stating that they provided the company with products that did not comply with regulatory requirements. In its response, Lumber Liquidators fraudulently informed investors that third-party test results of its flooring products proved compliance with formaldehyde emissions standards and that it had discontinued sourcing materials from suppliers that were unable to meet these standards. In reality, Lumber Liquidators knew that its largest Chinese supplier had failed third-party formaldehyde emissions testing and was unable to produce documentation showing regulatory compliance. The SEC's order further finds that despite having evidence confirming that the individuals in the "60 Minutes" undercover video were factory employees of its suppliers, Lumber Liquidators falsely stated that its suppliers were not depicted in the video.

"Pressured by negative publicity, Lumber Liquidators misled investors about its product testing and regulatory compliance programs," said Marc P. Berger, Director of the SEC's New York Regional Office. "The relief obtained today, along with the criminal fine imposed by the Department of Justice, ensures that the company will forfeit all profit and pay a heavy price for the false assurances it provided to the market."

Lumber Liquidators consented to the SEC's order finding that it violated the antifraud provisions in Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Section 13(a) of the Exchange Act and related rules, which require periodic filings with the Commission to contain all material information. In addition to paying more than $6 million in disgorgement and prejudgment interest, Lumber Liquidators agreed to cease and desist from future violations of the charged provisions and cooperate fully with any further investigation, litigation or other proceeding by the Commission staff relating to this matter.

In a parallel criminal action filed today, Lumber Liquidators entered into a deferred prosecution agreement with the Justice Department's Fraud Section and the U.S. Attorney's Office for the Eastern District of Virginia by which Lumber Liquidators agreed to pay $33 million in criminal fines and forfeiture. The Department of Justice agreed to credit the amount paid to the SEC in disgorgement as part of its agreement. Thus, the combined total amount of criminal and regulatory penalties paid by Lumber Liquidators will be $33 million.

The SEC's continuing investigation is being conducted by Ranah Esmaili in Washington D.C. and Jorge G. Tenreiro and Celeste Chase in New York, and is being supervised by Sanjay Wadhwa. The SEC appreciates the assistance of the Department of Justice, U.S. Attorney's Office for the Eastern District of Virginia, Federal Bureau of Investigation, Internal Revenue Service, and U.S. Postal Inspection Service.

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