

Type of action: Securities fraud class action

Type of injuries: Loss in value of securities due to false and misleading statements about Collins & Aikman's earnings.

Name of case: Craig D. Epstein v. Heartland Industrial Partners, L.P., Heartland Industrial Associates, L.L.C., David A. Stockman, J. Michael Stepp and Bryce M. Koth

Court: Eastern District of Michigan

Case no.: 06-cv-13555

Tried before jury, judge, mediation or arbitration: Settled

Name of judge: Hon. Gerald Rosen

Date of verdict or settlement: June 10, 2010

Settlement amount: \$12,262,500

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**Description of the case, the evidence presented, the arguments made and/or other useful information:**

This was a securities fraud class action involving Collins & Aikman (“C&A”), the bankrupt “Tier Two” automotive supplier, filed against its former managing partner, Heartland Industrial Partners, and C&A’s former officers David Stockman (CEO), J. Michael Stepp (CFO) and Bryce Koth (CFO) for violations of §§ 10(b) and 20(a) of the Securities Exchange Act of 1934.

As of April 13, 2005, C&A had 24,000 employees and had a network of more than 100 technical centers, sales offices and manufacturing sites in 17 countries. C&A imploded and spiraled into bankruptcy in 2005. Plaintiff alleged that Defendants committed fraud by overstating C&A’s value through a series of accounting schemes involving related party transactions and false accounting documentation; schemes that have led to both the Indictment and the SEC Complaint.

In addition, Plaintiff alleged that C&A’s business was riddled with fundamental problems that Defendants sought to hide from investors, lenders and even its own customers. C&A engaged in deliberate, premature or improper accounting for vendor rebates, mischaracterization of rebates on capital equipment, mischaracterization of expenses, use of round-trip transactions that should have had no net effect, and pre-billing of receivables under a factoring arrangement to inflate C&A’s borrowing base and create the appearance of liquidity. These actions ultimately caused the company’s financial collapse. Plaintiffs allege that C&A and Defendants issued materially false and misleading financial statements, thereby making it appear that the Company’s business was operating successfully.

As the market first learned of the use of improper accounting and the truth about C&A’s finances, C&A stock dropped to less than ten cents (\$0.10) per share. Prices for C&A’s publicly traded fixed income securities also fell precipitously, ultimately trading below \$0.10 per share. The Company’s 10-3/4% Notes, which had previously traded at \$90, fell to just \$23, a drop of 74.4%.

On May 17, 2005, just a month after the initial complaint in this Action was filed, C&A filed for bankruptcy protection. This dramatically limited any potential financial recovery for plaintiffs in this litigation. C&A subsequently liquidated and no longer exists as an operating business.

Defendants moved to dismiss the consolidated complaint, and these motions were denied. The parties took extensive discovery in the matter which ultimately settled on June 10, 2010, just shortly before trial.

Under the terms of the Settlement, Defendants agreed to provide a recovery of \$12,262,500 to members of the Class.

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