



Adidas Slammed With \$14M Loan Fraud Lawsuit

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A suit brought by Veritas Financial Partners against Adidas AG accusing the apparel company of falsely verifying invoices from a vendor to whom VFP lent nearly \$14 million, which turned out to be an elaborate fraud scheme, was removed to Florida federal court on Wednesday. Adidas is the second customer of in-store marketing material provider G3K Displays Inc. to be sued by VFP, after federal prosecutors indicted four of the company's executives and a former Foot Locker Inc. employee for fraud in a scheme to secure \$18 million in loans that were used in part to pay for homes, luxury cars, private school tuition, bills and kickbacks. Foot Locker was sued back in May.

VFP filed its suit against Adidas in a Florida state court last month, and Adidas removed it to federal court on Wednesday.

According to the complaint, an Adidas employee, also named in the suit, verified invoices from G3K for signs and other advertisements used in its retail outlets which turned out to have been already paid for or completely fabricated. VFP said it used its understanding of these outstanding accounts receivable when agreeing to issue G3K a revolving loan facility and a term loan that totaled more than \$13.4 million.

"In actuality, Adidas owed a small fraction to G3K of the amounts it verified to VFP. Because G3K's accounts receivable were the primary collateral for the loans, VFP relied upon defendants' negligent and/or fraudulent statements in entering into the subject loan agreement with G3K and making its resulting loans."

G3K eventually defaulted on those loans, and its executives eventually pled guilty to fraud and other charges. The Adidas suit is seeking at least \$14 million in damages.

The complaint alleges Adidas employee Heather Hayes, who was responsible for



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procuring custom-made displays and other instore marketing materials, verified open G3K invoices on several occasions starting in 2012, which turned out to be fraudulent. Hayes has testified under oath that she neglected to check many of the invoices and had reason to believe some were not legitimate, according to the complaint.

Hayes communicated directly with G3K's CEO Steven Kaitz and its Chief Financial Officer Jonathan Wheeler about the verifications and agreed to confirm their legitimacy when an auditor hired by VFP asked, the complaint says.

VFP said it noticed in 2014 that some funds deposited into a lockbox it maintained for G3K's purported accounts receivable were in fact coming from an entity controlled by G3K's executives and not the customers to which the invoices were issued. The circular payment scheme, VFP says, was used to hide the creation of false invoices in order to continue receiving loan advances.

The suit contains five causes of action against Adidas and Hayes: negligent misrepresentation, false information negligently supplied for the guidance of others, fraudulent misrepresentation, aiding and abetting fraud, and conspiracy to commit fraud. It also includes a negligence charge against Adidas.

Adidas did not immediately respond to a request for comment on Thursday.

VFP is being represented by James M. Miller and Erin M. Maddocks of Ackerman LLP.

Adidas is being represented by Zachary James of Meland Budwick, P. A.

Counsel information for Heather Hayes was not immediately available.

The case is VFP Investments I LLC v. Adidas America Inc. et al., case number 9:15-cv-81138, in the U.S. District Court for the Southern District of Florida.

—Additional reporting by Pete Brush and Jonathan Randles. Editing by Philip Shea.