Markets

First Brands Hit by $286 Million Claim for Alleged Tariffs Fraud

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Takeaways by Bloomberg AI

- The US government has joined creditors impacted by alleged fraud at First Brands for accusations the company cheated on tariffs, with a formal claim for $285.5 million.
- The claim includes a demand for penalties as well as unpaid tariffs, and adds to the $11.8 billion in debts the company cannot fully repay.
- First Brands managers have proposed suing former company insiders and lenders to pay creditors at least some of their money back, with a plan to be decided on by US Bankruptcy Judge Christopher Lopez.

The US government has joined the line of creditors impacted by alleged fraud at bankrupt auto-parts maker First Brands, in this instance for accusations the company cheated on how much it should have paid on tariffs.

First Brands was hit with a formal claim for $285.5 million related to allegations that it underpaid levies on parts imported from China. The figure includes a demand for penalties as well as the unpaid tariffs.

That claim, which has not been previously reported, adds to the $11.8 billion in debts the company cannot fully repay. To pay creditors at least some of their money back, managers have proposed suing former company insiders and lenders along with founder Patrick James, who was indicted for allegedly defrauding First Brands' financing partners. James has denied wrongdoing.

The US claim is based on a whistleblower complaint filed in March 2022 in federal court in New York and made public earlier this year. That complaint was filed by Alder Wood LLC, which argues that the company imported automotive brake parts from its subsidiary in China without paying the proper amount of tariffs.

As required for federal whistleblower cases filed under the US False Claims Act, the lawsuit was sealed and only the initial complaint has been made public. A representative of the US Department of Justice did not respond to a request for comment. Alder Wood claims to have detailed knowledge of the fraud, but did not disclose how it obtained the information.

That lawsuit came years before First Brands collapsed into bankruptcy and lenders accused the company of widespread fraud.

“The wrongdoing we alleged turns out to be the tip of the fraud iceberg,” said Mark Strauss, a lawyer representing Alder Wood.

About $2.3 billion of First Brands debt is related to the company’s sale of invoices to third party so-called factors, who believed they were purchasing invoices owed by company customers, like autoparts stores, according to court records. But only $400 million of those receivables were considered legitimate when First Brands filed for bankruptcy in September, Leucadia Asset Management, a factor that bought $885 million in invoices, said in a court filing.

The company gave up any effort to reorganize itself as a going concern earlier this year when lenders, faced with claims that much of their collateral was tied to alleged fraud, refused to provide the company with any more money.

Since then, First Brands has fired thousands of employees and closed dozens of facilities, while factories that produced key parts were propped up with help from major automakers during a quicker-than-usual sale process.

The company has struggled for months to come up with a fair way to distribute any cash from its last major assets – the lawsuits against insiders and lenders. This week, the most recent version of that plan will come before US Bankruptcy Judge Christopher Lopez, who will decide whether it should be sent to creditors for a vote.

The case is First Brands Group LLC, 25-90399, US Bankruptcy Court, Southern District of Texas (Houston).