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Former CEO of Vann's, Inc. Sentenced to 5 Years in Prison

MISSOULA – George Leslie Manlove, 59, of Eagle, Idaho, was convicted of 170 counts of wire fraud, money-laundering, bank fraud, false statements, bankruptcy fraud and conspiracy following a three-week jury trial. U.S. District Court Judge Dana L. Christensen presided. Sentencing occurred on May 19, 2017.

Manlove, the former CEO of Vann's, Inc., an electronics and appliance retailer, was initially indicted in December of 2015 on 221 counts of fraud. A second superseding indictment was returned by a grand jury in March, 2016. Manlove's fraudulent activity occurred between 2006 and 2013. Vann's declared bankruptcy on August 5, 2012.

At trial, the government introduced evidence that Manlove, aided and abetted by co-conspirator, former CFO Paul Lyn Nisbet, established two shell-companies, JPEG and Painted Sky, LLC (Nisbet pled guilty to one count of conspiracy on Oct. 27, 2016). These shell-companies were established as part of a real-estate leaseback scheme. The defendants, with less than a \$500 initial investment to create the LLC's, obtained loans to purchase commercial property, and then leased that retail space back to Vann's. The defendants obtained these loans without full disclosure of the lease terms, a vote from the company's Board of Directors or even valid, written lease contracts.

In one of the schemes, Manlove purchased the Vann's store in Helena, appraised at nearly \$2.8M, for approximately \$1.9M. From loan proceeds, Manlove then applied \$100K towards paying down his own Home Equity Line of Credit (HELOC). Manlove continued to charge Vann's "rent" on the properties even after the stores closed. These rent payments continued even after Vann's declared bankruptcy. Payments made by wire transfer served as the basis for dozens of wire fraud counts.

Ultimately, the jury also found that Manlove committed bankruptcy fraud by making a claim for \$2.4M against Vann's bankruptcy estate after the company folded. The legal theory behind Manlove's claim - by failing to continue to pay rent on the Helena Store, Vann's "breached its contract" with Manlove, even though no written contract ever existed.

The jury also found that Manlove defrauded his company through dozens of unauthorized credit card purchases, reimbursements, trades and other transactions. The government presented evidence of flights

and hotel expenses for a “mother/daughter” shopping week in New York City; Manlove’s trades of Vann’s Accounts Receivables for diamond earrings and a Rolex watch; Manlove’s receipt of thousands of dollars for a realtor’s commission on the sale of a Vann’s property, and thousands of dollars of unauthorized travel. Chief among these unauthorized purchases was Manlove’s expenditure of over \$200,000 of Vann’s funds for tuition and expenses for an Executive MBA degree at Northwestern University’s Kellogg School of Business. Shortly after obtaining this degree, Manlove used Vann’s funds to purchase resume writing services from TheLadders.com and a class ring from Kellogg totaling approximately \$1,500.

Manlove himself testified at trial. On the witness stand, he claimed that he only obtained the MBA degree to help Vann’s compete in a challenging economy. However, under cross-examination prosecutors confronted Manlove with an email from the spring of his last year at school in which he had stated to a colleague: “During the second year at Kellogg, I began pondering the next chapter in my life both personally and professionally... I have decided to open the next chapter in my life and am planning my exit from our company. I believe my skills are very marketable, so it is a matter of timing and finding something I am passionate about.”

Another of Manlove’s defenses was that one of the main reasons he went to Kellogg was to recruit talent so that Vann’s could compete with Amazon.com in online sales. However, the government produced evidence that undercut this claim. Shortly after obtaining his degree, Manlove sent an email to management at Amazon. Attached to his email was a resume and cover letter in which Manlove asked to be considered for a senior executive position at Amazon.

Manlove also claimed that his travel expenses to Kellogg, New York and elsewhere were related to efforts to obtain venture capital funds for the benefit of Vann’s, Inc. However, evidence presented at trial showed that one of Manlove’s trips to New York in 2012 occurred when he was simultaneously drawing a paycheck from both Vann’s and Velodyne Inc. – a Vann’s competitor. No evidence of the identity of any supposed venture capitalist or any venture capital investment was offered at trial. Manlove negotiated a separation agreement with Vann’s shortly after this trip.

Prosecutors overcame an advice-of-counsel defense and were successful in striking the Defendant’s proposed expert witness testimony that the “Business Judgement Rule” provided a justification for Manlove’s conduct. In fact, the Court excluded much of the Defendant’s expert’s testimony altogether due to that expert’s conflicts of interest (the same attorney who advised Manlove during the company’s descent into bankruptcy and who was the crux of the “advice of counsel” defense).

At the conclusion of the three-week trial, the jury rendered a guilty verdict on 170 counts of fraud. The following day (Saturday, February 4) the jury also returned a forfeiture verdict in the amount of \$2.4M.

Mr. Manlove was sentenced by U.S. District Court Judge Dana L. Christensen on May 19, 2017 to 5 years, 3 months in federal prison. After a five hour hearing, Judge Christensen ordered Manlove to self-report to begin serving his sentence in Sheridan, Wyoming. He also ordered Manlove to make payments on his forfeiture verdict of \$2,467,574.56.

A former employee of Vann’s Inc., Jay Allen, wrote:

“This is yet another cautionary tale; a tale of individual greed and unchecked ego being permitted to horse collar a successful company of 200 hard-working and committed employees and scatter them across an employment landscape still reeling from the recession. A sordid story of faith breached.”

The United States would like to express sincere gratitude to the 13 men and women of the jury for their service. The United States also expresses its thanks to DOL Investigator Rachel Hackman, IRS Special Agent Martin Halko, FBI Special Agent Shaun Schrader, as well as former AUSA Kris McLean, who were all instrumental in building the prosecution of the case.

The case was prosecuted by Assistant U.S. Attorneys Adam Duerk and Zeno Baucus.

Component(s):

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