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BY _____

1 JOHN M. MCCOY, III, Cal. Bar No. 166244
 E-mail: mccoyj@sec.gov
 2 LORRAINE B. ECHAVARRIA, Cal. Bar No. 191860
 E-mail: echavarria@sec.gov
 3 KAROL L.K. POLLOCK, Cal Bar No. 77009
 E-mail: pollockk@sec.gov
 4 CAROL LALLY, Cal. Bar No. 226392
 E-mail: lallyc@sec.gov

5 Attorneys for Plaintiff
 6 Securities and Exchange Commission
 Rosalind R. Tyson, Regional Director
 7 Michele Wein Layne, Associate Regional Director
 5670 Wilshire Boulevard, 11th Floor
 8 Los Angeles, California 90036-3648
 Telephone: (323) 965-3998
 9 Facsimile: (323) 965-3908

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 11 **UNITED STATES DISTRICT COURT**
 12 **CENTRAL DISTRICT OF CALIFORNIA**
 13 **SOUTHERN DIVISION**

14 SECURITIES AND EXCHANGE
 COMMISSION,

15 Plaintiff,

16 vs.

17 NEXT COMPONENTS, LTD., and
 18 NORMAN HSU,

19 Defendants.

Case No. **SAGV08-1112 DOC (ANx)**
COMPLAINT

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1 Plaintiff Securities and Exchange Commission (“Commission”) alleges as
2 follows:

3 **JURISDICTION AND VENUE**

4 1. This Court has jurisdiction over this action pursuant to Sections 20(b),
5 20(d)(1) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a),
6 and Sections 21(d), 21(e), and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d),
7 78u(e) and 78aa. Defendants, directly or indirectly, singly or in concert, made use
8 of the means or instrumentalities of interstate commerce, of the mails, or of a
9 facility of a national securities exchange in connection with the transactions, acts,
10 practices, and courses of business alleged in this Complaint.

11 2. Venue is proper in this district pursuant to Section 22(a) of the Securities
12 Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. § 78aa,
13 because certain of the transactions, acts, practices, and courses of conduct constituting
14 violations of the laws alleged in this Complaint occurred within this district.

15 **SUMMARY**

16 3. This case involves the fraudulent and unregistered offering of
17 securities in violation of the Securities Act of 1933 (“Securities Act”) and the
18 Securities Exchange Act of 1934 (“Exchange Act”) by Next Components, Ltd.
19 (“Next Components”) and its principal, Norman Hsu (“Hsu) (collectively, the
20 “Defendants”). From January 2003 through September 2007, Defendants
21 misrepresented that Next Components or its predecessor company, Components,
22 Ltd., used investor funds in bridge loan investment pools to generate returns as
23 high as 24% for investors. Instead, Defendants used investor funds to make
24 payments to other investors, to compensate sales agents, to make political
25 campaign contributions, and to support Hsu’s lifestyle. Investors have not received
26 returns since August 2007.

27 4. Defendants, by engaging in the conduct described in this Complaint,
28 have violated, and unless enjoined will continue to violate, the securities registration

1 and antifraud provisions of the Securities Act of 1933 (“Securities Act”) and the
2 Securities Exchange Act of 1934 (“Exchange Act”), namely Sections 5 and 17(a) of
3 the Securities Act, 15 U.S.C. §§ 77e & 77q(a), and Section 10(b) of the Exchange
4 Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

5 5. By this Complaint, the U.S. Securities and Exchange Commission
6 (“Commission”) seeks an order: (1) permanently enjoining the Defendants from
7 future violations of the registration and antifraud provisions of the securities laws,
8 (2) requiring the Defendants to disgorge any ill-gotten gains and pay prejudgment
9 interest, (3) requiring the Defendants to pay civil monetary penalties, and (4)
10 providing other appropriate relief.

11 **DEFENDANTS**

12 6. Next Components, Ltd. was incorporated in New York in 2005. Next
13 Components is the successor to Components, Ltd. (“Components”), which was
14 incorporated in New York in 1997. Next Components engaged in the business of
15 offering and selling securities to investors across the United States. Next
16 Components has never registered an offering of securities under the Securities Act,
17 nor a class of securities under the Exchange Act.

18 7. Norman Hsu had residences in Newport Beach, California and New
19 York City, New York at the time of the conduct alleged in this Complaint. Hsu is
20 the founder and managing director of Next Components. Hsu was indicted on
21 September 19, 2007, for investment fraud and wire fraud in connection with the
22 conduct described herein, for operating an alleged \$60 million Ponzi scheme, and
23 for making illegal campaign contributions. Hsu is in federal custody awaiting trial
24 on the federal criminal charges.

25 **FACTS**

26 **A. Overview Of The Investment Program**

27 8. From at least 2003 through August 2007, Hsu offered and sold securities
28 through his companies, Next Components and its predecessor, Components.

1 9. The Defendants represented to potential investors that an often
2 unspecified company needed a “bridge loan” to finance a short-term business deal,
3 such as an agreement to manufacture a set quantity of designer clothing pieces for
4 delivery to a retail outlet by a particular date. The Defendants told investors that
5 Hsu was responsible for arranging the terms of the deal, including financing, and
6 for finding investors to fund the bridge loans.

7 10. To potential investors, Hsu presented himself as an international
8 businessman possessing high-level contacts with overseas businesses, particularly
9 in the Chinese apparel and technology industries. He characterized himself as
10 knowledgeable about foreign business practices, which allowed him to develop
11 profitable financing deals.

12 11. The Defendants represented to investors that their funds would be
13 pooled with other investors’ funds to finance the bridge loan. Potential investors
14 were told that, in exchange, they would receive a portion of the interest generated
15 by the loan. According to the Defendants, the purported bridge loans matured
16 within 70 to 130 days. The Defendants represented to investors that the bridge
17 loan pool would generate returns of 13.7% to 23.9% for investors within that time
18 period. For example, a June 18, 2007 “bridge loan” deal was typical of
19 Defendants’ financings and described a maturity date of September 28, 2007 and a
20 total return of 19.2113%.

21 12. Investors played no role in reviewing or analyzing the purported deal
22 or bridge loan, or in evaluating the participants in the supposed venture. Likewise,
23 investors did not perform any of the obligations of the purported underlying
24 business deal that supposedly generated the bridge loan’s returns.

25 13. The Defendants provided investors with a contract on Next
26 Components letterhead, drafted and signed by Hsu, that identified the amount
27 invested in Next Components and promised payment of “all the principal, profit
28 sharing, interest, and participating fee” (the “Next Components Notes”). The

1 contract did not disclose any other uses of investors' funds (such as payment of
2 sales agent commissions, personal expenses, or political donations).

3 14. Along with the contract, investors received a check, post-dated to the date
4 of the investment's maturity, in the amount of the principal plus the promised return.

5 15. With Hsu's encouragement, most investors chose not to cash their
6 checks upon the maturity of the Next Component Notes; most chose to destroy
7 their checks and reinvest their principal and "returns" with Next Components and
8 Hsu.

9 16. Hsu communicated with investors and potential investors about Next
10 Components' deals primarily via e-mail messages he composed. Hsu's e-mail
11 messages described the general nature of the purported bridge loans and the terms
12 of the so-called investments.

13 17. The Defendants also used sales agents to locate investors. Sales
14 agents typically received commissions of 1% to 15%.

15 18. Next Components investors and sales agents resided across the United
16 States, including in Orange County, California and other parts of Southern
17 California.

18 19. Defendants did not restrict participation in Next Components to
19 accredited investors, nor did they make any efforts to evaluate potential investors'
20 financial status or investing experience.

21 20. Next Components registered neither an offering of securities nor a
22 class of securities during the relevant time period.

23 **B. Defendants Recruited Investors By Appearing Wealthy and Well-**
24 **Connected**

25 21. Hsu cultivated a veneer of respectability that was instrumental in
26 helping him recruit investors who did not question his representations about Next
27 Components.

28 22. Hsu hosted dinners for investors at expensive four-star restaurants and

1 provided investors with invitations to exclusive society functions. One investor,
2 for example, attended a presidential primary candidate's political fundraising event
3 in Orange County, California at Hsu's invitation. At the event, Hsu sat next to the
4 host of the event, a prominent Orange County businessman, who knew and
5 appeared to respect Hsu.

6 **C. Defendants Made Material Misrepresentations About Investing in the**
7 **Next Components Notes**

8 23. Defendants' representations that investors' funds would be used to
9 finance bridge loans were false.

10 24. Defendants did not make many, if any, bridge loans with investors' funds.

11 25. Defendants did not have contracts with, make payments to, or receive
12 payments from most, if any, of the apparel companies that Defendants claimed
13 were parties to some of the bridge loans.

14 26. Defendants knew, or were reckless in not knowing, that they were not
15 making bridge loans or entering into contracts with apparel or other companies.
16 Hsu had sole responsibility for negotiating and entering into any bridge loans or
17 contracts on behalf of Next Components. Defendants' representations that
18 investing in the purported bridge loans would generate returns of 13.7% to 23.9%
19 in 70 to 130 days also were false.

20 27. Defendants made these representations to investors in e-mail,
21 telephone, and personal communications, as well as in the signed contracts. In
22 fact, however, the purported "returns" were not generated by bridge loan financing.
23 Rather, Defendants used funds collected from new investors to meet their payment
24 obligations to pre-existing investors.

25 28. Investors received their last payments from Defendants in August 2007.

26 29. Defendants knew, or were reckless in not knowing, that their
27 representations regarding the source of the "returns" on the Next Components
28 Notes were false. Hsu drafted the e-mail messages and contracts that contained

1 those misrepresentations. At the same time, Hsu had sole responsibility for
2 managing Next Components' bank accounts, including authorizing payments from
3 those accounts to bridge loan recipients and investors. Hsu signed the Next
4 Components Notes and the checks to investors and others. Hsu knew, or was
5 reckless in not knowing, how much income was generated by bridge loan returns
6 and how much income was generated by new investor funds. Hsu knew, or was
7 reckless in not knowing, that Defendants were using new investor funds to pay
8 "returns" to old investors.

9 30. Defendants also misappropriated investors' funds for Hsu's personal
10 use, such as luxury living expenses, travel, and entertainment. Hsu made
11 significant political contributions to prominent politicians using investor funds and
12 frequently pressured investors to make political donations and reimbursed
13 investors for those donations out of Next Components' bank accounts.

14 31. Defendants knew, or were reckless in not knowing, that they failed to
15 disclose Hsu's personal use of investor funds to investors. Hsu drafted the e-mail
16 messages to investors and composed and signed the investment contracts that did
17 not disclose these uses of investor funds. Defendants knew, or were reckless in not
18 knowing, what representations were made to investors about the use of their funds,
19 because Hsu was the only person authorized to make such representations on
20 behalf of Next Components, and he did not disclose the nature and extent of his
21 personal use of Next Components' investment funds to investors.

22 **FIRST CLAIM FOR RELIEF**

23 **UNREGISTERED OFFER AND SALE OF SECURITIES**

24 **Violations of Sections 5(a) and 5(c) of the Securities Act**

25 **(Against All Defendants)**

26 32. The Commission realleges and incorporates by reference ¶¶ 1 through
27 31 above.

28 33. The Defendants, and each of them, by engaging in the conduct described

1 above, directly or indirectly, made use of means or instruments of transportation or
2 communication in interstate commerce or of the mails, to offer to sell or to sell
3 securities, or to carry or cause such securities to be carried through the mails or in
4 interstate commerce for the purpose of sale or for delivery after sale.

5 34. No registration statement has been filed with the Commission or has
6 been in effect with respect to the offering alleged herein.

7 35. By engaging in the conduct described above, each of the Defendants
8 violated, and unless restrained and enjoined will continue to violate, Sections 5(a)
9 and 5(c) of the Securities Act, 15 U.S.C. §§77e(a) and 77e(c).

10 **SECOND CLAIM FOR RELIEF**

11 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

12 **Violations of Section 17(a) of the Securities Act**

13 **(Against All Defendants)**

14 36. The Commission realleges and incorporates by reference ¶¶ 1 through
15 35 above.

16 37. The defendants, and each of them, by engaging in the conduct
17 described above, directly or indirectly, in the offer or sale of securities by use of
18 means or instruments of transportation or communication in interstate commerce
19 or by use of the mails:

20 a. with scienter, employed devices, schemes, or artifices to
21 defraud;

22 b. obtained money or property by means of untrue statements of a
23 material fact or by omitting to state a material fact necessary in order to make the
24 statements made, in light of the circumstances under which they were made, not
25 misleading; or

26 c. engaged in transactions, practices, or courses of business which
27 operated or would operate as a fraud or deceit upon the purchaser.

28 38. By engaging in the conduct described above, each of the Defendants

1 violated, and unless restrained and enjoined will continue to violate, Section 17(a)
2 of the Securities Act, 15 U.S.C. §§77q(a).

3 **THIRD CLAIM FOR RELIEF**

4 **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF**
5 **SECURITIES**

6 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**
7 **(Against All Defendants)**

8 39. The Commission realleges and incorporates by reference ¶¶ 1 through
9 38 above.

10 40. The Defendants, and each of them, by engaging in the conduct
11 described above, directly or indirectly, in connection with the purchase or sale of a
12 securities, by the use of means or instrumentalities of interstate commerce, of the
13 mails, or of the facilities of a national securities exchange, with scienter:

- 14 a. employed devices, schemes, or artifices to defraud;
- 15 b. made untrue statements of a material fact or omitted to state a
16 material fact necessary in order to make the statements made, in light of the
17 circumstances under which they were made, not misleading; or
- 18 c. engaged in acts, practices, or courses of business which
19 operated or would operate as a fraud or deceit upon other persons.

20 41. By engaging in the conduct described above, each of the Defendants
21 violated, and unless restrained and enjoined will continue to violate, Section 10(b)
22 of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 thereunder, 17 C.F.R. §
23 240.10b-5.

24 **PRAYER FOR RELIEF**

25 WHEREFORE, the Commission respectfully requests that the Court:

- 26 (a) Issue findings of fact and conclusions of law that Defendants
27 committed the alleged violations.
- 28 (b) Issue judgments, in a form consistent with Rule 65(d) of the Federal

1 Rules of Civil Procedure, permanently enjoining Defendants, their agents, servants,
2 employees, attorneys, and those persons in active concert or participation with
3 them, who receive actual notice of the order by personal service or otherwise, from
4 violating Sections 5 and 17(a) of the Securities Act, 15 U.S.C. §§ 77e & 77q, and
5 Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder,
6 17 C.F.R. § 240.10b-5.


7 (c) Order Defendants to disgorge all ill-gotten gains from their illegal
8 conduct, together with prejudgment interest thereon.

9 (d) Order Defendants to pay civil penalties pursuant to Section 20(d) of
10 the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act,
11 15 U.S.C. § 78u(d)(3).

12 (e) Retain jurisdiction of this action in accordance with the principles of
13 equity and the Federal Rules of Civil Procedure in order to implement and carry out
14 the terms of all orders and decrees that may be entered, or to entertain any suitable
15 application or motion for additional relief within the jurisdiction of this Court.

16 (f) Grant such other and further relief as this Court may determine to be
17 just and necessary.

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19 DATED: October 6, 2008

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21 CAROL LALLY
22 Attorney for Plaintiff
23 Securities and Exchange Commission
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