

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES SECURITIES)
AND EXCHANGE COMMISSION,)
)
Plaintiff,) No. 15 C 3142
)
v.)
)
KATSUICHI FUSAMAE,)
)
Defendant.)
)

COMPLAINT

Plaintiff, U.S. Securities and Exchange Commission, alleges as follows:

INTRODUCTION

1. The U.S. Securities and Exchange Commission ("SEC" or the "Commission") brings this enforcement action against Defendant Katsuichi Fusamae ("Fusamae" or "Defendant"), a former senior accounting officer and controller at Molex Japan Co., Ltd. ("Molex Japan"). Molex Japan was the Japanese subsidiary of Molex Inc. ("Molex"), a U.S.-based public company, until it was acquired in December 2013. While at Molex Japan, Fusamae orchestrated a \$200 million fraudulent scheme that spanned more than 20 years.

2. From at least 1989 through April 2010, Fusamae engaged in unauthorized trading in the company's brokerage accounts that resulted in massive trading losses in excess of \$110 million. To conceal his trading losses, Fusamae took out unauthorized loans from various Japanese banks and brokerage firms in the company's name and used the loan proceeds to cover his losses and to engage in additional trading.

3. At the peak of Fusamae's scheme, Molex Japan had accumulated approximately \$222 million in unauthorized loan obligations. Fusamae also falsified documents and engaged in other misconduct to conceal the unauthorized and undisclosed trading and borrowing. After Fusamae's scheme came to light in 2010, Molex restated its financial statements to account for the trading losses and borrowings for the first time. Molex recorded cumulative net losses of \$201.9 million resulting from Fusamae's unauthorized activities.

JURISDICTION AND VENUE

4. The Commission brings this action pursuant to Sections 21(d) and 21(e) of the Securities Exchange Act of 1934 (Exchange Act) [15 U.S.C. §§ 78u(d) and 78u(e)].

5. This Court has jurisdiction over this action pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa], and 28 U.S.C. § 1331.

6. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

7. The transactions, acts, practices and courses of business constituting violations alleged herein have occurred within the jurisdiction of the United States District Court for the Northern District of Illinois and elsewhere. Molex filed false financial statements with the Commission from the Northern District of Illinois as a result of Fusamae's scheme. Fusamae, as controller of Molex Japan, knew that Molex Japan's financial statements were being incorporated into Molex's consolidated financial statements that would be filed with the Commission. In addition, some victims of Fusamae's fraudulent conduct resided or currently reside in the Northern District of Illinois.

8. Fusamae, directly and indirectly, made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein. Fusamae was instrumental in the preparation of Molex Japan's fraudulent financial statements, which were delivered to Molex in the United States and incorporated into Molex's consolidated financial statements filed with the Commission.

9. Fusamae will, unless enjoined, continue to engage in the acts, practices and courses of business set forth in this Complaint, and acts, practices and courses of business of similar purport and object.

FACTS

BACKGROUND

10. Molex is a Delaware corporation headquartered in Lisle, Illinois that designs, manufactures, and sells electronic components. Prior to the company being acquired in December 2013, Molex's common stock was registered pursuant to Section 12 of the Exchange Act and was traded on the NASDAQ.

11. Since its securities were registered under the Exchange Act, Molex was required to, among other things, file accurate annual and quarterly reports with the Commission, make and keep accurate books, records, and accounts reflecting the company's transactions, and devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that its transactions were authorized and properly recorded for inclusion in the company's financial statements.

12. Molex Japan, which is located in Yamato, Japan, is a wholly owned subsidiary of Molex. Molex Japan is one of Molex's largest and most profitable subsidiaries. At all times relevant to the allegations in this Complaint, Molex Japan's financial statements were

incorporated into Molex's consolidated financial statements filed with the Commission on Molex's Forms 10-K and 10-Q.

13. Katsuichi Fusamae, 69, worked in various accounting roles at Molex Japan from July 1975 through April 2010, ultimately rising to the role of the senior accounting officer or Controller.

14. Fusamae's responsibilities included investing excess cash from Molex Japan's operations. Molex restricted cash investments for all of its entities to certificates of deposit, government treasury bills, European currency deposits, and prime corporate paper. When investing Molex Japan's excess cash, Fusamae used the company's brokerage accounts at multiple Japanese broker-dealers.

FUSAMAE'S FRAUDULENT SCHEME

15. Beginning by at least 1989 and continuing until April 2010, Fusamae engaged in unauthorized trading in the company's brokerage accounts, concealed massive trading losses by taking out unauthorized and undisclosed loans in the company's name, and manipulated Molex Japan's accounting records to avoid detection.

Fusamae's Unauthorized Trading and Unauthorized Borrowings

16. Beginning by at least 1989, Fusamae began investing Molex Japan's excess cash in riskier securities, including substantial trading of equities on margin. No one at Molex or Molex Japan authorized Fusamae to engage in the riskier trading, nor were they aware of his trading activities.

17. Molex Japan immediately began suffering substantial losses on Fusamae's investments. Initially, Fusamae concealed the trading losses in the Molex Japan brokerage

accounts by borrowing money in Molex Japan's name from Molex Japan's broker-dealers and moving the borrowed funds into the brokerage accounts temporarily at the end of each fiscal year. By doing so, Fusamae was able to provide auditors with account statements with values that matched the brokerage account balances on Molex Japan's books. Fusamae continued to trade with borrowed funds, including margin trading, in an attempt to recover his losses, but instead he compounded them.

18. As the losses in the Molex Japan's brokerage accounts mounted, the loans from the broker-dealers were insufficient to conceal the losses and Fusamae began taking out unauthorized and undisclosed loans in Molex Japan's name from several Japanese banks, pledging company assets as collateral for the loans. At the peak of the scheme, the amount of Molex Japan's outstanding unauthorized and undisclosed loans totaled approximately \$222 million and Molex Japan had accumulated in excess of \$110 million in trading losses.

***Fusamae Exploited Internal Control Weaknesses
to Engage in Unauthorized Borrowings***

19. Fusamae was able to take out the unauthorized loans through improper use of the official company "seal" that Molex Japan used to stamp bank and loan documents. In Japan, companies use corporate seals to stamp documents and signify that the company has authorized a particular transaction. Many Japanese companies have two seals: one the company uses exclusively for bank transactions and one for all non-bank transactions. Molex Japan, however, had only one company seal for all transactions.

20. Throughout Fusamae's scheme, Molex Japan's human resources director controlled the company seal. Additionally, Fusamae was an "acting approver" of the use of the seal when the human resources director was unavailable. At Fusamae's request, the human

resources director, who had no knowledge of Molex Japan's banking relationships or borrowings, stamped numerous bank documents with the Molex Japan seal without reading or understanding the documents.

21. Fusamae was also able to gain access to the title deeds for Molex Japan's real estate and pledge the company's real estate as security for some of the loans. Molex Japan kept the title deeds for its real estate in a safe in its accounting department. The accounting department employees unlocked the safe every morning so they could remove petty cash stored in the safe. The safe door remained open all day and the accounting department employees locked it again at the close of the business day. Fusamae's desk was in the accounting department and therefore each day he had unfettered access to the unlocked safe and the real estate deeds stored inside it. On several occasions, Fusamae removed the real estate deeds for Molex Japan's manufacturing facilities from the safe and pledged them as security for some of the unauthorized and undisclosed loans.

***Fusamae Concealed His Trading Losses
and Unauthorized Borrowings***

22. Fusamae was able to conceal his unauthorized trading and borrowing within Molex and Molex Japan by monopolizing the flow of information from the banks and broker-dealers where Molex Japan had accounts. During the entirety of his scheme, Fusamae was the sole contact with the banks and broker-dealers where Molex Japan had accounts, and Molex and Molex Japan allowed Fusamae to be the sole recipient of the bank and brokerage records for all of Molex Japan's accounts. As a result, no one in Molex Japan's accounting department was in a position to notice the trading losses or unauthorized borrowings. As trading losses mounted,

Fusamae used the loan proceeds from his unauthorized borrowings to replenish the brokerage accounts to levels that would not arouse suspicion.

23. Fusamae took sole control over the bank and brokerage account reconciliation process. Account reconciliations were supposed to be prepared by another member of Molex Japan's accounting department, subject to Fusamae's review and approval. In practice, however, Fusamae took over the reconciliation responsibilities and either did not prepare them or prepared false reconciliations when required. Since the reconciliation process did not involve any other individuals, no one detected the irregularities in Molex Japan's accounts.

24. In addition, throughout Fusamae's scheme, Molex Japan had in its general ledger a number of bank-related accounts that had no current authorized function. Fusamae used the dormant general ledger accounts to "park" the proceeds from unauthorized loans until he could transfer the funds to other accounts to cover up his trading losses or to balance out other accounts. Molex and Molex Japan did not perform reviews of any dormant general ledger accounts to confirm there was no activity in them and had no processes in place to ensure any activity in those accounts was captured in the financial statements. As a result, Fusamae was able to use the dormant general ledger accounts to conceal his unauthorized activities and to replenish Molex Japan's active accounts as needed.

Fusamae Circumvented Molex's Audit Process

25. Fusamae also concealed the unauthorized trading and unauthorized borrowing by intercepting and falsifying confirmations sent by Molex's external auditors. As part of Molex's annual audit, the company's outside auditors sent confirmations to the Japan-based broker-dealers and banks with which Molex Japan had existing relationships, which were supposed to be returned directly to the auditors. The confirmations sent by Molex's outside auditors asked the

banks and broker-dealers to disclose, among other things, the balance of all accounts and all loans held in the name of Molex or Molex Japan. On several occasions, Fusamae contacted the banks and broker-dealers and asked for a meeting with them before they returned the completed confirmations to Molex's outside auditor. At the conclusion of his meetings with the representatives from the various banks and broker-dealers, Fusamae kept the completed confirmations and told the representatives from the banks and broker-dealers that he would return the completed confirmations to Molex's outside auditor. Fusamae then used whiteout to redact the portions of the confirmation referencing the unauthorized trading and unauthorized borrowing and mailed the falsified confirmations to Molex's outside auditor.

FUSAMAE'S SCHEME UNRAVELS

26. In late March 2010, Fusamae was unable to secure additional funds to conceal his unauthorized and undisclosed trading and borrowing. Fusamae stopped showing up for work and, on April 5, 2010, he mailed a confession letter to the company. In his confession letter, Fusamae admitted, among other things, that:

- He engaged in margin trading with Molex Japan's funds and accumulated losses that he kept off Molex Japan's balance sheet.
- He was able to use Molex Japan's bank seal freely in order to enter into loan transactions on behalf of Molex Japan to fund his scheme.
- The losses from his trading were in his best estimation approximately JPY 16.6 billion (\$166 million).

- In order to avoid detection by auditors, he transferred money from off-balance sheet bank accounts to Molex Japan's balance sheet accounts to match the account balances on Molex Japan's books and forged certain documents provided to the auditors.

27. On April 9, 2010, Molex filed a Form 8-K disclosing Fusamae's scheme and the potential effect on Molex's financial statements. Shortly thereafter Molex Japan terminated Fusamae's employment.

EFFECT OF FUSAMAE'S SCHEME ON MOLEX'S FINANCIAL STATEMENTS

28. Fusamae's concealment of his trading losses and unauthorized borrowings had a material impact on Molex's financial statements. Molex Japan never accounted for these loans and trading losses in its financial statements, which were incorporated into Molex's consolidated financial statements filed with the Commission.

29. In August 2010, Molex filed a Form 8-K disclosing that it was restating its financial statements for fiscal 2008, fiscal 2009, and the first three quarters of fiscal 2010 to account for Fusamae's scheme. Molex recorded cumulative net losses of \$201.9 million and restated its fiscal 2008 and 2009 consolidated financial statements as well as the results for the first three quarters of fiscal 2010. The after tax effect of these charges was approximately \$128.7 million, which reduced Molex's total stockholder equity by approximately 6% as of June 30, 2010. Molex recognized these losses primarily as a material charge to 2008 retained earnings for the losses that pre-dated 2008. For the restated years, Molex recognized losses of \$4.7 million in 2008, \$2.7 million in 2009, and \$26.7 million in 2010 relating to Fusamae's scheme.

30. The \$201.9 million of cumulative net losses recognized by Molex was primarily comprised of: (1) \$169.7 million of outstanding unauthorized loans as of August 2010; (2) \$10.8

million of payments made in April 2010 on the unauthorized loans; (3) and \$20.5 million of missing cash that the company could not account for.

31. At all times relevant to the allegations in this Complaint, Fusamae knew that Molex Japan's financial statements were incorporated into Molex's consolidated financial statements and that those consolidated financial statements were being issued to the public and to Molex investors in the United States. He also knew that Molex's consolidated financial statements were materially false and misleading because they did not account for the massive unauthorized loans and trading losses resulting from Fusamae's conduct.

COUNT I

FUSAMAE VIOLATED SECTION 10(b) OF THE EXCHANGE ACT AND RULES 10b-5(a) AND 10b-5(c) THEREUNDER

32. The Commission realleges and incorporates by reference the allegations set forth in paragraphs 1 through 31 above.

33. As a result of the conduct alleged above, Fusamae has, directly or indirectly, with scienter, by use of the means or instruments of interstate commerce or by use of the mails, used or employed, in connection with the purchase or sale of securities, a manipulative or deceptive device or contrivance in contravention of the rules and regulations of the Commission; employed devices, schemes, or artifices to defraud; and engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person.

34. As a result, Fusamae violated Section 10(b)(5) of the Exchange Act and Rules 10b-5(a) and 10b-5(c) thereunder.

35. Unless restrained and enjoined, Fusamae will, in the future, violate Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

COUNT II

**FUSAMAE VIOLATED SECTION 13(b)(5) OF THE EXCHANGE ACT AND
RULE 13b2-1 THEREUNDER**

36. The Commission realleges and incorporates by reference the allegations set forth in paragraphs 1 through 31 above.

37. As a result of the conduct alleged in paragraphs 1 through 31, Fusamae knowingly circumvented and knowingly failed to implement a system of internal accounting controls, and knowingly falsified books, records, and accounts required to be maintained by Molex.

38. As a result, Fusamae violated Section 13(b)(5) of the Exchange Act and Exchange Act Rule 13b2-1.

39. Unless restrained and enjoined, Fusamae will, in the future, violate Section 13(b)(5) of the Exchange Act and Exchange Act Rule 13b2-1.

COUNT III

**FUSAMAE AIDED AND ABETTED MOLEX'S VIOLATIONS OF SECTION 13(a),
13(b)(2)(A), AND 13(b)(2)(B) OF THE EXCHANGE ACT AND RULES
12b-20, 13a-1, AND 13a-13 THEREUNDER**

40. The Commission realleges and incorporates by reference the allegations set forth in paragraphs 1 through 31 above.

41. As a result of the conduct alleged in paragraphs 1 through 31, Molex filed inaccurate annual and quarterly reports with the Commission and omitted material information from those reports that was necessary to make the statements made not misleading. Molex also failed to make and keep books, records, and accounts that accurately and fairly reflected Molex's transactions and disposition of assets. Finally, Molex failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are

recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

42. As a result, Molex violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, which required Molex to maintain sufficient internal controls, file accurate reports, and keep true and accurate books and records.

43. As a result of the conduct alleged in paragraphs 1 through 31, Fusamae aided and abetted Molex's violations of the Exchange Act by knowingly or recklessly providing substantial assistance to Molex's violations of the Exchange Act.

44. Pursuant to Section 20(e) of the Exchange Act, Fusamae is deemed to be in violation of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12-20, 13a-1, and 13a-13 thereunder to the same extent as Molex.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that Fusamae committed the violations charged and alleged herein.

II.

Grant Permanent Injunctions, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Fusamae, his agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the

Order, by personal service or otherwise, and each of them, from violating, directly or indirectly, or aiding and abetting violations of the law and rules alleged in this Complaint.

III.

Issue an Order requiring Fusamae to disgorge the ill-gotten gains that he received as a result of the violations alleged in this Complaint, including prejudgment interest.

IV.

Issue an Order, pursuant to Section 21(d)(2) of the Exchange Act, barring Fusamae from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

V.

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

VI.

Grant an Order for any other relief this Court deems appropriate.

JURY DEMAND

The Commission demands a trial by jury on all issues so triable.

Dated: April 9, 2015

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION

By: /s/ Daniel J. Hayes

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