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U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
LOS ANGELES

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11 **UNITED STATES DISTRICT COURT**
 12 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**

13 SECURITIES AND EXCHANGE
 14 COMMISSION,

15 Plaintiff,

16 vs.

17 AOB COMMERCE, INC.; AOB ASIA
 18 FUND I, LLC; and TERCHI LIAO a/k/a
 NELSON LIAO,

19 Defendants,

20 and

21 AOB MANAGEMENT, INC.; AOB
 22 MEDIA, INC.; AOB TRANSPORTATION,
 INC.; and AOB VACATIONS, INC.,

23 Relief Defendants.

Case No. **CV 07 4507 CAS (JCx)**

**COMPLAINT FOR VIOLATIONS OF
 THE FEDERAL SECURITIES LAWS**

24
 25 Plaintiff Securities and Exchange Commission ("Commission") alleges as
 26 follows:

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- 1 ▪ Raised more than \$13.7 million from investors through the sale
- 2 of Notes;
- 3 ▪ Received less than \$375,000 from other business activities;
- 4 ▪ Paid more than \$6 million in interest and commissions to investors;
- 5 and
- 6 ▪ Loaned or otherwise transferred almost \$6 million to certain related
- 7 entities owned and/or controlled by Liao, i.e., AOB Management,
- 8 Inc., AOB Media, Inc., AOB Transportation, Inc., and AOB
- 9 Vacations, Inc. (collectively, the "Relief Defendants").

10 7. By paying interest and commissions on the Notes principally with
11 new investor funds, Liao is employing a fraudulent scheme and engaging in a
12 course of business that operates as a fraud.

13 8. In addition, in light of Liao's representations about the Defendants'
14 business and interest and commissions on the Notes, Liao's failure to disclose that
15 interest and commissions were principally being paid with new investor funds was
16 materially misleading.

17 9. Liao has known since at least September 2006 that AOB Commerce
18 and AOB Asia Fund (collectively, "AOB") were unable to pay the monthly interest
19 due investors from its business activities, and knew or was reckless in not knowing
20 that AOB was unable to do so prior to that date.

21 10. Since September 2006, the Defendants have continued to raise
22 substantial amounts from investors through the sale of the Notes and have continued
23 to pay the interest and commissions due thereon with new investor principal.

24 11. By engaging in the conduct described in this complaint, the
25 Defendants have violated, and unless enjoined will continue to violate, the
26 antifraud and securities registration provisions of the Securities Act and the
27 Exchange Act.

28 12. By this complaint, the Commission seeks, *ex parte*, against each of the

1 Defendants, a temporary restraining order, an asset freeze, an order requiring
2 accountings, an order prohibiting the destruction of documents, an order expediting
3 discovery, an order appointing a receiver over AOB Commerce and AOB Asia
4 Fund, and also seeks preliminary and permanent injunctions, disgorgement with
5 prejudgment interest, and civil penalties against each of the Defendants, and an
6 officer and director bar against Liao.

7 13. In addition, the Commission seeks, *ex parte*, against each of the Relief
8 Defendants, an asset freeze and an order appointing a receiver over each of them.

9 **THE DEFENDANTS**

10 14. Terchi "Nelson" Liao resides in Arcadia, California. He is the sole
11 owner and officer of both AOB Commerce and AOB Asia Fund. In addition, Liao
12 is the sole owner and/or controlling person of AOB Management, AOB Media,
13 AOB Transportation, and AOB Vacations.

14 15. AOB Asia Fund I, LLC is a California limited liability company
15 located in Arcadia, California. AOB Asia Fund has never registered an offering of
16 securities under the Securities Act or a class of securities under the Exchange Act.

17 16. AOB Commerce, Inc. is a California corporation located in Arcadia,
18 California. AOB Commerce has never registered an offering of securities under
19 the Securities Act or a class of securities under the Exchange Act.

20 **THE RELIEF DEFENDANTS**

21 17. AOB Management, Inc. is a California corporation located in Arcadia,
22 California. Liao is the sole owner of AOB Management and its president.

23 18. AOB Media, Inc. is a California corporation located in Pasadena,
24 California. Liao is a part-owner of AOB Media and its president.

25 19. AOB Transportation, Inc. is a California corporation located in
26 Arcadia, California. Liao is the sole owner of AOB Transportation and its
27 president.

28 20. AOB Vacations, Inc. is a California corporation located in Arcadia,

1 California. Liao is the sole owner of AOB Vacations and its sole officer.

2 **THE UNREGISTERED AOB OFFERING**

3 **THE NOTES**

4 21. Liao has offered and sold Notes to investors through AOB Commerce
5 since at least October 2004, and through AOB Asia Fund since at least July 2006.

6 22. The Notes are securities in the form of promissory notes.
7 Alternatively, the Notes are securities in the form of investment contracts.

8 23. Neither AOB Commerce's nor AOB Asia Fund's Note offering is
9 registered with the Commission.

10 24. The Note terms are negotiated with the investor; therefore, the Notes'
11 interest rates and lengths to maturity vary.

12 25. The Notes' interest rates range from 1% to 5.5% per month (12% to
13 66% per year), with most Notes paying 2% to 3% per month (24% to 36% per year).

14 26. The Notes typically mature in nine months, but the Notes typically
15 renew automatically for additional like terms unless the investors request
16 otherwise. As a result, some investors have held their Notes for years.

17 **THE OFFER AND SALE OF THE NOTES**

18 27. The Defendants rely on existing investors to solicit new investors to
19 purchase Notes. The Defendants pay investors who refer new investors to AOB
20 commissions of as much as 2% or 3% per month on the amount invested.

21 28. Liao also personally solicits investors to purchase Notes.

22 29. The Defendants maintain a website at www.aobinc.com. The website
23 does not offer the Notes by name but states that "AOB Commerce syndicated loan
24 specialists work closely with investors/lenders to raise capital of over \$50 million."

25 30. The website also contains a password-protected entry to a presentation
26 of the investment opportunity provided by AOB Asia Fund, which the password-
27 protected portion of the website describes as "an AOB Commerce guaranteed
28 principal and return product."

1 31. Several prospective investors were immediately provided access to the
2 password-protected portion of the website by existing investors soliciting their
3 investment without any meaningful effort being made to determine whether they
4 were qualified investors.

5 **REPRESENTATIONS TO INVESTORS**

6 32. The Defendants offer and sell the Notes principally through oral
7 representations. Liao tells prospective investors, or he tells existing investors who
8 in turn tell prospective investors, that their money will become part of a large fund
9 that will be loaned to companies in China that do not qualify for bank loans and are
10 therefore willing to pay AOB a higher interest rate.

11 33. The Defendants do not provide investors with offering documents or
12 financial statements for either AOB Commerce or AOB Asia Fund.

13 34. The Notes issued by AOB state the dates of maturity, the promised
14 interest rate, and in most cases, the fact that the interest rate is “guaranteed.”

15 35. Many Notes also represent that investor monies will be used in AOB’s
16 “syndication program,” which is “designed to offer financial services to AOB’s
17 overseas . . . clients.”

18 36. On the AOB website, the Defendants represent that AOB Commerce
19 is “a financial services company serving small to large businesses by offering
20 business lending solutions to assist with short-term and long-term financial needs.”

21 37. In the password-protected portion of the website devoted to AOB Asia
22 Fund, the Defendants represent that “fast growing businesses in Asia look to AOB
23 Commerce for the capital they need for expansion . . . The AOB Asia Fund is the
24 source of this capital,” and that AOB Asia Fund offers “secured high returns” of
25 24% per year on one-year investments of at least \$10,000.

26 **THE DEFENDANTS’ OPERATION OF A PONZI-LIKE SCHEME**

27 38. From October 2004 through March 2007, the Defendants raised
28 approximately \$45 million from investors through the sale of Notes.

1 39. As a result of poor-to-non-existent record keeping by the Defendants,
 2 the Defendants' use of a number of bank accounts in their names and the names of
 3 the Relief Defendants, the Defendants' thousands of transfers between and among
 4 the various accounts, and the incomplete production of records by the Defendants'
 5 banks, the Commission is unable at this time to conclusively analyze the
 6 Defendants' use of investor monies prior to July 1, 2006. Based upon the
 7 incomplete evidence accumulated to date, plaintiff alleges on information and
 8 belief that the Defendants' fraudulent scheme commenced prior to that date.

9 40. The Defendants produced a detailed general ledger for the period from
 10 July 1, 2006 through December 31, 2006. This and other evidence shows that the
 11 Defendants are using a small amount of investor funds to make loans to Asian
 12 companies. However, the Defendants are using most of the investor funds to make
 13 monthly interest and commission payments to Note investors and to make loans to
 14 or otherwise fund the operations of the Relief Defendants. The chart below shows
 15 the funds received by the Defendants and how they were used during the July 2006
 16 through December 2006 period for which the Defendants supplied financial records:

	AOB Commerce	AOB Asia Fund ¹	Total
Amount from Investors	\$12,875,053	\$870,000	\$13,745,053
Amount Realized from Investments	338,141	\$35,392	\$373,533
Amount Paid in Interest and Commissions	(\$5,985,463)	(\$118,367)	(\$6,103,830)
Amount Loaned to Relief Defendants	(\$5,928,746)	0	(\$5,928,746)

1 ¹ AOB Asia Fund's receipt and use of funds is from its inception on June 7, 2006.

1 41. Liao is the only person with signature authority on AOB's bank
2 accounts and is the only person responsible for signing the monthly checks for
3 payment of interest and commissions due on the Notes.

4 42. Liao has known since at least September 2006 that AOB was unable
5 to pay the monthly interest and commissions due on the Notes from its business
6 activities, and that it was using investor principal to make those payments.

7 43. Liao knew, or was reckless in not knowing, prior to September 2006,
8 that AOB was unable to make the interest and commission payments due on the
9 Notes from its business activities, and that it was using investor principal to make
10 those payments.

11 44. Liao used investor money for personal use, including credit card
12 charges, auto leases, mortgage payments and insurance. These transactions
13 amounted to undisclosed interest-free loans of investor principal for terms of up to
14 one year.

15 45. The Defendants are continuing to raise substantial amounts of money
16 from investors and to use those funds to pay interest and commissions to investors.
17 The Defendants' use of those monies to pay returns to current Note holders
18 constitutes the ongoing perpetuation of their Ponzi-like scheme.

19 46. At no time have the Defendants disclosed to investors that the interest
20 and commissions they are paid on the Notes are financed with the monies invested
21 by other Note purchasers.

22 47. Liao, and through him the other Defendants, have acted and are acting
23 with scienter.

24 48. The Defendants' fraudulent conduct is ongoing and there is a
25 reasonable likelihood that it will continue if they are not enjoined.

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- 1 a. employed devices, schemes, or artifices to defraud;
- 2 b. obtained money or property by means of untrue statements of a
- 3 material fact or by omitting to state a material fact necessary in
- 4 order to make the statements made, in the light of the
- 5 circumstances under which they were made, not misleading; or
- 6 c. engaged in transactions, practices, or courses of business which
- 7 operated or would operate as a fraud or deceit upon the
- 8 purchaser.

9 55. By engaging in the conduct described above, Liao, AOB Commerce,

10 and AOB Asia Fund violated, and unless restrained and enjoined will continue to

11 violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

12 **THIRD CLAIM FOR RELIEF**

13 **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES**

14 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

15 **(Against Liao, AOB Commerce and AOB Asia Fund)**

16 56. The Commission realleges and incorporates by reference paragraphs 1

17 through 48 above.

18 57. Liao, AOB Commerce, and AOB Asia Fund, by engaging in the

19 conduct described above, directly or indirectly, in connection with the purchase or

20 sale of a security, by the use of means or instrumentalities of interstate commerce,

21 of the mails, or of the facilities of a national securities exchange, with scienter:

- 22 a. employed devices, schemes, or artifices to defraud;
- 23 b. made untrue statements of a material fact or omitted to state a
- 24 material fact necessary in order to make the statements made,
- 25 in the light of the circumstances under which they were made,
- 26 not misleading; or
- 27 c. engaged in acts, practices, or courses of business which
- 28 operated or would operate as a fraud or deceit upon other

1 persons.

2 58. By engaging in the conduct described above, Liao, AOB Commerce,
3 and AOB Asia Fund violated, and unless restrained and enjoined will continue to
4 violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5
5 thereunder, 17 C.F.R. § 240.10b-5.

6 **PRAYER FOR RELIEF**

7 WHEREFORE, the Commission respectfully requests that the Court:

8 **I.**

9 Issue findings of fact and conclusions of law that the Defendants committed
10 the alleged violations.

11 **II.**

12 Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),
13 temporarily, preliminarily, and permanently enjoining Defendants and their
14 officers, agents, servants, employees, and attorneys, and those persons in active
15 concert or participation with any of them, who receive actual notice of the
16 judgment by personal service or otherwise, and each of them, from violating
17 Sections 5(a), 15 U.S.C. § 77e(a), 5(c), 15 U.S.C. § 77e(c), and 17(a), 15 U.S.C. §
18 77q(a), of the Securities Act, and Section 10(b), 15 U.S.C. § 78j(b), of the
19 Exchange Act, and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

20 **III.**

21 Issue, in a form consistent with Fed. R. Civ. P. 65, as to all Defendants, a
22 temporary restraining order, an order for accountings, an order prohibiting the
23 destruction of documents, an order expediting discovery, an order freezing the
24 Defendants' assets (including, without limitation, accounts at East West Bank,
25 Chinatrust Bank, Continental Bank of America, EverTrust Bank, and Bank of
26 America), an order appointing a receiver over the Defendants' assets, and a
27 preliminary injunction.

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1 **IV.**

2 Issue, in a form consistent with Fed. R. Civ. P. 65, as to all Relief
3 Defendants, an order freezing the Relief Defendants' assets (including, without
4 limitation, accounts at East West Bank), and an order appointing a receiver over
5 the Relief Defendants' assets.

6 **V.**

7 Order disgorgement all ill-gotten gains from the illegal conduct alleged
8 herein, together with prejudgment interest thereon.

9 **VI.**

10 Enter an order, pursuant to Section 21(d)(5) of the Exchange Act, 15 U.S.C.
11 § 78u(d)(2), barring Liao from acting as an officer or director of any issuer that has
12 a class of securities registered pursuant to Section 12 of the Exchange Act or that is
13 required to file reports pursuant to Section 15(d) of the Exchange Act.

14 **VII.**

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

18 **VIII.**

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

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IX.

Grant such other and further relief as this Court may determine to be just and necessary.

DATED: July 11, 2007

Peter Del Greco

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