UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,	07CV4538
Plaintiff,	JUDGE BUCKLO
v.	MAGISTRATE JUDGE KEYS
BRIAN N. HOLLNAGEL and BCI AIRCRAFT LEASING, INC.	**JURY DEMANDED**
Defendants.	

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission ("SEC"), alleges as follows:

NATURE OF THE ACTION

1. This matter centers on a fraudulent scheme in which Brian N. Hollnagel ("Hollnagel") and his company, BCI Aircraft Leasing, Inc. ("BCI") (collectively, "Defendants"), from 1999 through 2006, offered and sold to investors membership shares of Limited Liability Corporations ("LLCs") controlled and managed by BCI. Defendants promised to use investor funds to purchase commercial aircraft for the LLCs and lease the aircraft to commercial airlines. Investors were supposed to receive part of the lease revenue as their return. In reality, Defendants operated a massive Ponzi scheme. In addition, in 2007 Defendants continued their scheme by fraudulently repurchasing investors' interests through materially misleading statements.

2. Defendants BCI and Hollnagel managed the LLCs and made all decisions regarding the purchase and leasing of aircraft: investors were passive, depending on the efforts of BCI and Hollnagel.

3. In the offer and sale of membership shares of these LLCs, Defendants told numerous investors and potential investors that:

a. investor money would be used to purchase specifically identified aircraft on behalf of the investors' LLC;

b. investors in the LLC would receive regular monthly payments derived from the lease income from the aircraft owned by the particular LLC (typically about a 1% monthly return on investor capital); and

c. if an aircraft owned by an LLC was sold, investors were entitled to half of all proceeds from the sale above and beyond their capital contribution.

4. Based on these representations, from approximately 1999 through approximately 2006, Defendants BCI and Hollnagel raised at least $82 million from approximately 120 investors in at least eighteen states.

5. In fact, while Defendants BCI and Hollnagel continued to solicit and receive investor money through these representations, Defendants commingled in a bank account in BCI's name investor money and lease payments for numerous LLCs, along with proceeds derived from sales of aircraft owned by numerous LLCs and proceeds of bank loans.

6. Defendants BCI and Hollnagel often used investor money of one LLC to pay investors in other LLCs. Purported monthly returns to investors of LLCs were often funded by investor money, proceeds from sale of aircraft belonging to other LLCs, or proceeds from loans to BCI obtained by pledging aircraft owned by other LLCs. LLC lease revenue received by the

LLCs, after debt payments, was rarely sufficient to cover the monthly payments investors were actually receiving. Furthermore, this revenue virtually always was barely sufficient to cover BCI's monthly operating expenses.

7. In addition, Defendants BCI and Hollnagel often obtained loans for BCI using investor assets as collateral.

8. Finally, Defendant Hollnagel used funds from BCI's commingled bank account, including investor money, for numerous personal expenditures, including three expensive homes and luxury automobiles.

9. Through the activities alleged in this complaint, Defendants BCI and Hollnagel have, and unless enjoined, will continue to, directly and indirectly, engage in transactions, acts, practices or courses of business which are violations of Section 17(a) of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder.

10. The SEC brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], and Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u(e)].

JURISDICTION

11. This Court has jurisdiction pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v], Section 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. § 1331.

12. The acts, practices and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Northern District of Illinois and elsewhere.

13. Defendants are inhabitants of, and transact business in, the Northern District of Illinois.

14. Defendants, directly or indirectly, have made, and are making, use of the mails or the means or instrumentalities of interstate commerce in connection with the transactions, acts, practices and courses of business alleged herein.

DEFENDANTS

15. Brian N. Hollnagel, approximately age 34, is a resident of Chicago, Illinois. Hollnagel is the Chief Executive Officer ("CEO") and founder of BCI.

16. Defendant Hollnagel testified under oath in connection with the SEC's investigation on July 17 and 18, 2007. As alleged throughout this complaint, Hollnagel made various admissions and other statements during that testimony regarding the operation of BCI's business.

17. BCI Aircraft Leasing, Inc. is a privately-held Illinois corporation with its principal place of business in Chicago, Illinois. BCI was formed as a commercial aircraft leasing company. BCI has no board of directors.

18. BCI advertises itself as one of the top 12 commercial aircraft leasing companies in the world, and the world's largest individually owned aircraft leasing company, with assets over $1 billion.

FACTS

DEFENDANTS BCI AND HOLLNAGEL SOLICITED INVESTORS

19. Between 1999 and 2007, Defendants BCI and Hollnagel communicated with potential investors to solicit their purchase of membership shares of LLCs controlled by BCI. Such communication occurred variously in person, through telephone conversations, or in

writing. BCI also used third parties to raise funds from potential investors, at least one of whom was registered as a broker and dealer with the SEC.

20. Between approximately 1999 and 2007, Defendants BCI and Hollnagel raised at least $82 million from approximately 120 investors in at least eighteen states from the offer and sale of membership shares of LLCs controlled by BCI.

21. On its website, BCI described the "equity investment" opportunities to investors and potential investors of the LLCs. The website stated that the LLCs own aircraft, directly or through a trust, and then lease them to airlines. The website further stated that every month, a fixed amount of the rent is allocated to pay principal and interest on the loan used to purchase the aircraft, and then "the balance is allocated to the equity investors." The website further stated that investors in the LLCs are offered cash rates of return between 10 percent and 15 percent per year, plus a "share in any residual upside in the aircraft." The website also invited interested members of the public to contact BCI.

DEFENDANTS BCI AND HOLLNAGEL MADE REPRESENATIONS REGARDING THE INVESTMENTS

22. Between approximately 1999 and approximately 2006, Defendants BCI and Hollnagel conducted approximately twenty private offerings to sell interests in LLCs controlled and managed by BCI, raising over $82 million from at least 120 investors.

23. Investors and potential investors were provided with private placement offering memoranda purporting to describe the intended use of their investment funds and how the LLCs were operated.

24. According to the offering materials provided to investors and potential investors by Defendants BCI and Hollnagel, each LLC operated independently and was formed with the purpose of purchasing specific commercial aircraft.

25. Defendants BCI and Hollnagel represented to numerous investors and potential investors that the aircraft would be purchased by the LLC using (1) investors' funds and (2) bank loans.

26. Defendants BCI and Hollnagel represented to numerous investors and potential investors that the LLC would purchase aircraft, using the investor money and bank loans, which would be leased to a commercial airline in return for monthly lease payments from the airline.

27. Defendants BCI and Hollnagel represented to numerous investors and potential investors that payments due on bank loan were deducted from the monthly lease payments from the airline, and the remaining lease revenue went to investors as monthly returns.

28. Defendants BCI and Hollnagel represented to numerous investors and potential investors that they were purchasing membership units of a specific, designated limited liability company ("LLC") in exchange for their capital contribution.

29. Defendants BCI and Hollnagel represented to numerous investors and potential investors that they were in effect purchasing an ownership interest in the equity of the LLC, which consisted of the aircraft and the lease income it provided.

30. Specifically, the offering materials provided by Defendants BCI and Hollnagel represented that, among other things:

a. investor money would be used to purchase specifically identified aircraft on behalf of the investors' LLC;

b. investors in the LLC would receive regular monthly payments derived from the lease income from the aircraft owned by the particular LLC, after monthly payments on the debt (these monthly payments to investors were typically about a 1% monthly return on investor capital);

c. if an aircraft owned by an LLC were sold, investors were entitled to half of all proceeds from the sale above and beyond their capital contribution;

d. any reinvestment of proceeds from sales of LLC assets, i.e. aircraft, required the authorization of the LLC's investors;

e. BCI, as manager of the LLC, generally had discretion to use investor money and LLC proceeds as it saw fit, such as selling aircraft at a profit or obtaining loans using LLC assets, but only as necessary to carry out the business of the specific LLC; and

f. BCI, as manager of the LLC, was entitled to reasonable compensation for its services "as provided by the agreement or as determined and established by the members."

31. Defendant Hollnagel was familiar with the terms of the offering materials and that he reviewed them before distribution to investors and potential investors.

32. Defendant Hollnagel was often responsible for communicating with investors and potential investors regarding their investments and the operation of the LLCs.

33. In fact, Defendants BCI and Hollnagel did not operate the LLCs in a manner consistent with the representations made to investors and potential investors.

DEFENDANTS BCI AND HOLLNAGEL COMMINGLED INVESTOR MONEY IN BCI'S ACCOUNTS AS PART OF A PONZI SCHEME

34. As stated above, Defendants BCI and Hollnagel told investors, among other things, that: (i) investor money for a specific LLC would be used to purchase an aircraft specifically identified for that LLC; and (ii) investors would receive monthly returns from the lease income from the aircraft owned by the particular LLC.

35. In fact, while Defendants BCI and Hollnagel continued to solicit and receive investor money through the representations above, Defendants often used investor money of one LLC to pay investors of other LLCs.

36. Monthly returns for investors of LLCs were often paid from investor money, from proceeds from sale of aircraft belonging other LLCs, or from proceeds from loans to BCI obtained by BCI's pledging of aircraft owned by LLCs.

37. Defendants BCI and Hollnagel commingled investor money and lease payments for various LLCs, along with revenue derived from the sale of aircraft owned by various LLCs, in a number of BCI-controlled bank accounts.

38. Lease revenue obtained by the LLCs, after LLC debt payments, was virtually never sufficient to cover the monthly payments investors were actually receiving from BCI.

39. Defendants BCI and Hollnagel were operating a massive Ponzi scheme.

40. Defendants BCI and Hollnagel commingled many of the funds from the purportedly independent LLCs into a bank account held in BCI's name.

41. Defendant BCI's bank account contained commingled funds from several sources: investor capital, LLC lease revenue, proceeds from sales of aircraft, at least some of which were owned by investors through LLCs, and proceeds from numerous bank loans obtained by BCI. Defendant BCI had no other sources of funds.

42. Defendant Hollnagel knew that neither he nor anyone else at BCI ever made any capital contribution to BCI. Thus, all capital contributions to BCI originated from outside investors.

43. Defendants BCI and Hollnagel obtained numerous bank loans for BCI, totaling approximately $37 million as of late May 2007.

44. Many of these loans were obtained by pledging as collateral "all assets of BCI."

45. In connection with numerous bank loans, Defendants BCI and Hollnagel provided banks with audited financials of BCI's combined balance sheet, which included all of the LLCs as "related entities under BCI's control."

46. In connection with the bank loans described in the previous paragraph, Defendants BCI and Hollnagel failed to disclose to banks that the LLCs, and their assets, were not owned by BCI.

47. Thus, many of Defendant BCI's bank loans were obtained by pledging investor assets as collateral.

BCI did not properly account for investor funds in its commingled accounts.

48. The only method by which Defendant BCI accounted for investor funds in its commingled bank accounts was a "due to" or "due from" entry in the BCI and LLC accounting records.

49. Defendant Hollnagel knew that at all times, it was difficult for BCI's accounting to keep up with its transactions. Thus neither Hollnagel nor BCI's accountants knew whether accounts were accurate, timely and which investors owned which assets, including cash..

50. Defendant Hollnagel admitted that "getting [the accounting] to catch up with the drive of the business has been one of [BCI's] largest challenges."

51. According to Defendant Hollnagel, he did not "know whether [the accounting records are] fully up to date, the accounting is up to the minute and deadly accurate... As I said, our back office was a challenge for us...I mean I don't know whether or not [accounting records were] accurate...all through the business, the back office has been a challenge..."

52. At no time did Defendants BCI and Hollnagel disclose these "challenges" to investors or potential investors.

53. Defendant Hollnagel knew that no one at BCI ever determined, nor did Hollnagel ever request that anyone at BCI determine, what portion of the funds in BCI's commingled bank account belonged to BCI, if any, and what portion belonged to investors.

54. Defendant Hollnagel knew or was reckless in not knowing that money spent by BCI out of its commingled bank accounts belonged to investors.

55. When BCI used money from its commingled bank account to purchase aircraft, Defendant Hollnagel knew or was reckless in not knowing that those funds belonged to investors.

56. For example, when discussing the source of money used to purchase aircraft on behalf of BCI, Defendant Hollnagel testified: "Well, ultimately there was cash that was in the bank. We acquired the aircraft. I didn't follow the specific due to/due from as to where [the money] would have come from."

BCI consistently lost money.

57. All monthly payments BCI paid to investors were paid out of a single bank account held in Defendant BCI's name.

58. The lease revenue obtained by the LLCs, after debt payments, was seldom sufficient to support the monthly payments Defendant BCI was making to investors in the LLCs.

59. For example, between May and December 2006, all of the LLCs operated by Defendant BCI received about $3.08 million in net lease revenue, while at the same time Defendant BCI paid out about $4.89 million in monthly payments to investors, resulting in a $1.81 shortfall.

60. Because the LLC lease revenue was insufficient to cover the monthly payments to investors during this period, Defendant BCI paid the additional $1.81 million in monthly payments out of its commingled bank accounts.

61. Thus, contrary to what investors were told, this $1.81 million paid to investors was derived from investor money, proceeds from sales of aircraft, or proceeds from loans based on Defendant BCI's pledging of investor assets.

62. Investors were never told about the commingling of their money with the money of other investors, bank loan proceeds, and proceeds from aircraft sales.

63. As of June 10, 2007, BCI had equity of approximately negative $6.6 million.

Defendant Hollnagel knew that LLC lease income was not sufficient to pay monthly returns to investors.

64. In monitoring the finances of BCI and the LLCs, Defendant Hollnagel primarily relied on weekly cash flow statements he received from BCI accountants.

65. Defendant Hollnagel "would receive with reasonable regularity a weekly cash report, which was really all the money that had come in and the money that had gone out for the week."

66. BCI's weekly cash flow statements reflected all cash flow of BCI and the LLCs.

67. BCI's weekly cash flow statements for August 2005 to July 2006 showed an estimated loss of between $295,000 and $540,000 per month.

68. Thus, Defendant Hollnagel was aware of BCI's estimated monthly losses.

69. Thus, Defendant Hollnagel was aware that.LLC lease revenue was insufficient to cover the monthly payments BCI was making to investors.

70. Consequently, Defendant Hollnagel was aware that monthly payments to investors were at least partially being paid out of BCI's commingled bank accounts, not from lease payments as represented to investors and potential investors.

71. For example, BCI's weekly cash flow statements for May 2006 through December 2006 showed an actual loss of $13 million.

72. Consequently, any money taken from BCI's commingled bank account belonged in large part, if not all, to investors.

DEFENDANTS BCI AND HOLLNAGEL MISAPPROPRIATED INVESTOR MONEY AND LLC ASSETS TO SUPPORT THE PONZI SCHEME

73. While Defendants BCI and Hollnagel continued to solicit and receive investor money and make misrepresentations about the use of investor money and the source of investor returns as described above, Defendants BCI and Hollnagel improperly diverted investor money to BCI's commingled bank accounts and encumbered investor assets for BCI's benefit.

Diversion of Investor money Without Any Actual Purchase of Aircraft

74. In a number of instances, Defendant BCI never purchased any aircraft on behalf of an LLC, despite raising investor money for that express purpose.

75. For example, in the LLCs called BCI 2003-1 LLC and BCI 2003-2 LLC, a total of $3.2 million was raised, yet BCI never purchased any aircraft on behalf of these two LLCs.

76. Instead, over a period of more than three years, Defendant BCI paid over $1.4 million in monthly returns to investors in BCI 2003-1 LLC and BCI 2003-2 LLC from BCI's commingled bank accounts, with no lease revenue to support any of these payments. This $1.4 million was actually those investors' own principal, paid to them as supposed returns.

77. Investors in BCI 2003-1 LLC and BCI 2003-2 LLC were told that these monthly returns were derived from operating revenue from the LLCs assets.

78. In fact, BCI 2003-1 LLC and BCI 2003-2 LLC had no tangible assets or operating revenue, only "due from BCI" accounting entries which reflect the investor money that were misappropriated by BCI for its own uses.

Oversubscription of Offerings

79. Defendants BCI and Hollnagel often oversubscribed the LLC offerings, obtaining more investor money than required to purchase the aircraft.

80. In many cases, Defendants BCI and Hollnagel raised more funds than what the LLC offering materials represented as the "total investment offered."

81. In other cases, the "total investment offered" stated in the offering materials was more than what the LLC used to purchase the aircraft.

82. In both of these situations, Defendants BCI and Hollnagel did not return the excess investor money or disclose to investors or potential investors that investor funds were not being used as represented. Instead, Defendants BCI and Hollnagel diverted these excess funds to BCI's commingled bank accounts.

83. Furthermore, in some LLCs, Defendants BCI and Hollnagel received investor money for a LLC after the identified aircraft had been already been purchased by the LLC, and in BCI 2004-5, LLC, $2 million was raised from investors after the LLC's aircraft had already been sold.

84. Defendant Hollnagel knew that BCI sometimes oversubscribed LLC offerings – obtaining more investor money than it used to purchase the aircraft for the LLC – and that the excess investor money were simply deposited into BCI's bank accounts.

85. Defendant Hollnagel also knew that, when this oversubscription occurred, investors were not told that their LLC was oversubscribed.

86. Through approximately 20 investor offerings, Defendants BCI and Hollnagel raised and received over $83M from investors.

87. Nevertheless, Defendants BCI and Hollnagel only used about $36 million of this total to purchase aircraft on behalf of investors' LLCs.

88. The remaining $47 million of unused investors' funds was added to BCI's commingled bank accounts or otherwise used on BCI's behalf.

89. For example, the offering materials for the investor LLC named BCI 2004-5 LLC had a "total investment offered" of about $2.4 million to purchase a specific aircraft, but the LLC ultimately raised over $4.9 million from investors.

90. Then, Defendant BCI only used $547,000 of that total for the aircraft purchase, paying for the rest of the aircraft with bank loans.

91. The remaining $4.4 million in investor money were simply deposited in BCI's commingled bank accounts with a "due to BCI 2004-5 LLC" accounting entry to indicate the source of the funds.

92. Defendants BCI and Hollnagel did not disclose to those investors that the offering had been oversubscribed nor did they return any of the oversubscribed investor money to those investors.

Misappropriation of Proceeds from Sale of Aircraft

93. Defendants BCI and Hollnagel misappropriated investors' proceeds from the sales of aircraft by two LLCs, BCI 2004-5 LLC and BCI 2004-6 LLC, and attempted to conceal this misappropriation.

94. The LLC offering materials for BCI 2004-5 LLC and BCI 2004-6 LLC specified that investors were entitled to a pro rata share of all profit from the sale of aircraft purchased using their funds.

95. In BCI 2004-5 LLC and BCI 2004-6 LLC, the LLCs' aircraft were sold in December 2004 at a profit of about $2.3 million and $1.8 million, respectively, about a 42% and 28% gain on sale for these airplanes.

96. Defendant BCI credited the capital contributions of only certain of the investors in BCI 2004-5 LLC with a 10% increase following these sales.

97. Defendant Hollnagel knew that this 10% increase was an arbitrary "guesstimate" of the investors' share of the profit from those aircraft sales, which Hollnagel had personally calculated.

98. However, based on the gain on sale for their aircraft, investors in BCI 2004-5 LLC and BCI 2004-6 LLC were entitled to 21% and 14% increases in their capital contributions, respectively.

99. These amounts have never been paid, or credited, to the investors in those two LLCs.

100. Some investors in BCI 2004-5 LLC and BCI 2004-6 LLC did not receive any increase to their capital accounts from Defendant BCI.

101. Thus, Defendants BCI and Hollnagel misappropriated proceeds from the sale of aircraft from all of the investors in BCI 2004-5 LLC and BCI 2004-6 LLC.

102. Defendants BCI and Hollnagel sent a letter in February 2005 to these investors, informing them that their LLCs' aircraft had been sold at a profit and replaced with similar aircraft also in service.

103. The representations described in the previous paragraph were false, however: neither BCI 2004-5 LLC nor BCI 2004-6 LLC ever owned another airplane.

104. Other investors in BCI 2004-5 LLC and BCI 2004-6 LLC did not receive any increase to their capital contribution or to their monthly payments, and they were not informed that their airplane was sold in 2005.

105. By continuing to provide "operating proceeds" monthly payments to investors in BCI 2004-5 LLC and BCI 2004-6 LLC, BCI led those investors to believe that their LLCs still owned and operated airplanes providing lease income to the LLC, which BCI and Hollnagel knew to be false.

106. Over a year later, at least two investors in BCI 2004-5 LLC and BCI 2004-6 LLC first became aware that the aircraft owned by their LLCs had been sold. These investors complained to BCI and Hollnagel about not being informed earlier about this fact.

107. Only after these investors complained to Defendants BCI and Hollnagel did Defendants increase these investors' capital contributions by 10% to ostensibly reflect the profit earned from the sale of the airplane.

108. In February 2005, Defendant BCI sent a letter to some investors in BCI 2004-5 LLC and BCI 2004-6 LLC, stating that that their profits and capital had been reinvested into "substitute aircraft," and "that is where your monthly distributions are derived from."

109. The representations described in the previous paragraph were false: neither BCI 2004-5 LLC nor BCI 2004-6 LLC ever owned aircraft again after their previous aircraft had been sold, in December 2004.

110. Instead, Defendant BCI paid monthly returns to investors in BCI 2004-5 LLC and BCI 2004-6 LLC out of its commingled bank account. At least a portion of this money paid out was funds from investors.

111. Defendant Hollnagel knew, or was reckless in not knowing, that the representations to investors in the February 2005 letter above were false.

112. Defendant Hollnagel ultimately was not concerned about the source of investors' monthly payments, only that investors were getting what they were promised every month.

113. Furthermore, Defendant Hollnagel knew that since at least 2005, "2004-5 and 2004-6 was a bit of a mess altogether" and that "I've known that 2004-5 and 6 has been a bit of a mess as to how we should treat the accounting for quite a while."

114. Defendants BCI and Hollnagel never told investors in BCI 2004-5 LLC or BCI 2004-6 LLC about these accounting concerns about the commingling of investor funds, the sale of aircraft, or the fact that the proceeds from the sale of aircraft by these LLCs was neither properly accounted for or paid to them.

115. In March 2007, Defendant Hollnagel sent a letter to all investors in BCI 2004-5 LLC and BCI 2004-6 LLC, detailing the sale of their airplanes and the "reinvestment" of the capital into substitute airplanes.

116. Once again, these assertions were false: the new airplanes Defendant Hollnagel identified in that letter were never owned by BCI 2004-5 LLC or BCI 2004-6 LLC.

117. In fact, a document created by Defendant BCI in early April 2007 proposes a transfer of those specific identified airplanes to BCI 2004-5 LLC and BCI 2004-6 LLC.

118. Thus, BCI had not previously transferred substitute aircraft to BCI 2004-5 LLC and BCI 2004-6 LLC despite representations to investors.

Improper Encumbrance of LLC Assets

119. Defendants BCI and Hollnagel routinely used investor assets as collateral in order to take out bank loans on behalf of, and for the benefit of, Defendant BCI.

120. Defendant Hollnagel knew that according to the LLC offering materials, any bank loans obtained using LLC assets as collateral belonged to the LLC, not BCI.

121. However, Defendant BCI misappropriated proceeds from these bank loans for its own uses, and Hollnagel knew, or was reckless in not knowing, of this misappropriation.

122. For example, in April 2004, Defendants borrowed $2.85 million, secured by the aircraft and lease income which belonged to BCI 2002-1 LLC.

123. According to the offering materials for BCI 2002-1, LLC, the investors in this LLC owned the equity in these aircraft.

124. Defendant BCI then misappropriated these loan proceeds for its own purposes, including paying general operating expenses and returns to investors in this and other LLCs..

125. In addition, Defendant BCI obtained numerous bank loans, often pledging "all assets of BCI." In connection with these bank loans, BCI provided the banks with audited financials of BCI's combined balance sheet, which included all of the LLCs as "related entities under BCI's control."

126. However, Defendants BCI and Hollnagel failed to disclose to the banks that the LLCs and their assets were not owned by BCI.

127. Consequently, many of Defendant BCI's bank loans, the proceeds of which BCI used for its own business operations, were obtained by pledging investor assets.

128. Investors were never told that BCI had used their assets as collateral for loans to, and for the benefit of, BCI and Hollnagel.

Improper Management Fees

129. The LLC offering materials stated that as manager of the LLC, Defendant BCI was entitled to reasonable compensation for its services "as provided by the agreement or as determined and established by the members."

130. The offering materials did not provide for any specific amount of compensation.

131. Defendant Hollnagel knew that LLC members, the investors, never determined or established any management fees for any of the LLCs.

132. Consequently, Defendant BCI had no right to specific management fees. Nonetheless, Defendant BCI charged the LLCs management fees totaling approximately $4.9 million between 2000 and 2005.

133. In 2006 Defendant BCI increased its total management fees to $6.6 million in that year alone.

134. Nothing was ever disclosed to investors or potential investors about the management fees Defendant BCI was charging the LLCs.

135. In at leas one instance, Defendant BCI went so far as to explicitly represent that it did not charge a management fee for its management of LLCs.

DEFENDANT HOLLNAGEL MISAPPROPRIATED INVESTOR MONEY FOR PERSONAL EXPENDITURES

136. Defendant Hollnagel regularly transferred money out of BCI's commingled bank accounts for personal expenditures by himself and his parents in the form of personal loans from BCI.

137. Defendant BCI kept track of these loans through accounting entries titled "shareholder loan" (for Hollnagel) and "officer loan" (for Hollnagel's father).

138. These purported loans, representing the Hollnagels' personal use of BCI's funds, and other unreported dividends granted to Hollnagel, totaled approximately $8.2 million from 1999 to 2007.

139. These purported loans were taken from BCI's commingled bank accounts, and thus were derived from investor money, LLC lease revenue, proceeds from sales of aircraft, and proceeds from numerous bank loans obtained by BCI using investor assets as collateral.

140. At no time did Defendant Hollnagel disclose these purported loans to investors or potential investors. Likewise, investors were never told their funds were being used for personal expenditures by Defendant Hollnagel or his parents.

141. These purported loans were non-interest bearing, payable only on demand, there was no established payment plan, there was no actual documentation of these loans, and Hollnagel never made any payments on the loan until May 2007.

142. Defendant BCI's records indicate that BCI forgave large amounts of Defendant Hollnagel's purported loans without any payments by Hollnagel. At the end of 2000 and 2002, Defendant Hollnagel's purported loans was forgiven by $110,000 and $700,000, respectively, 100% and 70% of the outstanding totals at the time.

143. Defendant Hollnagel made no payments to BCI towards these purported loans in 2000 and 2002, and he received no 1099s, W-2s, or K1s reflecting those transactions.

144. In fact, Defendant BCI's retained earnings for 2000 and 2002 were reduced by the amounts described in paragraph 142.

145. In addition to the purported loans BCI accounted for numerous "draws" by Defendant Hollnagel and his parents. These "draws" represented amounts taken from BCI's bank accounts for the Hollnagels' personal use.

146. At no time did Defendant Hollnagel disclose any of the facts in paragraphs 136 to 145 to investors or potential investors.

147. The draws, dividends, and purported loans described above were given to Defendant Hollnagel from BCI's commingled bank accounts, and thus were derived from investor money, LLC lease revenue, proceeds from sales of aircraft, and/or proceeds from numerous bank loans obtained by BCI using investor assets as collateral.

Defendant Hollnagel made personal purchases from investor money.

148. Defendant BCI's records indicate that BCI forgave $325,000 used by Defendant Hollnagel through these purported loans to purchase a Naperville townhome in September 2001. An accounting entry at the end of 2001 reversed that $325,000 amount, with the entry "Audit: to record townhome [purchased] by BCI."

149. Nevertheless, Defendant Hollnagel knew that at all times the Naperville townhome was owned by himself, never by BCI.

150. At no time did Defendant Hollnagel disclose to investors or potential investors this purchase of a personal residence using at least a portion of investor funds.

151. The funds Defendant Hollnagel used to purchase this personal residence came from BCI's commingled bank accounts, and thus were derived from investor money, LLC lease revenue, proceeds from sales of aircraft, and/or proceeds from numerous bank loans obtained by BCI using investor assets as collateral.

152. Hollnagel used funds from BCI's commingled bank accounts via these purported loans to purchase a Porsche, a Bentley, a Range Rover, a yacht, two homes totaling about $850,000, and a $3 million down payment on a third home in Aspen, Colorado.

153. At no time did Defendant Hollnagel disclose to investors or potential investors these personal purchases using at least a portion of investor funds.

154. The funds Defendant Hollnagel used to make these purchases came from BCI's commingled bank accounts, and thus were derived from investor money, LLC lease revenue, proceeds from sales of aircraft, and/or proceeds from numerous bank loans obtained by BCI using investor assets as collateral.

Defendant Hollnagel purchased a home in Aspen using investor money.

155. Between January and February 2006, Defendant Hollnagel transferred $3 million from BCI's commingled bank account for a down payment on a $7 million Aspen home in Defendant Hollnagel's name ("the Aspen property").

156. Defendant Hollnagel never asked anyone at BCI to determine whether any of this $3 million belonged to investors or to BCI.

157. In fact, at least a portion of this $3 million belonged to investors.

158. These funds came from BCI's commingled bank accounts, and thus were derived from investor money, LLC lease revenue, proceeds from sales of aircraft, and/or proceeds from numerous bank loans obtained by BCI using investor assets as collateral.

159. Defendants BCI and Hollnagel attempted to conceal the fact that these funds were being used for Hollnagel's personal use. The $3 million was initially transferred from Defendant BCI's bank account to the bank account of a subsidiary known as BCI Jets, accounted for in BCI's accounting records as "Retainer-Marketing." The $3 million was then transferred from BCI Jets directly to a title company in Aspen for the down payment on the Aspen property.

160. Moreover, $2.5 million of this $3 million can be traced directly to investor money that BCI represented would be used to purchase an airplane on behalf of that investor's LLC.

161. The Aspen property was purchased in Defendant Hollnagel's name, and at all times Defendant Hollnagel has paid the mortgage and all property taxes for the Aspen property.

162. Defendant Hollnagel rented out the Aspen property at times since its purchase, keeping rental revenue for himself.

BCI and Hollnagel attempted to deceive BCI's auditors about the $3 million transfer.

163. When Defendant BCI's auditors requested documentation of these uses of BCI funds, Defendants BCI and Hollnagel repeatedly attempted to conceal Defendant Hollnagel's misappropriations.

164. In 2006, Defendants BCI and Hollnagel represented to auditors on more than one occasion that the $3 million transfer to BCI Jets used for the purchase of the Aspen property was for marketing purposes related to the BCI Jets business. BCI's auditors asked Defendants BCI and Hollnagel for documentation reflecting this.

165. In late September 2006, in response to auditor inquiries, Defendant BCI provided two documents regarding the transaction described in paragraph 159 above: a "Joint Venture Agreement" and a "Marketing Services Agreement." Both documents were purportedly dated January 31, 2006. However, the documents appeared to be prepared after the fact. For example, one of these documents references events taking place in April 2006 in the past tense.

166. Eventually, however, Defendant BCI's auditors learned the true purpose of the $3 million transfer to BCI Jets.

167. Eventually, Defendant BCI booked the $3 million transfer described in paragraph 159 as a "shareholder loan."

168. Defendant Hollnagel knew that the Aspen property was in his name, that he paid all taxes and the mortgage on the home, and that the property had never been used for BCI or BCI Jets business purposes.

169. Defendant BCI's auditors requested documentation of the "shareholder loans" to Hollnagel. In response, BCI provided a note dated December 31, 2006.

170. Before 2006, no notes existed documenting the interest rate, payment schedule, or collateral for these "shareholder loans."

171. However, in response to previous auditor inquiries, in 2004, Defendant BCI provided documents signed by Defendant Hollnagel and his father acknowledging the size of their purported loans. These documents stated that these purported loans were non-interest bearing, were payable only on demand, had no collateral, and that there was no payment plan.

172. Since Defendant Hollnagel was the owner and CEO of BCI, and BCI had no board of directors, his purported loan would thus only have to be repaid if Hollnagel himself called his own loan.

173. During investigative testimony before SEC staff, Defendant Hollnagel claimed that he repaid about $4 million of his purported loan in March 2007.

174. Defendant Hollnagel obtained this $4 million through a refinanced mortgage on the Aspen property, which was purchased, at least in part, with investor funds.

DEFENDANTS BCI AND HOLLNAGEL WERE AWARE OF THEIR MISCONDUCT

175. Internal BCI documents reveal that BCI was aware, among other things, that their diversion of investor money and LLC proceeds was improper, as was their fraudulent lack of disclosure to investors or potential investors. Hollnagel knew, or was reckless in not knowing, the contents of these internal BCI documents.

176. A document created by Defendant BCI in approximately early 2006, acknowledged several "Red Flag Items" that could raise issues for BCI with the Internal Revenue Service, the U.S. Securities and Exchange Commission, banks, third-party auditors, and investors. This document identified a number of "Red Flag Items" including the following:

a. offering documents not matching the deals, and "material substantive deal terms" not being documented before or after the investments were made;

b. "investors may not fully understand the terms of the deal and what their capital is being used for";

c. oversubscription of offerings;

d. selling the aircraft and not settling accounts;

e. enticing investors into taking positions into poorly performing LLCs;

f. related-party loans and the co-mingling of personal and business assets: "From time-to-time [Brian Hollnagel] and family co-mingle business and personal assets and advances, often with lax documentation that may not pass audit and/or IRS scrutiny"; and

g. "Cash in BCI Accounts without having 'earned' it as evidenced by Management Fee"

177. This document stated that, once these issues are "fixed," the "operational/financial sins of the past (taking in investment before LLC is established, using unregistered brokers in running the deal process / paperwork, oversubscription, selling aircraft and not dissolving LLC series and settling accounts) must cease."

178. In addition, a document created by Defendant BCI in approximately late March 2006 outlined numerous "Restructure Issues to Consider," which outlined numerous suggestions,

including avoiding oversubscription, determining disclosures to be made to investors when oversubscription occurs, and suggesting that excess proceeds be returned. This document was given to Hollnagel on March 31, 2006.

179. Another document, created by Defendant BCI in approximately April 2006, outlined seven LLCs that were "Current Losers," and categorized each as "underwater," "no plane," or "plane sold." This document stated that these seven LLCs had a total loss of $31.2 million. Below this section is stated: "Goal here is to either get these deals positive or live with the consequences of unfavorable disclosure."

180. None of the issues described in paragraphs 175 through 179 were ever disclosed to the investors in those LLCs.

181. These documents, among others, establish that at least by early 2006, Defendants BCI and Hollnagel (1) were fully aware that BCI was engaging in the practices described above, and (2) that these practices were improper. Nonetheless, BCI and Hollnagel continued these practices and none of these issues were ever disclosed to investors or potential investors.

DEFENDANTS BCI AND HOLLNAGEL CONTINUED THE FRAUD THROUGH A REPURCHASING SCHEME IN 2007

182. BCI and Hollnagel continued their fraudulent scheme when, in early 2007, they offered to repurchase at least some of the LLC investors' equity interests as part of a prospective "restructuring" of BCI.

183. On March 26, 2007, Defendant Hollnagel sent a letter to BCI investors, informing them that BCI's aircraft were aging and facing possible obsolescence when compared to newer more fuel-efficient aircraft, and thus that "we believe that the market may be approaching its cyclical peak for these types of assets." The letter stated that "[g]iven all the circumstances described, BCI believes that [the optimum time to wrap up the investments] is now."

184. This letter presented investors with two options: (1) accept the offer to repurchase their interest in exchange for their initial capital contribution, or (2) remain a member of the LLC, without any guarantees from BCI on the continued profitability of the LLC.

185. Numerous LLC investors accepted this offer. In April and May 2007, Defendant BCI repurchased the interests of 57 investors, paying out a total of about $13 million from its commingled bank accounts.

186. On May 14, 2007, Defendant Hollnagel sent a letter to the investors who had previously rejected the offer described in paragraph 182, informing them that Defendant BCI had "successfully rationalized [its] investor pool to a select group."

187. This letter stated that "once the audit of the aircraft, leases and loans are complete and our counsel has prepared a prospectus, we will be inviting this select group of investors to participate, by way of exchange or new investment, in the company that holds 100% of BCI's aircraft in excess of $1.2BN."

188. This letter offered to repurchase the security interest these investors had in the LLCs in exchange for a promissory note by Defendant BCI with no collateral but with the same interest rate as monthly returns the investors had been receiving.

189. Twenty of the remaining investors, with a total of about $28 million invested in BCI, accepted the May 14, 2007 offer. Defendant BCI issued promissory notes for these investors' interests in the LLCs in May or June 2007.

190. An connection with any of these repurchasing offers Defendants BCI and Hollnagel failed to disclose any of the following to investors or potential investors:

a. Defendants BCI and Hollnagel had been misappropriating investor money for BCI's benefit.

b. Defendant Hollnagel had been misappropriating investor money for personal expenditures.

c. The LLCs' lease income rarely supported the monthly payments to investors, which were paid out of Defendant BCI's commingled bank accounts;

d. Many of the LLCs had no real assets or collateral, only a "due from BCI" accounting entry to reflect the misappropriated funds.

e. Defendant BCI had consistently lost money, losing nearly $7 million from 2002 to 2006, and had equity of about negative $3 million as of March 2007; and

f. Defendants BCI and Hollnagel had been commingling investor and legitimate BCI funds and consistently misappropriating investor money for business and personal purposes, and thus had no idea which funds were owed to which investors.

191. In order to raise money to pay for BCI's 2007 repurchases of investor interests, Defendant Hollnagel knew that BCI refinanced or sold airplanes it owned and obtained bank loans using existing airplanes as collateral.

192. During investigative testimony before SEC staff, Defendant Hollnagel admitted that all assets controlled by BCI, including those owned by investors, were used to raise money for BCI's 2007 repurchasing efforts.

193. In fact, because most, if not all, of the assets controlled by BCI were derived from investor money or assets, BCI was in effect selling investor assets to pay off other investors.

194. Defendant Hollnagel was not concerned with who owned the airplanes being sold to raise money for BCI's 2007 repurchasing efforts, only with raising as much money as possible to buy out the investors.

195. As of July 2007, BCI still has not paid back approximately $48 million in principal to approximately 21 investors.

COUNT I

Violations of Section 17(a)(1) of the Securities Act

196. Paragraphs 1 through 194 are re-alleged and incorporated by reference as though set forth herein.

197. By engaging in the conduct described above, Defendants BCI and Hollnagel, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have employed devices, schemes and artifices to defraud.

198. Defendants BCI and Hollnagel intentionally or recklessly made the untrue statements or omissions and engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business described above.

199. By reason of the foregoing, Defendants BCI and Hollnagel violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

Violations of Sections 17(a)(2) and (3) of the Securities Act

200. Paragraphs 1 through 194 are re-alleged and incorporated by reference as though fully set forth herein.

201. By engaging in the conduct described above, Defendants BCI and Hollnagel, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, have:

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

b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

202. Defendants BCI and Hollnagel made the untrue statements and omissions of material fact and engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business described above.

203. Defendants BCI and Hollnagel at least negligently made the untrue statements or omissions and engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business described above.

204. By reason of the foregoing, Defendants BCI and Hollnagel have violated Section 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2)-(3)].

COUNT III

Violations of Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5

205. Paragraphs 1 through 194 are re-alleged and incorporated by reference as though fully set forth herein.

206. As more fully described in paragraphs 1 through 194 above, Defendants BCI and Hollnagel, in connection with the purchase and sale of securities, by the use of the means and

instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of securities.

207. Defendants BCI and Hollnagel knew, or were reckless in not knowing, the facts and circumstances described in paragraphs 1 through 194 above.

208. By reason of the foregoing, Defendants BCI and Hollnagel violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

RELIEF REQUESTED

Wherefore, the SEC respectfully requests that this Court:

I.

Find that Defendants BCI and Hollnagel committed the violations charged and alleged herein.

II.

Grant Orders of Preliminary and Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently restraining and enjoining Defendants BCI and Hollnagel, their officers, 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, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and

object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

III.

Issue an Order requiring Defendants BCI and Hollnagel to disgorge the ill-gotten gains that they received as a result of their wrongful conduct, including prejudgment interest.

IV.

With regard to Defendants BCI and Hollnagel's violative acts, practices and courses of business set forth herein, issue an Order imposing upon BCI and Hollnagel appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

V.

Retain jurisdiction of this action in accordance with the principals 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.

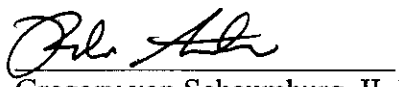
VI.

Grant appropriate emergency relief to prevent further secretion or dissipation of assets invested by investors.

VII

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

Respectfully submitted,



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