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9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 SECURITIES AND EXCHANGE
12 COMMISSION,

13 Plaintiff,

14 vs.

15 STEVE QI and LAW OFFICES OF
16 STEVE QI & ASSOCIATES, A
17 PROFESSIONAL CORPORATION,

18 Defendants,
19

Case No. 2:17-cv-08856
**COMPLAINT FOR
INJUNCTIVE AND
OTHER RELIEF**

20
21 Plaintiff Securities and Exchange Commission (the “SEC”) alleges as
22 follows:

23 **JURISDICTION AND VENUE**

24 1. This Court has jurisdiction over this action pursuant to Sections 20(b),
25 20(d)(1) and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.
26 §§ 77t(b), 77t(d)(1) and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27(a)
27 of the Securities and Exchange Act (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),
28 78u(d)(3)(A), 78u(e), and 78aa.

1 in the Regional Centers' offerings. The Defendants received at least \$1,667,248
2 (\$1,467,248 on and after January 6, 2012) in transaction based compensation from
3 at least six Regional Centers for referring dozens of clients to over ten EB-5
4 investments. Of this amount, \$1,032,248 was paid to Defendants' nominees after
5 Qi was told as early as July 2011, and again in November 2012, by one Regional
6 Center that the securities laws required Qi to register with the SEC as a broker-
7 dealer to lawfully receive transaction based compensation for his efforts.

8 7. As an attorney and a law firm, the Defendants had fiduciary, legal and
9 ethical duties towards their clients to disclose their receipt of the commissions and
10 the conflicts of interest such compensation created. Defendants, however,
11 knowingly, recklessly and/or negligently failed to make full disclosures in breach of
12 those duties.

13 8. By engaging in this conduct, the Defendants have violated the
14 antifraud provisions of Section 17(a) of the Securities Act, 15 U.S.C. § 77q; Section
15 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rules 10b-5(a), (b), and (c)
16 thereunder, 17 C.F.R. §240.10b-5(a)-(c); and Section 15(a) of the Exchange Act, 15
17 U.S.C. § 78o(a). Defendants are likely to continue to violate the Securities Act and
18 Exchange Act prohibitions.

19 THE DEFENDANTS

20 9. **Steve Qi** is a resident of Arcadia, California. He has been licensed to
21 practice law in California since 2003 and provides immigration law services to his
22 legal clients. Qi has never been registered with the SEC in any capacity.

23 10. **Law Offices of Steve Qi & Associates, A Professional Corporation**
24 is a California professional corporation incorporated in March 2004. Law Offices
25 of Qi maintains an office in Alhambra, California. Qi founded the firm and is the
26 primary attorney at the firm. Law Offices of Qi has never been registered with the
27 SEC in any capacity.

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1 **RELATED ENTITIES**

2 11. **Pan Pacific Investment Group, LLC** is a California business
3 organized in August 2011. Qi is the sole owner and operator of Pan Pacific
4 Investment Group, LLC.

5 12. **QZ Phoenix Investments, LLC** is a California business organized in
6 July 2013. Qi is the sole owner and operator of QZ Phoenix Investments, LLC.

7 **DEFENDANTS' FRAUDULENT SCHEME**

8 **A. The EB-5 Immigrant Investor Program**

9 13. Congress created the EB-5 Program in 1990 to stimulate the United
10 States economy through job creation and capital investment by foreign investors.
11 In 1992, Congress created the EB-5 Immigrant Investor Program.

12 14. The EB-5 Immigrant Investor Program sets aside EB-5 visas for
13 participants who invest in commercial enterprises associated with Regional Centers
14 approved by the United States Citizenship and Immigration Services ("USCIS")
15 based on proposals for promoting economic growth.

16 15. The EB-5 Immigrant Investor Program is designed to attract
17 individuals from other countries who are willing to put their capital at risk in the
18 United States with a hope of making a return on their investment.

19 16. Under the EB-5 Immigrant Investor Program, foreign investors who
20 invest capital in a "commercial enterprise" in the United States may petition the
21 USCIS and receive conditional permanent residency status for a two-year period.
22 The USCIS defines a "commercial enterprise" as any for-profit activity formed for
23 the ongoing conduct of lawful business.

24 17. To qualify for the program, the foreign investors must invest \$1
25 million (or \$500,000 if in a rural area or area of high unemployment) and thereby
26 create at least ten full-time jobs for United States workers.

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1 18. The EB-5 Immigrant Investor Program requires a showing that the
2 foreign investor “has placed the required amount of capital at risk for the purpose of
3 generating a return on the capital placed at risk.”

4 19. If the foreign investor satisfies these and other conditions within the
5 two-year period, the foreign investor may apply to have the conditions removed
6 from his or her visa and live and work in the United States permanently.

7 20. Many EB-5 investments are administered by entities called Regional
8 Centers, which are designated by the USCIS to administer the EB-5 investment
9 projects based on proposals for promoting economic growth.

10 21. Regional Center investment vehicles are typically offered as limited
11 partnership interests or limited liability company units, which are managed by a
12 person or entity other than the foreign investor, who acts as a general partner or
13 managing member of the investment vehicle.

14 22. The EB-5 investments made by the Defendants’ clients were largely
15 associated with Regional Centers.

16 **B. The EB-5 Investments Made By Defendants’ Clients Were Securities**

17 23. Those Regional Centers to which Defendants referred clients and from
18 which Defendants received transaction based compensation are headquartered in
19 the United States and at least four of them operate in this judicial district (namely in
20 Arcadia, Buena Park, Diamond Bar, and El Segundo, California).

21 24. The EB-5 offerings required the Defendants’ foreign clients to invest a
22 capital contribution of \$500,000, and pay a separate administrative or syndication
23 fee (ranging up to \$50,000), as provided in private placement memoranda and/or
24 other offering documents dated between June 2010 and July 2012 (“Offering
25 Documents”). The administrative or syndication fee was used, as stated in most
26 Offering Documents, to pay fees and expenses incurred by the Regional Centers,
27 including the payment of commissions. For example, one Offering Document
28 provided that the Regional Center “may pay fees to one or more immigration

1 consultants, brokers, investment advisors, or other parties in connection with the
2 sale of Units pursuant to this Offering from proceeds of the Administrative Fee.”
3 None of the Offering Documents specify the amount of the fee or that any fee
4 would be paid to the investor’s immigration attorney.

5 25. The Regional Centers pooled the foreign investors’ capital
6 contributions for the purpose of constructing a United States-based project or
7 making loans to fund United States-based projects (either construction projects or
8 solar energy projects).

9 26. At the end of the loan term, the foreign investors were promised a
10 return of their capital contributions.

11 27. The investments by the Defendants’ clients were passive investments,
12 as they relied on others to develop the job-creating projects.

13 28. The Defendants’ clients were not involved in the making or servicing
14 of loans on EB-5 construction projects or in the operation or management of the
15 construction projects themselves.

16 29. Rather, the Defendants’ clients relied on the Regional Centers for the
17 success of the projects and obtaining a return on their investments.

18 30. The limited partnership and limited liability company operating
19 agreements for the EB-5 investments vested management control in the hands of
20 the Regional Centers.

21 31. Thus, the Defendants’ clients were dependent on the efforts of others
22 to realize their profits.

23 32. The Defendants circulated Offering Documents for the EB-5 offerings
24 to their clients. These Offering Documents described the terms of the investment
25 and how the potential profits would be allocated to the investors.

26 33. The rates of return set forth in the Offering Documents were generally
27 around 1% of the capital contribution, paid monthly, quarterly, or annually. In
28 some instances, the Offering Documents represented that the investors would

1 receive cash distributions from available cash generated from operating net income
2 of the partnership to be distributed pro rata subject to specific terms.

3 34. Depending on the stage of the construction project, Defendants' clients
4 who invested in the EB-5 offerings would receive Schedule K-1s. These are federal
5 tax documents for an investment in partnership interests that would reflect any
6 interest they had earned on their capital contributions.

7 35. The Offering Documents distributed to investors by the Defendants
8 state that the investments were being offered pursuant to exemptions from the
9 registration requirements of the federal securities laws.

10 36. In addition, some Offering Documents expressly describe the
11 investments as "securities."

12 37. Each of the EB-5 offerings which Defendants recommended to their
13 clients and for which Defendants received transaction based compensation in
14 connection with their clients' investment constitutes a security.

15 **C. Defendants Acted As Unregistered Brokers**

16 38. When Qi met with clients he would typically provide them with a list
17 of recommended EB-5 offerings. The number of Regional Centers on the list
18 varied from only one to five or six. The Regional Centers that Defendants
19 recommended to their clients who were selecting an EB-5 investment often, if not
20 always, paid Defendants transaction based compensation for Defendants' clients'
21 investments.

22 39. Defendants routinely obtained Offering Documents from the Regional
23 Centers and transmitted the signed Offering Documents to the Regional Centers. In
24 retainer agreements, the Law Offices of Qi agreed to "help Client with investment
25 projects information request" and provide "assistance in collection or guide in
26 collection of necessary project information."

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1 40. Many of Defendants' clients never directly contacted a Regional
2 Center. Instead, Defendants communicated with the Regional Centers on their
3 clients' behalf.

4 41. Defendants obtained brochures from at least one Regional Center to
5 distribute to potential clients. Also, on at least one occasion Qi hosted a seminar to
6 promote one Regional Center's EB-5 investment.

7 42. Defendants (or their nominees acting on their behalf) executed
8 agreements with four of the Regional Centers that Defendants recommended to
9 their clients. The agreements required Defendants to market the Regional Centers'
10 EB-5 projects and/or locate and introduce EB-5 investors. One agreement with a
11 Regional Center required that the Law Offices of Qi be "bound by a duty of care
12 and loyalty" to the Regional Center.

13 43. These agreements also memorialized the transaction based
14 compensation the Regional Centers would pay to Defendants. Payments were
15 contingent on an investor making the required capital contribution and the
16 government approving the investor's EB-5 petition.

17 44. Qi is not, and has never been, registered with the SEC as a broker-
18 dealer.

19 45. Law Offices of Qi is not, and has never been, registered with the SEC
20 as a broker-dealer.

21 **D. As Brokers, Defendants Received Transaction Based Compensation**

22 46. Defendants received legal fees (typically between \$15,000 and
23 \$20,000) paid by their clients for legal work associated with the clients' filings
24 under the EB-5 program. In addition to the legal fees, Defendants earned
25 transaction based compensation from the Regional Centers if a client invested in
26 their offerings. Between May 2007 and February 2015, Defendants received
27 transaction based compensation in connection with at least 74 investor clients,
28 totaling at least \$1,667,248 (at least \$1,467,248 for 61 clients since January 2012).

1 47. The transaction based compensation typically ranged from \$15,000 to
2 \$40,000 per transaction, in addition to bonus payments for exceeding certain sale
3 levels. The Regional Centers wired the Defendants' transaction based
4 compensation from their United States-based bank accounts.

5 48. From May 2007 to September 2012, transaction based compensation
6 was wired out of Regional Centers' United States-based bank accounts directly into
7 United States-based bank accounts held in the name of Law Offices of Qi or Pan
8 Pacific Investment Group, LLC, a company owned and controlled solely by Qi.

9 49. In or about November 2012, a Regional Center shared a
10 communication with Qi concerning whether payments from Regional Centers to
11 immigration attorneys violate broker-dealer registration requirements contained in
12 the federal securities laws.

13 50. When that Regional Center told Qi that it would no longer pay him
14 transaction based compensation, Qi responded by saying he "would not have
15 referred the cases to [the Regional Center]" had he known he would not receive
16 transaction based compensation for doing so.

17 51. In fact, after this exchange, Defendants did not refer any additional
18 clients to that Regional Center, and Defendants instead recommended that clients
19 invest with Regional Centers who paid transaction based compensation.

20 52. Thereafter, and starting in December 2012, Qi had foreign relatives act
21 as "nominees" to receive transaction based compensation through overseas bank
22 accounts on Defendants' behalf.

23 53. The overseas nominees had no involvement with EB-5 investments or
24 Defendants' clients. Their only purpose was to collect the transaction based
25 compensation paid by Regional Centers on behalf of Defendants.

26 54. From December 2012 to February 2015, at least six Regional Centers
27 paid Defendants' nominees at least \$1,032,248. All of the transaction based
28 compensation paid by the Regional Centers to the nominees belonged to

1 Defendants, not to the nominees. The nominees sent at least a portion of these
2 funds to a United States-based account in the name of QZ Phoenix Investments,
3 LLC, a company owned and operated by Qi.

4 55. Qi did not disclose to the Regional Centers who paid his nominees that
5 the overseas bank accounts belonged to his relatives acting as nominees. Early in
6 the SEC's investigation, Qi submitted a sworn declaration stating that a nominee
7 who received certain of his transaction based compensation was the rightful
8 recipient because she performed the services of referring the EB-5 investors, and
9 that none of the money paid to her was ever returned to him. Both of these
10 statements were false.

11 56. When confronted with information to the contrary by the SEC, Qi
12 changed his story, and admitted the opposite of both of those statements. He
13 admitted that his nominees performed no EB-5 services and all the money paid to
14 them by Regional Centers belonged to Law Offices of Qi, not the nominees.

15 **E. Defendants Defrauded their Clients**

16 57. As an attorney and a law firm, the Defendants owed fiduciary, legal,
17 and ethical duties to their clients to disclose their receipt of transaction based
18 compensation from the EB-5 Regional Centers whose offerings they recommended.

19 58. Defendants failed to disclose in any way to at least twelve of their
20 clients that they were receiving transaction based compensation from EB-5
21 Regional Centers. Defendants received the transaction based compensation in
22 connection with these clients between July 8, 2012 and February 24, 2015.
23 Defendants did not disclose to these clients in their retainer agreements or in any
24 other way that Defendants would receive transaction based compensation.

25 59. Defendants stated to at least twenty other clients in retainer agreements
26 that Defendants "may receive finder's fee from Regional Center Program
27 investment project at the discretion of the project management." At that time,
28 Defendants knew that the Regional Centers had agreed to pay Defendants

1 transaction based compensation. Defendants received the transaction based
2 compensation in connection with these clients between January 6, 2012 and
3 February 11, 2015.

4 60. For one Regional Center involving six of Defendants' investor clients,
5 the amount of Defendants' transaction based compensation payment was left to the
6 discretion of Defendants, which was not disclosed to the investor clients. For that
7 Regional Center, clients were required to pay a \$10,000 syndication fee and any
8 amount over that would be paid out of their syndication fee as transaction based
9 compensation to Defendants, up to a maximum payment to Defendants of \$40,000.
10 The subscription agreement for this Regional Center's offering required a "\$50,000
11 syndication fee or as modified by Addendum (1) attached to the Subscription
12 Agreement." The addendum left the syndication fee blank for input by the client
13 and/or the Defendants.

14 61. The Defendants knew, or were reckless or negligent in not knowing,
15 that their receipt of transaction based compensation was not disclosed or there were
16 material omissions in purported disclosures to all of their foreign clients investing
17 in the EB-5 offerings for which Defendants received transaction based
18 compensation.

19 62. The Defendants' receipt of transaction based compensation from the
20 Regional Centers would have been material to a reasonable investor's investment
21 decision.

22 **TOLLING AGREEMENTS**

23 63. Qi and Law Offices of Qi signed in October 2016 and August 2017
24 tolling agreements entered into with the SEC. Each tolling agreement specifies a
25 period of time (a "tolling period") in which "the running of any statute of
26 limitations applicable to any action or proceeding against [Defendants] authorized,
27 instituted, or brought by...the Commission...arising out of the [Commission's
28 investigation of Defendants' conduct], including any sanctions or relief that may be

1 imposed therein, is tolled and suspended....” Each tolling agreement further
2 provides that the Defendants and any of their agents or attorneys “shall not include
3 the tolling period in the calculation of the running of any statute of limitations or
4 for any other time-related defense applicable to any proceeding, including any
5 sanctions or relief that may be imposed therein, in asserting or relying upon any
6 such time-related defenses.”

7 64. Collectively, these agreements tolled the running of any limitations
8 period or any other time-related defenses alleged in this Complaint for a period of
9 at least 395 days.

10 **FIRST 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 65. The SEC realleges and incorporates by reference paragraphs 1 through
15 64 above.

16 66. Defendants, and each of them, by engaging in the conduct described
17 above, directly or indirectly, in the offer or sale of securities by the use of means or
18 instruments of transportation or communication in interstate commerce or by use of
19 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
24 order to make the statements made, in light of the circumstances
25 under which they were made, not 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
28 purchaser.

THIRD CLAIM FOR RELIEF

Failure to Register as a Broker-Dealer

Violation of Section 15(a) of the Exchange Act

(against all Defendants)

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5 71. The SEC realleges and incorporates by reference paragraphs 1 through
6 70 above.

7 72. Defendants by engaging in the conduct described above, made use of
8 the mails or means or instrumentalities of interstate commerce to effect transactions
9 in, or to induce or attempt to induce the purchase or sale of securities, without being
10 registered as brokers or dealers in accordance with Section 15(b) of the Exchange
11 Act, 15 U.S.C. § 78o(b).

12 73. By engaging in the conduct described above, Defendants violated, and
13 unless restrained and enjoined will continue to violate, Section 15(a) of the
14 Exchange Act, 15 U.S.C. § 78o(a).

PRAYER FOR RELIEF

15
16 WHEREFORE, the SEC respectfully requests that the Court:

17 **I.**

18 Issue findings of fact and conclusions of law that Defendants committed the
19 alleged violations.

20 **II.**

21 Issue orders, in a form consistent with Fed. R. Civ. P. 65(d), permanently
22 enjoining Defendants and their agents, servants, employees, and attorneys, and
23 those persons in active concert or participation with any of them, who receive
24 actual notice of the judgment by personal service or otherwise, and each of them,
25 from violating Section 17(a) of the Securities Act, 15 U.S.C. § 78q(a); Section
26 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17
27 C.F.R. § 240.10b-5; and Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

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III.

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

IV.

Order Defendants to pay civil penalties under 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 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 such other and further relief as this Court may determine to be just and necessary.

DATED: December 8, 2017

Respectfully submitted,

/s/ Kenneth J. Guido

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