UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 74696 / April 9, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16482

In the Matter of

Molex Incorporated

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Molex Incorporated (“Molex” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.
III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

Summary

1. From at least 1989 to April 2010, Katsuichi Fusamae, a senior finance employee and controller at Molex Japan Co., Ltd. (“Molex Japan”), the Japanese subsidiary of the U.S.-based public company Molex Incorporated (“Molex”), engaged in a financial fraud that spanned more than 20 years and resulted in losses to Molex in excess of $200-million. Fusamae was responsible for investing Molex Japan’s excess cash in conservative investments such as treasuries and commercial paper. Beginning in at least the late 1980s, Fusamae invested Molex Japan’s cash in riskier investments contrary to Molex policy. For years, Fusamae engaged in risky equity trading, including margin trading, and suffered massive trading losses in excess of $110 million. In order to conceal his unauthorized trading and the associated losses and in an attempt to recover the losses, Fusamae caused Molex Japan to enter into a series of unauthorized borrowings whereby Fusamae used the loan proceeds to replenish the diminished trading accounts. At its peak, Fusamae had accumulated approximately $222 million of unauthorized loans. As a result of Fusamae’s scheme, Molex filed materially misstated financial statements with the Commission over several years that failed to account for Molex Japan’s trading losses and loans. Also as a result of the scheme, Molex and Molex Japan failed to make and keep accurate books and records reflecting Molex Japan’s trading and borrowings. Fusamae falsified certain records related to Molex’s accounts, including account reconciliations and year-end bank confirmation letters provided to outside auditors. Fusamae’s scheme also exposed several deficiencies in Molex Japan’s internal controls, which prevented the company from identifying and stopping the scheme. In fact, Molex did not discover Fusamae’s scheme until he stopped showing up to work and sent a confession letter to the company in April 2010. As a result of this combination of factors, Fusamae successfully concealed his trading losses and the unauthorized borrowings for more than two decades.

Respondent

2. Molex Incorporated, a Delaware corporation headquartered in Lisle, Illinois, designs, manufactures, and sells electronic components. Until December 2013, Molex’s common stock was registered with the Commission under Section 12(b) of Exchange Act and traded on the NASDAQ. On December 9, 2013, all of Molex’s outstanding shares were acquired by a private corporation, and Molex’s common stock was delisted.

1 The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.
Other Relevant Entities/Persons

3. Molex Japan Co., Ltd., a Japanese corporation headquartered in Yamato, Japan, is a wholly-owned subsidiary of Molex. Molex Japan has historically been Molex’s largest and most profitable foreign subsidiary. During the relevant period, 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.

4. Katsuichi Fusamae, age 68, is a Japanese citizen who resides in Kanagawa, Japan. Fusamae was an employee of Molex Japan’s financial group from July 1975 to April 2010. Beginning in at least 2003, Fusamae was Molex Japan’s controller. Fusamae has been unemployed since April 2010.

Fusamae’s Scheme

5. Beginning in at least the late 1980s and continuing until April 2010, Katsuichi Fusamae, a senior finance employee and controller of Molex Japan, engaged in a financial fraud that resulted in losses in excess of $200-million. 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.

6. Fusamae’s responsibilities included investing Molex Japan’s excess cash. Molex restricted cash investments for all of its entities, including Molex Japan, to certificates of deposit, government treasury bills, European currency deposits, and prime corporate paper. However, beginning in at least the late 1980s, Fusamae began investing the company’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.

7. Shortly after Fusamae began his unauthorized trading, Molex Japan 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 also had the banks and brokerage firms from which he borrowed funds send their year-end balance confirmation letters directly to him. Fusamae then would manually alter the letters and return them to Molex Japan’s outside auditors in the original envelope. Fusamae continued to trade with borrowed funds, including margin trading, in an attempt to recover his losses, but instead he compounded the losses.

8. As the losses in 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. At its peak, the
amount of Molex Japan’s outstanding unauthorized and undisclosed loans totaled approximately $222 million.

9. In April 2010, Fusamae was unable to secure additional funds to conceal his unauthorized and undisclosed trading and borrowing. He stopped showing up for work and sent a confession letter to Molex Japan’s office. Molex Japan terminated Fusamae shortly thereafter.

10. At the time Fusamae confessed to the scheme, the outstanding balance of the unauthorized loans totaled $172.8 million. In total, Fusamae’s scheme caused losses of approximately $201.9 million, which consisted primarily of $118.8 million in unauthorized trading losses, interest expense on his unauthorized loans, and approximately $20.5 million of unaccounted for loan proceeds from Fusamae’s unauthorized borrowing.

**Molex’s Inaccurate Periodic Reports**

11. Fusamae’s concealment of his trading losses and unauthorized loans 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 on Forms 10-K and 10-Q. As a result, Molex filed misstated financial statements throughout the duration of the scheme. Molex’s periodic reports lacked any disclosure of Fusamae’s unauthorized activities, their effect on Molex’s financial position, or of Fusamae’s scheme generally.

12. On August 3, 2010, after learning of 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 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 $26.9 million in 2010 relating to Fusamae’s scheme.

**Molex’s Failure to Make and Keep Accurate Books and Records**

13. From at least 1989 to 2010, Molex failed to make and keep accurate books and records reflecting all of Molex Japan’s financial transactions, which ultimately resulted in Molex misstating its financial position during this period. In particular, Molex Japan never recorded its trading losses in its accounting records, nor did it record the borrowings in its accounting records.

14. Fusamae took actions to ensure that Molex Japan’s accounting records never reflected his unauthorized activities. For example, Fusamae recorded unauthorized loans in dormant Molex Japan general ledger accounts that were no longer in use and had no current legitimate activity. Molex and Molex Japan failed to capture the activity in these dormant accounts.
in their financial statements, and therefore their accounting books and records did not accurately capture Molex Japan’s financial position.

15. Molex Japan also had no records of account reconciliations for the unauthorized accounts at any time, and also had no records of reconciliations for authorized accounts for the period late 2009 through April 2010. While Molex Japan had records of bank reconciliations on authorized accounts between 2006 and late 2009, these records were at times incomplete. In addition, at certain times, Fusamae created false reconciliations for internal and external auditors that disguised the unauthorized loans as legitimate business activity.

**Molex’s Internal Control Failures**

16. Fusamae’s scheme went undetected for more than twenty years due in part to Molex’s failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions for all of its consolidated entities were authorized and properly recorded and that access to its consolidated companies’ assets was permitted only in accordance with management’s authorization.

17. For example, Molex Japan lacked adequate internal controls relating to the use of its official corporate seal (also called a “chop”). In Japan, companies use corporate seals to stamp documents to signify that the company has authorized a particular transaction. 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 or confirming that the banking transactions were properly authorized.

18. From 1996 to at least 2010, Fusamae used the Molex Japan seal to take out numerous loans in Molex Japan’s name from five different Japanese banks, with no controls in place to provide reasonable assurances that the loans were authorized or properly recorded in Molex Japan’s books and records. In his confession letter, Fusamae explained: “Many big companies use dedicated seal for bank transaction, different from the company’s official seal, and it is controlled by the person who fully understand the bank transaction. In my case, I could use the bank seal freely and I made all the transactions on my own judgment.”

19. Molex Japan also lacked sufficient internal controls to protect the company’s assets, including the title deeds for the company’s real estate. 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’s ability to access and pledge company title deeds without any security measures in place to prevent removal and misuse of those deeds enabled him to borrow a far greater amount than otherwise, and to continue his scheme.

20. Molex Japan also had inadequate internal controls relating to the division of labor in the accounting department, and Fusamae was able to conceal his unauthorized trading and borrowing 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 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.

21. Fusamae was also able to take sole control over the 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. Fusamae was permitted to dominate all aspects of these accounting processes for multiple years, and Molex Japan did not take any steps to ensure that others were involved as a check on Fusamae.

22. In addition, Molex Japan lacked internal controls designed to prevent employees from accessing closed or dormant general ledger accounts, or to provide reasonable assurances that any activity in such accounts was reflected in Molex Japan’s financial statements. 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 Japan neglected to perform reviews of any dormant general ledger accounts to confirm there was no activity in them and had no processes in place to provide reasonable assurances that any activity in those accounts was captured in the financial statements. As a result, Molex and Molex Japan failed to detect that Fusamae was using the dormant general ledger accounts to conceal his unauthorized activities and to replenish Molex Japan’s active accounts as needed.

23. Finally, Molex’s internal audit function was ineffective and failed to perform its responsibilities with respect to Molex Japan. At several points during the scheme, Fusamae was able to manipulate the internal auditors in Japan to either ignore incomplete accounting records such as missing account reconciliations, or to rely on documents prepared by Fusamae without independent verification from other sources.
Violations

24. As a result of the conduct described above, Molex violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-13, and 12b-20 thereunder, which require every issuer of a security registered under Section 12 of the Exchange Act to file with the Commission accurate annual and quarterly reports, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

25. Also as a result of the conduct described above, Molex violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

26. Lastly, as a result of the conduct described above, Molex violated Sections 13(b)(2)(B) of the Exchange Act, which require all reporting companies 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.

Molex’s Remedial Efforts

27. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

28. Since 2010, Molex and Molex Japan have taken numerous steps in an effort to improve the companies’ internal controls. For example, Molex Japan now has two company seals: one for banking transactions and one for all other transactions. Further, instead of having a human resources employee control the company seals, Molex Japan’s seals are now controlled by a member the Molex legal department who reports directly to Molex’s General Counsel, who is also a member of the Molex global management team with an understanding of the company’s finances and banking needs.

29. Molex has also implemented new procedures with respect to the company’s bank account reconciliation process and management of general ledgers. In particular, Molex’s internal audit department has developed a continuous monitoring process for account reconciliations globally, which allows corporate finance and internal audit to access electronic copies of the reconciliations completed on a monthly basis. The electronic account reconciliations include supporting documentation that is available for review by Molex Japan’s management, Molex’s internal audit team, corporate finance management, and Molex’s outside auditors. Molex and its subsidiaries are now required by corporate policy to create monthly account reconciliations and maintain those reconciliations in the accounting records. Molex has also closed or otherwise restricted employee access to old, unused, or dormant general ledger accounts.
30. To address what Molex determined to be a problematic culture of deference to superiors at Molex Japan, Molex terminated Fusamae and Molex Japan’s vice president of finance, who supervised Fusamae during the latter part of the scheme, and transferred Molex’s chief accounting officer to Japan to more closely oversee the subsidiary’s operations.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Molex’s Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Molex cease and desist from committing or causing any violations and any future violations of 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.

By the Commission.

Brent J. Fields
Secretary