United States Bankruptcy Court, Southern District of Texas

Fill in this information to identify the case (Select only one Debtor per claim form):

Debtor: Brake Parts Inc LLC

Case Number: 25-90477

Modified Official Form 410

Proof of Claim

4/25

Read the instructions before filling out this form. This form is for making a claim for payment in a bankruptcy case. Do not use this form to make a request for payment of an administrative expense (other than a claim entitled to priority under 11 U.S.C. § 503(b)(9)). Make such a request according to 11 U.S.C. § 503.

Filers must leave out or redact information that is entitled to privacy on this form or on any attached documents. Attach redacted copies of any documents that support the claim, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, judgments, mortgages, and security agreements. **Do not send original documents;** they may be destroyed after scanning. If the documents are not available, explain in an attachment.

A person who files a fraudulent claim could be fined up to $500,000, imprisoned for up to 5 years, or both. 18 U.S.C. §§ 152, 157, and 3571.

Fill in all the information about the claim as of the date the case was filed. That date is on the notice of bankruptcy (Form 309) **that you received.**

Part 1: Identify the Claim

1. Who is the current creditor?

United States of America

Name of the current creditor (the person or entity to be paid for this claim)

Other names the creditor used with the debtor ______

2. Has this claim been acquired from someone else?

☑ No

☐ Yes. From whom? ______

3. Where should notices and payments to the creditor be sent?

Federal Rule of Bankruptcy Procedure (FRBP) 2002(g)

	Where should notices to the creditor be sent?		**Where should payments to the creditor be sent?** (if different)
Address1:	AUSA Tara Schwartz-U.S. Attorney's Office	Address1:	Attn: Seth B. Shapiro, U.S. Dept. of Justice
Address2:	86 Chambers St.	Address2:	1100 L Street, N.W.
Address3:	3rd Floor	Address3:	7th Floor
Address4:		Address4:	
City:	New York	City:	Washington
State:	NY	State:	DC
Postal Code:	10007	Postal Code:	20005
Country:		Country:	
Contact phone	212-637-2633	Contact phone	202-514-7164
Contact email	tara.schwartz@usdoj.gov	Contact email	seth.shapiro@usdoj.gov

Uniform Claim Identifier (if you use one)

4. Does this claim amend one already filed?

☑ No

☐ Yes. Claim number on court claims registry (if known)______ Filed on ______ MM / DD / YYYY

5. Do you know if anyone else has filed a proof of claim for this claim?

☑ No

☐ Yes. Who made the earlier filing? ______

Part 2: Give Information About the Claim as of the Date the Case Was Filed

6. Do you have any number you use to identify the debtor?

☑ No
☐ Yes. Last 4 digits of the debtor's account or any number you use to identify the debtor: ____ ____ ____ ____

7. How much is the claim?

$285,508,431 - see attached. **Does this amount include interest or other charges?**

☑ No
☐ Yes. Attach statement itemizing interest, fees, expenses, or other charges required by Bankruptcy Rule 3001(c)(2)(A).

8. What is the basis of the claim?

Examples: Goods sold, money loaned, lease, services performed, personal injury or wrongful death, or credit card.

Attach redacted copies of any documents supporting the claim required by Bankruptcy Rule 3001(c).

Limit disclosing information that is entitled to privacy, such as health care information.

FCA damages and penalties (see attachment)

9. Is all or part of the claim secured?

☑ No
☐ Yes. The claim is secured by a lien on property.

Nature of property:

☐ Real estate. If the claim is secured by the debtor's principal residence, file a *Mortgage Proof of Claim Attachment* (Official Form 410-A) with this *Proof of Claim.*
☐ Motor vehicle
☐ Other. Describe: ____________________

Basis for perfection: ____________________

Attach redacted copies of documents, if any, that show evidence of perfection of a security interest (for example, a mortgage, lien, certificate of title, financing statement, or other document that shows the lien has been filed or recorded.)

Value of property: $__________

Amount of the claim that is secured: $__________

Amount of the claim that is unsecured: $__________ (The sum of the secured and unsecured amounts should match the amount in line 7.)

Amount necessary to cure any default as of the date of the petition: $__________

Annual Interest Rate (when case was filed) _____%

☐ Fixed
☐ Variable

10. Is this claim based on a lease?

☑ No
☐ Yes. **Amount necessary to cure any default as of the date of the petition.** $__________

11. Is this claim subject to a right of setoff?

☐ No
☑ Yes. Identify the property: Money due Debtors from the United States or any federal agency

12. **Is all or part of the claim entitled to priority under 11 U.S.C. § 507(a)?** A claim may be partly priority and partly nonpriority. For example, in some categories, the law limits the amount entitled to priority.	☑ No ☐ Yes. *Check one:*	**Amount entitled to priority**
	☐ Domestic support obligations (including alimony and child support) under 11 U.S.C. § 507(a)(1)(A) or (a)(1)(B).	$____________
	☐ Up to $3,800* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use. 11 U.S.C. § 507(a)(7).	$____________
	☐ Wages, salaries, or commissions (up to $17,150*) earned within 180 days before the bankruptcy petition is filed or the debtor's business ends, whichever is earlier. 11 U.S.C. § 507(a)(4).	$____________
	☐ Taxes or penalties owed to governmental units. 11 U.S.C. § 507(a)(8).	$____________
	☐ Contributions to an employee benefit plan. 11 U.S.C. § 507(a)(5).	$____________
	☐ Other. Specify subsection of 11 U.S.C. § 507(a)( ) that applies.	$____________
	* Amounts are subject to adjustment on 4/01/25 and every 3 years after that for cases begun on or after the date of adjustment.	
13. **Is all or part of the claim entitled to administrative priority pursuant to 11 U.S.C. § 503(b)(9)?**	☑ No ☐ Yes. **Indicate the amount of your claim arising from the value of any goods received by the Debtor within 20 days before the date of commencement of the above case, in which the goods have been sold to the Debtor in the ordinary course of such Debtor's business. Attach documentation supporting such claim.**	$____________

Part 3: Sign Below

The person completing this proof of claim must sign and date it. FRBP 9011(b).

If you file this claim electronically, FRBP 5005(a)(2) authorizes courts to establish local rules specifying what a signature is.

A person who files a fraudulent claim could be fined up to $500,000, imprisoned for up to 5 years, or both. 18 U.S.C. §§ 152, 157, and 3571.

Check the appropriate box:

☐ I am the creditor.
☑ I am the creditor's attorney or authorized agent.
☐ I am the trustee, or the debtor, or their authorized agent. Bankruptcy Rule 3004.
☐ I am a guarantor, surety, endorser, or other codebtor. Bankruptcy Rule 3005.

I understand that an authorized signature on this *Proof of Claim* serves as an acknowledgment that when calculating the amount of the claim, the creditor gave the debtor credit for any payments received toward the debt.

I have examined the information in this *Proof of Claim* and have a reasonable belief that the information is true and correct.

I declare under penalty of perjury that the foregoing is true and correct.

Tara Schwartz 03/25/2026

Electronic Signature Date

Name of the person who is completing and signing this claim

Name: Tara Schwartz
First name Middle name Last name

Title/Company: Assistant United States Attorney

Identify the corporate servicer as the company if the authorized agent is a servicer.

U.S. Attorneys Office - S.D.N.Y.

Address: 86 Chambers Street Third Floor
Number Street

New York, NY New York NY
City State ZIP Code Country

Contact phone: 212-637-2633 Email: tara.schwartz@usdoj.gov

Additional Noticing Addresses (if provided):

Additional Address 1
Name:
Address1:
Address2:
Address3:
Address4:
City:
State:
Postal Code:
Country:

Contact Phone:
Contact Email:

Additional Address 2
Name:
Address1:
Address2:
Address3:
Address4:
City:
State:
Postal Code:
Country:

Contact Phone:
Contact Email:

Additional Supporting Documentation Provided

- [x] Yes
- [ ] No

Attachment Filename:

Proof of Claim Addendum - First Brands_reduced file size.pdf

Attachment to Proof of Claim Form of the United States of America
***In re First Brands Group, LLC* (Bankr. Case No. 25-90399); *In re Brake Parts Inc. LLC* (Bankr. Case. No. 25-90477); *In re CWD, LLC* (Bankr. Case No. 25-90465)**

The U.S. Attorney's Office for the Southern District of New York of behalf of the United States of America ("United States") hereby states the following claim:

Summary of Claim

On or about March 25, 2022, a relator filed a *qui tam* complaint in the name of the United States under seal pursuant to the False Claims Act ("FCA"), 31 U.S.C. § 3729 *et seq.*, in the United States District Court for the Southern District of New York, Case No. 22 Civ. 2448 (JPO). The district court recently entered an order partially lifting the seal on this case to the extent necessary for the United States to file this Proof of Claim. The *qui tam* complaint is attached hereto and the United States summarizes the lawsuit as follows:

This lawsuit alleges a scheme to violate the False Claims Act by the three Debtors and one non-debtor (together, the "defendants"): (1) Debtor First Brands Group, LLC ("First Brands"), a global automotive parts company; (2) Debtor Brake Parts, Inc. LLC ("BPI"), a supplier of automotive parts that was acquired by First Brands in July 2020; (3) Debtor CWD, LLC, d/b/a Centric Parts ("Centric Parts"), an aftermarket supplier of automotive parts that was acquired by First Brands in December 2020; and (4) non-debtor Longkou Haimeng Machinery Co., Ltd. ("Haimeng"), a Chinese wholly-owned subsidiary of BPI. Specifically, the lawsuit alleges that the defendants schemed to undervalue—and thereby to underpay U.S. import duties for—BPI's and Centric Parts' imports from Haimeng. The complaint alleges that, in declaring the imports' customs values to U.S. Customs and Border Protection ("CBP"), the defendants did not satisfy the valuation requirements for related-party imports in Section 402(b) of the Tariff Act of 1930, 19 U.S.C. § 1401a. Specifically, according to the complaint, because the buyers (BPI and Centric Parts) and seller (Haimeng) were all controlled by First Brands, they falsely declared to CBP that the imported goods were valued at only about half of the arm's-length prices that BPI paid unrelated manufacturers for the same products. As a result, the complaint alleges that BPI avoided paying millions of dollars of customs duties.

The United States' investigation of these allegations is ongoing, but the potential single damages, measured by the total unpaid duties, resulting from these allegations total at minimum $78,541,838. This amount must be trebled pursuant to 31 U.S.C. § 3729(a)(1). In addition, defendants are liable under the False Claims Act for mandatory civil penalties, which during the relevant time period, ranged from $14,308 to $28,619 per false claim, of which the government estimates there were at least 1,743. Thus, the United States asserts a claim against the Debtors of at least $285,508,431.

The United States expressly reserves its rights pursuant to 11 U.S.C. § 553 to offset any prepetition obligation of any agency or component of the United States—whether fixed, contingent, or the subject of litigation as of Debtors' prepetition date—to Debtors, or any successor in interest of Debtors, to any such prepetition obligation, against any portion of this claim. The United States asserts a secured claim to the extent of funds available to set off against its claim.

The filing of this Proof of Claim is not (a) a waiver or release of the United States's rights, claims or defenses against any person, entity or property; (b) a waiver or release of the United States's right to have any and all final orders in any and all non-core matters entered only after *de novo* review by a United States District Judge; (c) a consent by the United States to the jurisdiction of the Court for any purpose other than with respect to this Proof of Claim; (d) an election of remedy; (e) a waiver or release of any rights which the United States may have to a jury trial; (f) a waiver of the right to move to withdraw the reference with respect to the subject matter of this Proof of Claim, any objection thereto or any other proceedings which may be commenced in these cases against or otherwise involving the United States, including without limitation, any adversary proceeding that was or may be commenced by any party or committee in this case; or (g) a waiver of the United States' rights to make a request for payment of an administrative expense claim under the Bankruptcy Code.

The filing of this Proof of Claim is also not: (a) a waiver or release of the United States' rights against any person, entity or property; (b) a waiver or release of any right or claim of the United States arising out of any other claim of any nature whatsoever, which the United States has against the Debtors; (c) a waiver or release of any rights of the United States under any provision of the Bankruptcy Code or other applicable non-bankruptcy law; (d) an election of any remedy to the exclusion, express or implied, of any other remedy; (e) a consent that this claim is a debt which is subject to discharge in this or any other subsequent bankruptcy proceeding; (f) a ratification or consent to any obligation or liability based upon or arising out of any transaction between the United States and the Debtors; (g) a waiver or release or any rights of the United States to have any and all final orders in any and all noncore matters entered only after *de novo* review by a United States District Court; (h) a waiver of or release of any rights of the United States to trial by jury in any proceeding as to any and all matters so triable; (i) a waiver or release of any rights of the United States to have the reference in this matter withdrawn by the United States District Court in any matter or proceeding subject to mandatory or discretionary withdrawal; or (j) a waiver of the United States' right to intervene in the *qui tam* action in the United States District Court in the Southern District of New York. All of such rights are hereby reserved by the United States, without exemption and with no purpose of confession or conceding any of the foregoing in any way by this filing or by any other participation in this case.

JUDGE OETKEN

22 CV 02448

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES, *ex rel.* ALDER WOOD, LLC, Plaintiffs, v. FIRST BRANDS GROUP, LLC, BRAKE PARTS, INC. LLC, CWD, LLC, d/b/a CENTRIC PARTS, and LONGKOU HAIMENG MACHINERY CO., LTD., Defendants.	No. ____-cv-_____ **FILED IN CAMERA AND UNDER SEAL PURSUANT TO 31 U.S.C. § 3730(b)(2)** **DO NOT ENTER ON PACER** **DO NOT PLACE IN PRESS BOX** **JURY TRIAL DEMANDED** **COMPLAINT FOR VIOLATION OF THE FALSE CLAIMS ACT**

Plaintiff-Relator Alder Wood, LLC, through its attorneys, on behalf of the United States (the "Government"), for its Complaint against defendants First Brands Group, LLC ("First Brands"), Brake Parts, Inc., LLC ("BPI"), CWD, LLC, d/b/a Centric Parts ("Centric Parts"), and Longkou Haimeng Machinery Co., Ltd. ("Haimeng") (collectively, "Defendants"), alleges, based upon its knowledge, relevant documents, and information and belief, as follows:

I. INTRODUCTION

1. This is a customs fraud *qui tam* action to recover damages and civil penalties on behalf of the United States for violations of the federal False Claims Act, 31 U.S.C. § 3729, *et seq.* (the "FCA"), against First Brands, its subsidiaries BPI and Centric Parts, and Haimeng, which is a subsidiary of BPI located in the People's Republic of China ("China"). First Brands is a privately held automotive parts company that operates through a portfolio of subsidiaries, including BPI and Centric Parts. BPI and Centric Parts are suppliers of automotive brake devices—including brake rotors, brake shoes, and brake drums—to the U.S. automobile industry. The bulk of the products

sold by BPI and Centric Parts are manufactured by Haimeng in China and imported by BPI and Centric Parts into the United States.

2. Defendants have knowingly been engaged in a scheme to undervalue—and thereby to underpay import duties in connection with—BPI's and Centric Parts' imports from Haimeng. The scheme involves the declaration of customs values that do not satisfy the valuation requirements for related-party imports as set forth in Section 402(b) of the Tariff Act of 1930, as amended (19 U.S.C. § 1401a). As described more particularly below, those requirements aim to ensure that the relationship between buyers and sellers in related-party transactions do not "influence the price actually paid or payable" for imported goods such that the customs values reflect "arm's length" prices.

3. The relationship between the buyers and sellers in this case—all of which are controlled by First Brands—has influenced the prices paid and declared to U.S. Customs and Border Protection ("CBP" or "Customs"). Moreover, those prices—after having undergone a series of arbitrary reductions at the direction of First Brands—are only a fraction of arm's length prices. In fact, as of March 2022, the Haimeng transfer prices[1] that BPI and Centric Parts pay and declare to Customs stand on average at only 49% of arm's length prices that BPI itself has agreed to pay unrelated manufacturers for the same automotive brake device products.

4. BPI historically set the transfer prices it paid Haimeng through a "cost-plus" formula—specifically, unit cost of production plus five percent.

5. In July 2020, however, First Brands acquired BPI from its prior owner. Three months later, in or about October 2020, First Brands ordered BPI to abandon its cost-plus transfer

[1] In accounting, the term transfer price, also known as transfer cost, is the price at which related parties transact with each other, such as between a company and its subsidiary or between divisions of the same company.

pricing methodology, and, instead, to simply slash the transfer prices it paid Haimeng by an arbitrary five percent.

6. Thereafter, First Brands ordered at least two other arbitrary transfer-price reductions through March 2022, for a cumulative reduction in those prices of at least 32% from the prices that BPI had paid—and declared to Customs—prior to October 2020 when it used the cost-plus methodology.

7. Meantime, in December 2020, First Brands acquired Centric Parts. Centric Parts then began importing products from Haimeng as a related-party supplier, using the same reduced transfer prices and customs values as BPI.

8. Manufacturing costs in the automotive brake device industry have meanwhile risen materially, not declined as BPI's and Centric Parts' reduced entry values would imply. In fact, citing those rising costs—which are mainly due to skyrocketing commodity prices—BPI and Centric Parts have hiked the prices that they charge their customers by double-digits.

9. Furthermore, the values that BPI has declared in connection with its imports from Haimeng do not constitute all the sums that BPI has actually paid. Rather, in or about January 2022, BPI, at the direction of First Brands, paid Haimeng an additional $40 million. At minimum, the $40 million constitutes additional amounts "paid or payable" for BPI's imports from Haimeng, subject to duties. Nevertheless, BPI has fraudulently not declared or paid duties on that sum or otherwise disclosed its existence to CBP.

10. Relator estimates that, by the scheme, Defendants have underdeclared their imports by more than $100 million, resulting in the knowing underpayment of some tens of millions of dollars in customs duties. Moreover, the scheme is ongoing—with the depth of the undervaluation of Defendants' imports increasing over time as arm's length prices in the industry rise with

production costs, while Defendants' entry prices remain fixed at the arbitrary, low levels set by First Brands.

II. PARTIES

11. Relator Alder Wood, LLC, is a Wyoming limited liability company.

12. Defendant First Brands (formerly known as TRICO Group) is a Delaware limited liability company with its principal office at 127 Public Square # 5110, Cleveland, Ohio, 44114. Its websites are tricoproducts.com and firstbrandsgroup.com. First Brands is a global automotive parts company that develops, markets, and sells its products through subsidiaries. Those subsidiaries include BPI, which First Brands acquired in July 2020, and Centric Parts, which First Brands acquired in December 2020. First Brands has more than 5,000 employees across all its subsidiaries and $5.8 billion in annual sales, according to Dun & Bradstreet.

13. Defendant BPI is a Delaware limited liability company with a principal office at 4400 Prime Parkway, McHenry, Illinois, 60050. Its website is brakepartsinc.com. BPI is one of the largest suppliers of automotive brake device such as brake pads and shoes, rotors, drums, calipers, wheel cylinders, master cylinders, and hardware to the U.S. automobile industry. BPI's customers include large auto manufacturers such as General Motors Corporation, which named BPI "Supplier of the Year" in 2020, 2019, and prior years. BPI has thousands of employees and $1.1 billion in annual sales, according to Dun & Bradstreet. BPI was acquired by First Brands in July 2020.

14. Defendant Centric Parts is the d/b/a of CDW, LLC, a California limited liability company with its principal office at 14528 Bonelli Street, City of Industry, California, 91746. Its website is centricparts.com. Centric Parts is an aftermarket supplier of brake and chassis parts for passenger vehicles, light, medium and heavy-duty trucks, commercial vehicles, racing and high-

performance vehicles. Centric Parts has hundreds of employees and $121 million in annual sales, according to Dun & Bradstreet. It was acquired by First Brands in December 2020.

15. Defendant Haimeng is a Chinese limited company with principal office at H876+H4J, Longkou, Yantai, Shandong, China, 265015. Its English language website is en.haimeng.com. Haimeng is a wholly-owned subsidiary of BPI. Haimeng manufactures and distributes automotive brake devices, including discs, brake drums, brake shoes, wheels, axles, and other related products to customers in America, Europe, and other countries. Haimeng's primary customer is its corporate parent BPI and its affiliates.

III. JURISDICTION AND VENUE

16. This action arises under the FCA, 31 U.S.C. § 3729, *et seq.* Jurisdiction over this action is conferred upon this Court by 31 U.S.C. § 3732(a) and 28 U.S.C. § 3130 in that this action arises under the laws of the United States.

17. Upon information and belief, this Complaint is not based on the facts underlying any pending related *qui tam* action within the meaning of the FCA's first-to-file rule, 31 U.S.C. § 3730(b)(5).

18. Upon information and belief, this Complaint is not based upon allegations or transactions that are the subject of a civil suit or an administrative civil money penalty proceeding in which the United States is already a party. 31 U.S.C. § 3730(e)(3).

19. Upon further information and belief, there has been no "public disclosure" of key facts alleged herein regarding Relator's discovery and investigation of the fraud.

20. Relator is an "original source" of information as defined by 31 U.S.C. § 3730(e)(4)(B) of the FCA.

21. Venue lies in this District pursuant to 31 U.S.C. § 3732(a) and 28 U.S.C. § 1391(b)-(d) in that Defendants transact and transacted business in this District and imported goods using fraudulent entry values through the Port of New York and New Jersey.

IV. SUBSTANTIVE ALLEGATIONS

A. Legal Landscape

1. The Customs Valuation of Related-Party Imports

22. "Imported merchandise must be appraised so that the final amount of duty to be paid on the merchandise can be fixed and entries of the merchandise can be liquidated." *VWP of Am., Inc. v. United States*, 175 F.3d 1327, 1330 (Fed. Cir. 1999) (citing 19 U.S.C. § 1500); *Macclenny Prods. v. United States*, 963 F. Supp. 2d 1348, 1352 (Ct. Intl. Trade 2014). Customs is required to appraise imported merchandise in the manner specified in the valuation statute, 19 U.S.C. § 1401a. The statute establishes "transaction value" as the primary method of valuation. 19 U.S.C. § 1401a(a)(1)(A); *see also VWP of Am.*, 175 F.3d at 1330, 1335.[2]

23. "Transaction value" is defined in relevant part as "the price actually paid . . . for the merchandise when sold for exportation to the United States," plus certain statutory additions. 19 U.S.C. § 1401a(b)(1); *see also* 19 U.S.C. § 1401a(b)(4)(A) (defining "price actually paid" as "the total payment . . . made . . . for imported merchandise by the buyer to . . . the seller," excluding international freight, insurance, and other charges). The "price actually paid" is typically the price that is reflected on the invoice for the merchandise (the "commercial invoice"), which is included

[2] In addition to transaction value (the primary method of valuation), the statute also sets forth five secondary methods, which must be considered in order (with the proviso that an importer may request the reversal of deductive value and computed value at the time the entry summary is filed). The five secondary methods of valuation are: (1) the transaction value of identical merchandise, (2) the transaction value of similar merchandise, (3) deductive value, (4) computed value, and (5) the "[v]alue if other values cannot be determined or used" (as specified in 19 U.S.C. § 1401a(f)(1)). *See* 19 U.S.C. § 1401a(a); *Macclenny Prods. v. United States*, 963 F. Supp. 2d 1348, 1352 (Ct. Int'l Trade 2014).

with the entry papers that an importer files with Customs. *Macclenny Prods.*, 963 F. Supp. 2d 1348, at 1353.

24. Although transaction value is the primary method of valuing imported goods under the statute, its use may be inappropriate where the buyer and the seller are "related" as defined by 19 U.S.C. §1401a(g). *See VWP of Am.*, 175 F.3d at 1330-31; 19 U.S.C. § 1401a(b)(2)(B); *see also* 19 C.F.R. § 152.103(j)(1)(iv). As the Court of International Trade has stated:

> Importers and foreign manufacturers have an interest in lowering the overall duties placed on merchandise upon importation. One method of lowering import duties is to reduce the invoice price on the subject merchandise. When merchandise is sold between unrelated parties, an arm's length price is agreed upon, reflecting pressures of market forces, and it is this price that is declared to Customs upon importation. ***When merchandise is imported from a related party, however, market forces are absent from pricing. Related parties have the ability and opportunity to lower the prices charged to the related importer which proportionally reduces the associated import duties that are imposed as a percentage of the value of the imported merchandise.***

La Perla Fashions, Inc. v. United States, 22 C.I.T. 393, 395, 9 F. Supp. 2d 698, 700-01 (Ct. Int'l Trade 1998), *aff'd sub nom. La Perla Fashions, Inc. v. U.S.*, 185 F.3d 885 (Fed. Cir. 1999) (emphasis added).

25. In such circumstances, "the parties' transaction must be 'closely scrutinize[d]' to ensure that the parties have not colluded to lower the invoice price in order to minimize import duties." *Macclenny Prods.*, 963 F. Supp. 2d 1348, at 1353; *see generally La Perla Fashions*, 22 CIT at 395, 9 F. Supp. 2d at 700-01 (explaining that potential for related parties to manipulate invoice price to evade import duties "motivated Congress to enact protective legislation and to direct Customs to closely scrutinize related party transfer pricing").

26. Due to such concerns, the valuation statute, 19 U.S.C. § 1401a, precludes appraisement based on transaction value where the buyer and seller are "related" except in certain circumstances. Specifically, the statute authorizes the use of transaction value where the buyer

and seller are related only "if an examination of the circumstances of the sale . . . indicates that the relationship between such buyer and seller did not influence the price actually paid." 19 U.S.C. § 1401a(b)(2)(B) (emphasis added); *see also* 19 C.F.R. § 152.103(j)(2)(i). Alternatively, the statute authorizes the use of transaction value "if the transaction value of the imported merchandise closely approximates—(i) the transaction value of identical merchandise, or of similar merchandise, in sales to unrelated buyers in the United States; or (ii) the deductive value or computed value for identical merchandise or similar merchandise." 19 U.S.C. § 1401a(b)(2)(B)(i)-(ii)11; *see also* 19 C.F.R. § 152.103(j)(2)(i)(A)-(B).

27. "These two methods for determining the acceptability of the value of a transaction between related parties are intended to 'insure that a particular transaction is bona fide and 'at arm's length' before the transaction value standard will apply." *VWP of Am.*, 175 F.3d at 1335 (*quoting* S. Rep. No. 96-249, at 115, 1979 U.S.C.C.A.N. at 501).[3]

28. Furthermore, Customs regulations provide detailed guidance for applying the "circumstances of the sale" test to determine whether a relationship influenced price in a related party transaction. The Interpretative Notes to 19 C.F.R. § 152.103(l)(1) state, in relevant part:

> (i) Interpretative note 1. Customs may have previously examined the relationship or may already have sufficient detailed information concerning the buyer and seller to be satisfied that the relationship did not influence the price actually paid or payable.... If Customs does have doubts about the acceptability of the price and is unable to accept the transaction value without further inquiry, the importer will be given an opportunity to supply such further detailed information as may be necessary to enable Customs to examine the circumstances of the sale. In this context, Customs will examine relevant aspects of the transaction, including the way in which the buyer and seller organize their commercial relations and the way in which the price in question was arrived at in order to determine whether the relationship influenced the price.

[3] *See generally* U.S. Customs and Border Protection, *What Every Member of the Trade Community Should Know About: Determining the Eligibility of Transaction Value for Related Party Transactions*, an Informed Compliance Publication (Apr. 2007) ("*Related Party Transactions*").

(ii) Interpretative note 2. If it is shown that the buyer and seller, although related, buy from and sell to each other as if they were not related, this will demonstrate that the price has not been influenced by the relationship, and the transaction value will be accepted. If the price has been settled in a manner consistent with the normal pricing practices of the industry in question, or with the way the seller settles prices for sales to buyers who are not related to him, this will demonstrate that the price has not been influenced by the relationship.

(iii) Interpretative note 3. If it is shown that the price is adequate to ensure recovery of all costs plus a profit which is equivalent to the firm's overall profit realized over a representative period of time (e.g., on an annual basis), in sales of merchandise of the same class or kind, this would demonstrate that the price has not been influenced.

19 C.F.R. §§ 152.103(l)(1)(i)-(iii).

2. The Obligation to Exercise Reasonable Care in Declaring Customs Values

29. Under Section 484 of the Tariff Act, as amended (19 U.S.C. § 1484), importers have an obligation to use "reasonable care" to declare the correct value of imported merchandise and to provide any other information necessary to enable CBP to properly assess duties. They must have appropriate internal controls to ensure that any related-party pricing complies with 19 U.S.C. §1401a and 19 U.S.C. §1484. And they must be able to provide sufficient documentation to CBP to demonstrate their compliance. Specifically, as CBP has stated:

> When the import transaction is a related party transaction, the importer must use reasonable care to determine whether transaction value is acceptable based on either the application of the circumstances of sale test or the test value method. This determination is necessary so that the importer can declare the proper value upon entry.
>
> ***The importer must have sufficient information available to demonstrate how it meets the particular test upon which it is relying before a declaration is made based on a related party transaction value.*** . . .
>
> ***The exercise of reasonable care includes an analysis of whether there is sufficient information and documentation to establish that the related party transaction value satisfies the circumstances of sale or test value method***, as set forth in 19 U.S.C. §1401a, 19 CFR Part 152, [and] CBP rulings.

Related Party Transactions, at 17 (emphasis added).

3. The Actionability of Customs Fraud under the FCA

30. The federal form used to enter imported merchandise is CBP Form 7501 ("entry/entry summary"). Importers are required to submit a completed Form 7501 and a commercial invoice with each shipment. 19 C.F.R. § 141.81. The invoice is required to contain a full description of the merchandise along with the quantity and price or value of the merchandise. 19 C.F.R. § 141.86. This information is necessary and material to Customs' valuation of the imported merchandise, on which Customs duties are calculated.

31. Providing Customs with a false invoice that understates the value of the merchandise and declaring that value on CBP Form 7501 is a false claim that is actionable under the FCA, 31 U.S.C. § 3729(a)(1)(G), which makes a person liable who:

> knowingly makes, uses, or causes to be made or used, a false record or statement material to an obligation to pay or transmit money or property to the Government, or knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the Government.

Id.

32. The Government routinely uses the FCA to pursue Customs fraudsters, citing the fact that import duty evasion cheats the American taxpayer and places law-abiding importers at an unfair disadvantage.

B. Background

33. Importers BPI and Centric Parts are suppliers of automotive brake devices to the U.S. automobile industry. The bulk of BPI's and Centric Parts' products are manufactured by Haimeng in China and imported by BPI and Centric Parts into the United States. Each year, BPI and Centric Parts import hundreds of shipments consisting of thousands of tons of automotive brake devices from Haimeng. Virtually all these imports fall under Chapter 87 of the Harmonized Tariff Schedule of the United States. Accordingly, they are generally subject to duties of 27.5%—

a base duty rate of 2.5% plus a tariff of 25% under Section 301 of the Trade Act of 1974 ("Section 301").[4] Many of the shipments have entered the United States through the Port of New York and New Jersey, which is in this District.

34. Like many multinational enterprises that engage in transactions with trans-border affiliates, BPI and Centric Parts use intercompany transfer prices—*i.e.*, "transaction value"—as the basis for the valuations they declare to Customs.[5]

35. Prior to October 2020, BPI had a longstanding practice of using a "cost-plus" formula for setting the transfer prices it paid Haimeng. Specifically, BPI paid Haimeng its unit costs of production plus five percent. This methodology—which apparently reflected an effort to satisfy the "circumstances of sale" test of 19 C.F.R. § 152.103(l)(1)—was approved by BPI's independent auditors and trade consultants, BDO USA ("BDO").

36. Then, in or about July 2020, First Brands acquired BPI.

C. First Brands Arbitrarily Slashes the Transfer Prices by at Least 32%

37. Three months later, in or about October 2020, First Brands ordered BPI to abandon its cost-plus transfer pricing methodology, and, instead, to simply slash the transfer prices it paid Haimeng by an arbitrary five percent, *i.e.*, to levels equivalent to Haimeng's unit costs of production at the time, without any "plus."

38. Thereafter, First Brands ordered at least two other arbitrary transfer-price reductions through March 2022, for a cumulative reduction in those prices of at least 32% from

[4] Under Section 301, the United States currently imposes punitive tariffs of up to 25% on more than $300 billion worth of annual imports from China. Section 301 tariffs are in addition to regular import duties.

[5] *See generally* BDO, *The Link Between Transfer Pricing and Customs Duties* (Apr. 2021), https://www.bdo.com/insights/tax/transfer-pricing/the-link-between-transfer-pricing-and-customs-duti.

the prices that BPI had paid—and declared to Customs—prior to October 2020 when it used the cost-plus methodology.

39. Specifically, First Brands ordered the transfer prices slashed by at least 19% in August 2021, and then again by at least 12% some time prior to March 2022.

40. Meantime, in December 2020, First Brands acquired Centric Parts. Centric Parts then began importing products from Haimeng as a related-party supplier, using the same reduced transfer prices and customs values as BPI.

41. Accordingly, with sequential reductions of five percent, 19% and 12%, Defendants slashed the Haimeng transfer prices by at least a cumulative 32% through March 2022. As a result, BPI and Centric Parts are now paying and declaring values that are on average at most only 68% of the prices that BPI had paid and declared with respect to the same parts prior to October 2020 when it used the cost-plus transfer pricing method.

D. Manufacturers' Costs of Production Soar

42. Meanwhile, manufacturing costs in the automotive brake device industry have risen materially, not declined as BPI's and Centric Parts' reduced entry values would imply.

43. In fact, citing those rising costs, BPI and Centric Parts, at the direction of First Brands, have hiked the prices that they charge their customers repeatedly and by double-digits. They have also imposed surcharges and invoked *force majeure* clauses to escalate those prices above what they previously agreed.

44. In other words, at the same time they reduced their entry values, after having abandoned the cost-plus transfer-pricing methodology, Defendants raised their own prices, justifying the hikes by citing increased production costs.

45. First Brands issued several rounds of letters to BPI and Centric Parts customers explaining the price increases. One such letter, dated July 16, 2021, states in pertinent part:

To Our Valued Customers,

> Over the last 90 days, we have provided updates on several challenges we face as an industry. These include COVID-19 outbreaks in key countries of manufacturing, shortages in available labor as well as ongoing escalation of global commodity prices, energy costs, and transportation rates. These challenges have directly led to the price increase announcements dated April 1st & June 6th and the communication on May 17th to temporarily enact *force majeure*.
>
> ***
>
> We will be closely monitoring costs which influence these actions and will make appropriate future adjustments reflective of market conditions....

46. First Brands also prepared PowerPoint Presentations regarding the soaring costs of raw materials for sales representatives to show customers. One such presentation, dated November 2021, explains that hot rolled coiled steel prices were at "record highs," having increased by "**+321%** since August 2020." *Id.* (emphasis in original). The presentation also includes data showing that pig iron, scrap steel, and coke—materials critical to the manufacture of brake rotors—had soared by 42%, 31%, and 52%, respectively, since October 2020. In addition, the presentation depicts significant increases in the prices of plastics, chemicals, polypropylene, rubber, packaging materials, ocean container rates, transportation, and diesel fuel.

E. The Enormous Gap between Defendants' Customs Values and Arm's Length Prices

47. As a result of the foregoing, a huge disparity has developed between Defendants' transfer prices and arm's length prices in the market. In fact, as of March 2022, the Haimeng transfer prices that BPI and Centric Parts pay and declare to Customs stand on average at only 49% of arm's length prices that BPI itself has agreed to pay unrelated manufacturers for the same automotive brake device products.

48. Specifically, in the automotive brake device industry, various manufacturers offer identical products manufactured to the same specifications and bearing the same parts numbers.

Those products are essentially fungible commodities. BPI's imports from Haimeng are fungible with brake devices sold variously by at least 14 other, unrelated manufacturers. BPI negotiated blanket purchase agreements with each of those 14 arm's length manufacturers as part of an effort to diversify its product sourcing beyond Haimeng, which has limited capacity.

49. Defendants' Haimeng transfer prices are on average only 49% of the average arm's length prices that BPI itself negotiated with respect to the same parts under its purchase agreements with those other, unrelated manufacturers. This implies an entry price undervaluation of approximately 51% as of March 2020 with respect to BPI's and Centric Parts' Haimeng imports.

50. For example, part number 47-325465 is one of BPI's most popular products. BPI imports thousands of units of part 47-325465 from Haimeng each year. BPI's Haimeng transfer price for it as of March 2020 is only $5.05 per unit. Meanwhile, however, BPI has agreed to prices of $14.47, $10.23, $10.53, $9.22, $8.45, $9.97, and $9.22 per unit with seven other, unrelated manufacturers, respectively, for an average arm's length price of $10.09. The Haimeng transfer price is thus only 50% of the average unrelated price to which BPI itself agreed.

51. Likewise, part number 47-326707 is another high-volume BPI product. BPI's Haimeng transfer price for it as of March 2020 is $8.22 per unit. BPI, however, has agreed to prices of $15.19, $16.66, $18.48, $15.06, $14.91, $17.95, and $15.06 per unit with seven other, unrelated manufacturers, respectively, for the same part. Hence, the $8.22 Haimeng transfer price is only 51% of the $16.19 average unrelated price.

F. The Additional $40 Million Paid to Haimeng

52. Furthermore, the values that BPI has declared in connection with its imports from Haimeng do not constitute all the sums that BPI has actually paid. Rather, in or about January 2022, BPI paid Haimeng an additional $40 million, apparently once it became clear that the price reductions ordered by First Brands had left Haimeng financially strapped.

53. Specifically, the $40 million payment came about after Chinese authorities raised questions about Haimeng's 2021 financial results. Given the large year-over-year decline in Haimeng's revenues (resulting from the transfer price reductions), those authorities likely suspected that Haimeng was concealing revenues to evade taxes. Haimeng also faced the possibility of incurring substantial, unwarranted amounts in Chinese value added taxes ("VAT"). Due to the transfer price reductions, Haimeng wound up paying more for the raw materials that it imported (into China) than it received exporting finished product (from China). Chinese authorities would have assumed that the value differential represented goods sold within China, subject to Chinese VAT.

54. There is no question that the $40 million constituted further payment for goods shipped by Haimeng. In fact, BPI employees have internally dubbed the payment a "make up payment"—*i.e.*, to "make up" for BPI's previously deficient payments. Moreover, First Brands directed BPI to make the $40 million payment.

55. At minimum, the $40 million payment constitutes additional amounts "paid or payable" for Haimeng shipments, subject to duties. Nevertheless, BPI has fraudulently not declared or paid duties on that sum or otherwise disclosed its existence to CBP.

G. Defendants' Knowing Disregard of BPI's and Centric Parts' Due Care Obligations

56. Defendants have knowingly disregarded BPI's and Centric Parts' due care obligations as importers. Neither BPI nor Centric Parts has conducted any legal or factual analysis even purporting to justify the reduced entry values. They did not seek or obtain an opinion from BDO or any other outside trade consulting firm blessing them. They never discussed those values

with CBP field personnel. They never submitted a prospective ruling request to CBP under 19 C.F.R. 177.1. And they never commissioned or conducted a transfer pricing study.[6]

57. Rather, the transfer and entry price cuts were entirely arbitrary and without basis. Defendants' goal in reducing the prices was fraudulent—to cheat Customs, underpay duties, and thereby improve First Brands' financial results. At all relevant times and in connection with each shipments, Defendants thus knowingly filed or caused to be filed false invoices understating the true values of their Haimeng imports. Defendants also knowingly filed or caused to be filed false Form 7501 entry summaries declaring those understated values.

V. DAMAGES

58. Relator estimates that, by the scheme, Defendants have underdeclared their Haimeng imports by more than $100 million, resulting in the knowing underpayment of some tens of millions of dollars in customs duties.

59. Moreover, the scheme is ongoing—with the depth of the undervaluation of Defendants' imports increasing over time as arm's length prices in the industry rise with production costs, while Defendants' entry prices remain fixed at the arbitrary, low levels set by First Brands.

FIRST CLAIM FOR RELIEF
VIOLATION OF 31 U.S.C. § 3729(a)(1)(G)

60. Relator incorporates the allegations contained in the foregoing paragraphs.

61. By virtue of the acts described above, Defendants violated and continue to violate the FCA by evading applicable import duties in that they thereby knowingly made, used, or caused

[6] Transfer pricing studies analyze the market value of goods transferred between affiliates and may offer reasonable cause or reliance in a tax audit. They may also support—but are "not sufficient to show that a related party transaction value is acceptable"—for customs purposes. *Related Party Transactions*, at 14.

to be made or used, false records or statements material to obligations to pay or transmit money or property to the Government, or knowingly concealed or knowingly and improperly avoided or decreased obligations to pay or transmit money or property to the Government.

62. By reason of Defendants' actions, the United States has been damaged, and continues to be damaged, in a substantial amount to be determined at trial.

SECOND CLAIM FOR RELIEF
VIOLATION OF 31 U.S.C. § 3729(a)(1)(C)

63. Relator incorporates the allegations contained in the foregoing paragraphs.

64. By virtue of the acts described above, Defendants have acted in concert and tacitly agreed with each other and with other conspirators to violate the FCA by evading applicable import duties on apparel in that they thereby knowingly made, used, or caused to be made or used, false records or statements material to obligations to pay or transmit money or property to the Government, or knowingly concealed or knowingly and improperly avoided or decreased obligations to pay or transmit money or property to the Government (31 U.S.C. § 3729(a)(l)(G)).

65. Defendants committed the overt acts described above in furtherance of the conspiracy, including but not limited to, misstating the prices of auto parts or otherwise illegally avoiding the obligation to pay duties that were owed.

66. Defendants' conspiracy violates 31 U.S.C. § 3729(a)(l)(C), by which Defendants obtained entry of goods into the United States without paying amounts due to the United States.

67. By reason of Defendants' conspiracy, the United States has been damaged, and continues to be damaged, in a substantial amount.

PRAYER FOR RELIEF

WHEREFORE, Relator, on behalf of itself and the United States Government, prays that judgment be entered and against Defendants as follows:

a. That the United States Government be awarded three times the amount of damages sustained because of Defendants' actions, plus a civil penalty of not less than $12,537 and not more than $25,076, for each false document presented or caused to be presented to CBP, and the costs of this action, with interest, including the costs to the United States Government related to this action;

b. That the Relator be awarded all costs incurred, including reasonable attorneys' fees and costs;

c. That, in the event the United States continues to proceed with this action, the Relator be awarded an amount that the Court decides is reasonable for bringing this action of at least 15% but not more than 25% of the proceeds of the action or the settlement of the claim;

d. That, in the event the United States does not proceed with this action, the Relator be awarded an amount that the Court decides is reasonable for collecting the civil penalty and damages, which shall be not less than 25% nor more than 30% of the proceeds of the action or settlement of the claim;

e. That the Relator be awarded prejudgment interest;

f. That a trial by jury be held on all issues; and

g. That the Court enter an Order granting such other relief as this Court deems just and appropriate.

JURY DEMAND

Relator, on behalf of the United States, hereby demands a trial by jury in this action on all issues.

Dated: March 25, 2022

Respectfully submitted,

MARK A. STRAUSS LAW, PLLC

By: ______________________

Mark A. Strauss
555 Madison Avenue, 5th Fl.
New York, NY 10022
Tel: (212) 729-9496
Fax: (212) 202-6443
mark.strauss@markastrausslaw.com

Counsel for Relator Alder Wood, LLC

Electronic Proof of Claim Confirmation: 3950-1-DHEOU-257082889

Claim Electronically Submitted on (UTC) : 2026-03-25T19:08:31.595Z

Submitted by: United States of America
tara.schwartz@usdoj.gov