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11
 12 **UNITED STATES DISTRICT COURT**
 13 **CENTRAL DISTRICT OF CALIFORNIA**

14 JEFFREY GRODKO, Individually and
 15 on Behalf of All Others Similarly
 16 Situated,

17 Plaintiff,

18 vs.

19 LIHUA INTERNATIONAL INC.,
 20 JIANHUA ZHU, AND DAPHNE YAN
 21 HUANG,

22 Defendants

Case No.:

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

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 CLASS ACTION COMPLAINT

1 Plaintiff Jeffrey Grodko (“Plaintiff”), individually and on behalf of all other
2 persons similarly situated, by his undersigned attorneys, for his complaint against
3 Defendants, alleges the following based upon personal knowledge as to himself and his
4 own acts, and information and belief as to all other matters, based upon, *inter alia*, the
5 investigation conducted by and through his attorneys, which included, among other
6 things, a review of the Defendants’ public documents, United States Securities and
7 Exchange Commission (“SEC”) filings, media and news reports, and information readily
8 obtainable on the Internet.
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12 **NATURE OF THE ACTION**

13 1. This is a federal securities class action on behalf of a class consisting of all
14 persons other than Defendants who purchased the common stock of Lihua International,
15 Inc. (“Lihua” or the “Company”) between August 9, 2012 and April 30, 2014 (the “Class
16 Period”), inclusive, seeking to recover damages caused by Defendants’ violations of
17 federal securities laws and pursue remedies under the Securities Exchange Act of 1934
18 (the “Exchange Act”).
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22 **JURISDICTION AND VENUE**

23 2. The claims asserted herein arise under and pursuant to Sections 10(b) and
24 20(a) of the Exchange Act, (15 U.S.C. §78j (b) and 78t (a)), and Rule 10b-5 promulgated
25 thereunder (17 C.F.R. §240.10b-5).
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1 3. This Court has jurisdiction over the subject matter of this action pursuant to
2 §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.

3 4. Venue is proper in this Judicial District pursuant to §27 of the Exchange
4 Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b).

5 5. In connection with the acts, conduct and other wrongs alleged in this
6 Complaint, Defendants, directly or indirectly, used the means and instrumentalities of
7 interstate commerce, including but not limited to, the United States mails, interstate
8 telephone communications and the facilities of the national securities exchange.

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12 **PARTIES**

13 6. Plaintiff, as set forth in the accompanying certification, incorporated by
14 reference herein, purchased Lihua common stock at artificially inflated prices during the
15 Class Period and has been damaged thereby.

16 7. Defendant Lihua International Inc. is a Delaware corporation that purports
17 to manufacture, market, and distribute refined copper products through its wholly-owned
18 subsidiaries Danyang Lihua Electron Co., Ltd., (“Lihua Electron”) and Jiangsu Lihua
19 Copper Industry Co., Ltd. (“Lihua Copper”). During the Class Period the Company’s
20 stock was traded on the NASDAQ Stock Market under the symbol “LIWA.”

21 8. Throughout the Class Period the company was headquartered in Jiangsu
22 Province of the People’s Republic of China (“PRC”).

23 9. Defendant Jianhua Zhu (“Zhu”) was, at all relevant times, the President,
24 Chief Executive Officer, and Chairman of the Board of Directors of Lihua.
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1 10. Defendant Daphne Yan Huang (“Huang”) was, at all relevant times, the
2 Chief Financial Officer and Treasurer of Lihua.

3 **SUBSTANTIVE ALLEGATIONS**
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5 11. On August 9, 2012, Lihua filed its Form 10-Q for the quarter ended June
6 30, 2012 (“2012 Second Quarter 10-Q”) with the SEC. This Form 10-Q and the
7 accompanying Sarbanes-Oxley Certification were signed by Defendants Zhu and Huang.
8

9 12. The 2012 Second Quarter 10-Q reported, for the three-month period ended
10 June 30, 2012, revenues totaling \$191 million and a net income of \$13 million.
11

12 13. On March 18, 2013, Lihua filed its Form 10-K Annual Report for the fiscal
13 year ended December 31, 2012 (“2012 10-K”) with the SEC. This Form 10-K was
14 signed by Defendants Zhu and Huang, as well as several directors of Lihua.
15

16 14. Zhu and Huang also signed the Sarbanes-Oxley certifications
17 accompanying the 2012 10-K.
18

19 15. The 2012 10-K portrayed Lihua as a growing and profitable company.
20 Lihua reported \$853 million in revenue and \$57 million in net income for 2012 on the
21 2012 10-K.
22

23 16. The 2012 10-K also reported total assets of \$293 million, and only \$14
24 million in total liabilities.
25

26 17. On March 17, 2014, Lihua filed its Form 10-K Annual Report for the fiscal
27 year ended December 31, 2013 (“2013 10-K”) with the SEC. This Form 10-K was
28 signed by Defendants Zhu and Huang, as well as several directors of Lihua.

1 18. Zhu and Huang also signed the Sarbanes-Oxley certifications
2 accompanying the 2013 10-K.

3 19. The 2013 10-K continued to portray Lihua as a thriving company. Lihua
4 reported \$900 million in revenue and \$56 million in net income for 2013 on the 2013 10-
5 K.
6

7 20. The 2013 10-K also reported total assets of \$365 million, and only \$19
8 million in total liabilities. These rosy figures were false and misleading, and masked
9 serious and deteriorating conditions at Lihua.
10

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12 **The Truth Begins to Emerge**

13 21. On March 28, 2014, People's Daily, the official newspaper of the
14 government of China, published a report exposing Lihua's troubles (the "People's Daily
15 Report").
16

17 22. The People's Daily Report revealed that Lihua's business took a drastic turn
18 for the worse starting from the end of 2012.
19

20 23. The People's Daily Report stated that: (1) Lihua's cash flow is broken, and
21 its warehouse has been seized and sealed by the local court; (2) Lihua's production
22 activities substantially decreased in 2013, and have nearly ceased after the 2014 Spring
23 Festival (January 31, 2014); (3) Zhu attempted to move Lihua's inventory in order to
24 hide assets from creditors, and as a result, he is now being investigated by the local
25 police for larceny.
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1 24. American investors were made aware of these problems for the first time on
2 April 30, 2014, when GeoInvesting publicized the contents of the People’s Daily Report.

3 25. These adverse facts caused the value of Lihua’s stock to drop by more than
4 50% on April 30, 2014, from \$4.33 to \$2.08 per share, before it was halted by
5 NASDAQ.
6

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8 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

9 26. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
10 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or
11 otherwise acquired Lihua securities during the Class Period (the “Class”); and were
12 damaged upon the revelation of the alleged corrective disclosures. Excluded from the
13 Class are defendants herein, the officers and directors of the Company, at all relevant
14 times, members of their immediate families and their legal representatives, heirs,
15 successors or assigns and any entity in which defendants have or had a controlling
16 interest.
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20 27. The members of the Class are so numerous that joinder of all members is
21 impracticable. Throughout the Class Period, Lihua securities were actively traded on the
22 NASDAQ. While the exact number of Class members is unknown to Plaintiff at this
23 time and can be ascertained only through appropriate discovery, Plaintiff believes that
24 there are hundreds or thousands of members in the proposed Class. Record owners and
25 other members of the Class may be identified from records maintained by Lihua or its
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1 transfer agent and may be notified of the pendency of this action by mail, using the form
2 of notice similar to that customarily used in securities class actions.

3 28. Plaintiff's claims are typical of the claims of the members of the Class as all
4 members of the Class are similarly affected by defendants' wrongful conduct in violation
5 of federal law that is complained of herein.
6

7 29. Plaintiff will fairly and adequately protect the interests of the members of
8 the Class and has retained counsel competent and experienced in class and securities
9 litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.
10

11 30. Common questions of law and fact exist as to all members of the Class and
12 predominate over any questions solely affecting individual members of the Class.
13 Among the questions of law and fact common to the Class are:
14

15 31. whether the federal securities laws were violated by defendants' acts as
16 alleged herein;
17

18 32. whether statements made by defendants to the investing public during the
19 Class Period misrepresented material facts about the business, operations and
20 management of Lihua;
21

- 22 • whether the Individual Defendants caused Lihua to issue false and
23 misleading financial statements during the Class Period;
- 24 • whether defendants acted knowingly or recklessly in issuing false and
25 misleading financial statements;
- 26 • whether the prices of Lihua securities during the Class Period were
27 artificially inflated because of the defendants' conduct complained of
28 herein;

1 and,

- 2
- 3 • whether the members of the Class have sustained damages and, if so,
4 what is the proper measure of damages.

5 33. A class action is superior to all other available methods for the fair and
6 efficient adjudication of this controversy since joinder of all members is impracticable.
7 Furthermore, as the damages suffered by individual Class members may be relatively
8 small, the expense and burden of individual litigation make it impossible for members of
9 the Class to individually redress the wrongs done to them. There will be no difficulty in
10 the management of this action as a class action.
11

12 34. Plaintiff will rely, in part, upon the presumption of reliance established by
13 the fraud-on-the-market doctrine in that:
14

- 15 • defendants made public misrepresentations or failed to disclose
16 material facts during the Class Period;
- 17 • the omissions and misrepresentations were material;
- 18 • Lihua securities are traded in efficient markets;
- 19 • the Company's shares were liquid and traded with moderate to heavy
20 volume during the Class Period;
- 21 • the Company traded on the NASDAQ, and was covered by multiple
22 analysts;
- 23 • the misrepresentations and omissions alleged would tend to induce a
24 reasonable investor to misjudge the value of the Company's
25 securities; and
- 26 • Plaintiff and members of the Class purchased and/or sold Lihua
27 securities between the time the defendants failed to disclose or
28

1 misrepresented material facts and the time the true facts were
2 disclosed, without knowledge of the omitted or misrepresented facts.

3 35. Based upon the foregoing, Plaintiff and the members of the Class are
4 entitled to a presumption of reliance upon the integrity of the market.

5 36. Alternatively, Plaintiffs and the members of the Class are entitled to the
6 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of*
7 *the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants
8 omitted material information in their Class Period statements in violation of a duty to
9 disclose such information, as detailed above.
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13 **FIRST CLAIM**
14 **Violation of Section 10(b) of**
15 **The Exchange Act and Rule 10b-5**
16 **Promulgated Thereunder Against All Defendants**

17 37. Plaintiff repeats and realleges each and every allegation contained above as
18 if fully set forth herein.

19 38. During the Class Period, Defendants carried out a plan, scheme and course
20 of conduct which was intended to and, throughout the Class Period, did: (1) deceive the
21 investing public, including Plaintiff and other Class members, as alleged herein; and (2)
22 cause Plaintiff and other members of the Class to purchase Lihua's securities at
23 artificially inflated prices. In furtherance of this unlawful scheme, plan and course of
24 conduct, each of the Defendants took the actions set forth herein.
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27 39. Defendants: (a) employed devices, schemes, and artifices to defraud; (b)
28 made untrue statements of material fact and/or omitted to state material facts necessary

1 to make the statements not misleading; and (c) engaged in acts, practices, and a course of
2 business that operated as a fraud and deceit upon the purchasers of the Company's
3 securities in an effort to maintain artificially high market prices for Lihua's securities in
4 violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.
5 All Defendants are sued either as primary participants in the wrongful and illegal
6 conduct charged herein or as controlling persons as alleged below.
7
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9 40. Defendants, individually and in concert, directly and indirectly, by the use,
10 means or instrumentalities of interstate commerce and/or of the mails, engaged and
11 participated in a continuous course of conduct to conceal adverse material information
12 about the business, operations and future prospects of Lihua as specified herein.
13

14 41. These Defendants employed devices, schemes, and artifices to defraud
15 while in possession of material adverse non-public information, and engaged in acts,
16 practices, and a course of conduct as alleged herein in an effort to assure investors of
17 Lihua's value and performance and continued substantial growth, which included the
18 making of, or participation in the making of, untrue statements of material facts and
19 omitting to state material facts necessary in order to make the statements made about
20 Lihua and its business operations and future prospects in the light of the circumstances
21 under which they were made, not misleading, as set forth more particularly herein, and
22 engaged in transactions, practices and a course of business that operated as a fraud and
23 deceit upon the purchasers of Lihua's securities during the Class Period.
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1 42. Zhu's and Huang's primary liability, and controlling person liability, arises
2 from the following facts: (1) Zhu and Huang were high-level executives, directors,
3 and/or agents at the Company during the Class Period and members of the Company's
4 management team or had control thereof; (2) Zhu and Huang, by virtue of their
5 responsibilities and activities as a senior officer and/or director of the Company, was
6 privy to and participated in the creation, development and reporting of the Company's
7 financial condition; (3) Zhu and Huang enjoyed significant personal contact and
8 familiarity with the other Defendants and was advised of and had access to other
9 members of the Company's management team, internal reports and other data and
10 information about the Company's finances, operations, and sales at all relevant times;
11 and (4) Zhu and Huang were aware of the Company's dissemination of information to
12 the investing public which they knew or recklessly disregarded was materially false and
13 misleading.
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19 43. Defendants had actual knowledge of the misrepresentations and omissions
20 of material facts set forth herein, or acted with reckless disregard for the truth in that they
21 failed to ascertain and to disclose such facts, even though such facts were available to
22 them. Such Defendants' material misrepresentations and/or omissions were done
23 knowingly or recklessly and for the purpose and effect of concealing Lihua's operating
24 condition and future business prospects from the investing public and supporting the
25 artificially inflated price of its securities. As demonstrated by Defendants'
26 overstatements and misstatements of the Company's financial condition throughout the
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1 Class Period, Defendants, if they did not have actual knowledge of the
2 misrepresentations and omissions alleged, were reckless in failing to obtain such
3 knowledge by deliberately refraining from taking those steps necessary to discover
4 whether those statements were false or misleading.
5

6 44. As a result of the dissemination of the materially false and misleading
7 information and failure to disclose material facts, as set forth above, the market price of
8 Lihua's securities was artificially inflated during the Class Period. In ignorance of the
9 fact that market prices of Lihua's publicly-traded securities were artificially inflated, and
10 relying directly or indirectly on the false and misleading statements made by Defendants,
11 or upon the integrity of the market in which the common stock trades, and/or on the
12 absence of material adverse information that was known to or recklessly disregarded by
13 Defendants but not disclosed in public statements by Defendants during the Class
14 Period, Plaintiff and the other members of the Class acquired Lihua's securities during
15 the Class Period at artificially high prices and were or will be damaged thereby.
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20 45. At the time of said misrepresentations and omissions, Plaintiff and other
21 members of the Class were ignorant of their falsity, and believed them to be true. Had
22 Plaintiff and the other members of the Class and the marketplace known the truth
23 regarding Lihua's financial results, which was not disclosed by Defendants, Plaintiff and
24 other members of the Class would not have purchased or otherwise acquired their
25 Lihua's securities, or, if they had acquired such securities during the Class Period, they
26 would not have done so at the artificially inflated prices that they paid.
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1 46. By virtue of the foregoing, Defendants have violated Section 10(b) of the
2 Exchange Act, and Rule 10b-5 promulgated thereunder.

3 47. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff
4 and the other members of the Class suffered damages in connection with their respective
5 purchases and sales of the Company's securities during the Class Period.
6

7 48. This action was filed within two years of discovery of the fraud and within
8 five years of each plaintiff's purchases of securities giving rise to the cause of action.
9

10 **SECOND CLAIM**
11 **Violation of Section 20(a) of**
12 **The Exchange Act Against Zhu and Huang**

13 49. Plaintiff repeats and realleges each and every allegation contained above as
14 if fully set forth herein.
15

16 50. Zhu and Huang acted as controlling persons of Lihua within the meaning of
17 Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level
18 positions, agency, ownership and contractual rights, and participation in and/or
19 awareness of the Company's operations and/or intimate knowledge of the false financial
20 statements filed by the Company with the SEC and disseminated to the investing public,
21 Zhu and Huang had the power to influence and control, and did influence and control,
22 directly or indirectly, the decision-making of the Company, including the content and
23 dissemination of the various statements that Plaintiff contends are false and misleading.
24 Zhu and Huang were provided with or had unlimited access to copies of the Company's
25 reports, press releases, public filings and other statements alleged by Plaintiff to have
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1 been misleading prior to and/or shortly after these statements were issued and had the
2 ability to prevent the issuance of the statements or to cause the statements to be
3 corrected.
4

5 51. In particular, Zhu and Huang had direct and supervisory involvement in the
6 day-to-day operations of the Company and, therefore, are presumed to have had the
7 power to control or influence the particular transactions giving rise to the securities
8 violations as alleged herein, and exercised the same.
9

10 52. As set forth above, Lihua, Zhu, and Huang each violated Section 10(b), and
11 Rule 10b-5 promulgated thereunder, by their acts and omissions as alleged in this
12 Complaint.
13

14 53. By virtue of their positions as controlling persons, Zhu and Huang are liable
15 pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of
16 Defendants' wrongful conduct, Plaintiff and other members of the Class suffered
17 damages in connection with their purchases of the Company's securities during the Class
18 Period.
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21 54. This action was filed within two years of discovery of the fraud and within
22 five years of each Plaintiff's purchases of securities giving rise to the cause of action.
23

24 **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:
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26 a) Determining that this action is a proper class action, designating Plaintiff as
27 Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the
28 Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

1 b) Awarding compensatory damages in favor of Plaintiff and the other Class
2 members against all Defendants, jointly and severally, for all damages sustained as a
3 result of Defendants' wrongdoing, in an amount to be proven at trial, including interest
4 thereon;

5
6 c) Awarding Plaintiff and the Class their reasonable costs and expenses
7 incurred in this action, including counsel fees and expert fees; and
8

9 d) Such other and further relief as the Court may deem just and proper.
10

11 **JURY TRIAL DEMANDED**

12 Plaintiff hereby demands a trial by jury.

13 DATED: May 7, 2014

14 **GLANCY BINKOW & GOLDBERG LLP**

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Counsel for Plaintiff

**CERTIFICATION PURSUANT
TO FEDERAL SECURITIES LAWS**

1. I, Jeffrey Grodtko, make this declaration pursuant to Section 27(a)(2) of the Securities Act of 1933 ("Securities Act") and/or Section 21D(a)(2) of the Securities Exchange Act of 1934 ("Exchange Act") as amended by the Private Securities Litigation Reform Act of 1995.
2. I have reviewed a Complaint against Lihua International, Inc. ("Lihua" or the "Company"), and authorize the filing of a comparable complaint on my behalf.
3. I did not purchase or acquire Lihua securities at the direction of plaintiffs counsel or in order to participate in any private action arising under the Securities Act or Exchange Act.
4. I am willing to serve as a representative party on behalf of a Class of investors who purchased or acquired Lihua securities during the class period, including providing testimony at deposition and trial, if necessary. I understand that the Court has the authority to select the most adequate lead plaintiff in this action.
5. To the best of my current knowledge, the attached sheet lists all of my transactions in Lihua securities during the Class Period as specified in the Complaint.
6. During the three-year period preceding the date on which this Certification is signed, I have not sought to serve as a representative party on behalf of a class under the federal securities laws.
7. I agree not to accept any payment for serving as a representative party on behalf of the class as set forth in the Complaint, beyond my pro rata share of any recovery, except such reasonable costs and expenses directly relating to the representation of the class as ordered or approved by the Court.
8. I declare under penalty of perjury that the foregoing is true and correct.

Executed: May 6, 2014



Jeffrey Grodtko

