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UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA,) CR No. 02-_____
)
Plaintiff,) I N F O R M A T I O N
v.)
) [15 U.S.C. §§ 78j(b), 78ff,
JEFFREY MICHAEL KALINA,) 17 C.F.R. 240.10b-5:
) Securities Fraud]
Defendant.)
_____)

The United States Attorney charges:

[15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5]

I. INTRODUCTION

At all times relevant to this information:

1. Homestore.com, Inc. ("Homestore") was a Delaware corporation headquartered and with its main operations in Westlake Village, California. Homestore was the largest Internet-based provider of residential real estate listings and related content.

2. Homestore was a publicly traded company. Homestore's stock was traded on the national market of the National Association of Securities Dealers' Automated Quotation System ("NASDAQ"), an electronic trading system. Homestore had shareholders located

1 throughout the United States, including in the Central District of
2 California.

3 3. As a public company, Homestore was required to comply with
4 the rules and regulations of the United States Securities and
5 Exchange Commission ("SEC"). Those rules and regulations are
6 designed to protect members of the investing public by, among other
7 things, ensuring that a company's financial information is
8 accurately recorded and disclosed to the public.

9 4. Under those regulations, Homestore and its officers had a
10 duty to: (a) make and keep books, records and accounts which, in
11 reasonable detail, fairly and accurately reflected the company's
12 business transactions; (b) devise and maintain a system of internal
13 accounting controls sufficient to provide reasonable assurances that
14 the company's transactions were recorded as necessary to permit
15 preparation of financial statements in conformity with Generally
16 Accepted Accounting Principles ("GAAP"); and (c) file with the SEC
17 quarterly reports (on Form 10-Q) which included financial statements
18 that accurately presented its financial condition and results of its
19 business operations in accordance with GAAP.

20 5. Homestore's outside auditor was PricewaterhouseCoopers
21 ("PwC").

22 6. Defendant JEFFREY MICHAEL KALINA ("KALINA") was employed
23 in various positions in Homestore's Finance Department from
24 April 2000 until he was placed on administrative leave in August
25 2002. During 2001, defendant KALINA served as Senior Manager for
26 Merger and Acquisition Transactions for Homestore.

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1 II. THE SCHEME TO DEFRAUD

2 7. Beginning in or about March 2001, defendant KALINA,
3 together with high-ranking corporate officers at Homestore, and
4 others, participated in and helped to execute a scheme to defraud
5 shareholders of Homestore, the investing public, PwC, and the SEC,
6 by manipulating Homestore's reported revenues to make them appear
7 higher than they really were.

8 8. Among the goals of the scheme was to ensure that Homestore
9 consistently reported that it had met or exceeded projected
10 quarterly results for advertising revenue and total revenue, when in
11 truth, Homestore's financial results were materially overstated.

12 9. In order to achieve and to attempt to achieve the goals of
13 the scheme, defendant KALINA, high-ranking corporate officers at
14 Homestore, and others, caused Homestore to engage in a complicated
15 series of "round-trip" transactions. In these "round-trip"
16 transactions, Homestore entered into agreements with various
17 intermediaries to facilitate the circular flow of money from
18 Homestore to the various intermediaries and then back to Homestore.
19 These "round-trip" transactions and the accompanying circular flow
20 of money enabled Homestore to recognize its own cash as revenue in
21 violation of GAAP. These illegal arrangements allowed Homestore to
22 inflate its revenue fraudulently by essentially buying that revenue
23 in violation of GAAP.

24 10. For example, in the first and second quarters of 2001,
25 Homestore entered into agreements with a major media company under
26 which Homestore agreed to refer advertisers to the major media
27 company to purchase on-line advertising from the major media
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1 company. The major media company, in turn, agreed to purchase
2 on-line advertising from Homestore. The amount of advertising
3 purchased by the major media company from Homestore was dependent
4 on, and correlated to, the amount of advertising purchased through
5 Homestore's referrals.

6 11. Homestore indirectly paid for the advertising purchases
7 made by the advertisers Homestore referred to the major media
8 company. Homestore purchased services, including software licenses,
9 advertising, and other products, from these advertisers. Homestore
10 generally had no business need to enter into these transactions with
11 these advertisers and also overpaid for the services it purchased
12 from these advertisers. As an unwritten condition of these
13 transactions, Homestore required these advertisers to purchase on-
14 line advertisements from the major media company with most or all of
15 the money Homestore spent with the advertisers. Moreover, Homestore
16 capitalized the payments made to these advertisers, thereby reducing
17 Homestore's quarterly expenses in "buying" its revenue and the
18 associated impact to Homestore's net income figure in the quarters
19 in which the payments to "buy" revenue were made.

20 12. In the first and second quarters of Homestore's fiscal
21 year 2001, Homestore paid a total of approximately \$49.8 million to
22 the advertisers in 16 separate transactions. The advertisers then
23 paid approximately \$45.1 million to the major media company to
24 purchase on-line advertisements. Homestore, in turn, recognized
25 approximately \$36.7 million in revenue from the major media
26 company's related purchase of on-line advertising at Homestore.
27 Homestore included this bogus revenue from the fraudulent "round-
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1 trip" transactions in the financial statements filed on its
2 Forms 10-Q for the first three quarters of Homestore's fiscal
3 year 2001.

4 13. On or about December 21, 2001, Homestore announced that
5 the Audit Committee of the Board of Directors was conducting an
6 inquiry into certain of Homestore's accounting practices and that
7 Homestore would restate certain of its financial statements. NASDAQ
8 suspended trading in Homestore's stock on December 21, 2001 at \$3.60
9 per share. Homestore's stock resumed trading on January 7, 2002,
10 and closed that day at \$2.46.

11 14. On or about April 3, 2002, following an internal
12 investigation and audit, Homestore reported that during the first
13 three quarters of its fiscal year 2001, Homestore had materially
14 overstated advertising revenue by \$46,410,000 or 39% of advertising
15 revenue for the period, and 13% of total revenue for the period.

16 III. DEFENDANT'S PARTICIPATION IN THE SCHEME TO DEFRAUD

17 15. From on or about April 17, 2001 and continuing to July 6,
18 2001, within the Central District of California and elsewhere,
19 defendant KALINA knowingly and willfully and in connection with the
20 purchase and sale of Homestore stock employed a device, artifice,
21 and scheme to defraud, and engaged in acts, practices, and courses
22 of business that operated as a fraud and deceit, through the use of
23 the means and instrumentalities of interstate commerce and the use
24 of the mails. The scheme operated in the following manner:

25 (a) Beginning at least as early as March 2001 and
26 continuing through at least July 2001, defendant KALINA obtained
27 material non-public information in the regular course of his duties
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1 as a Homestore employee that Homestore was engaging in fraudulent
2 "round-trip" transactions in which the company improperly recognized
3 revenue to meet quarterly revenue expectations as discussed in
4 paragraphs 9 through 12 of this information.

5 (b) As a result of meetings, informal conversations,
6 telephone conversations, and email exchanges with high-ranking
7 corporate officers and others at Homestore, defendant KALINA was
8 aware that Homestore improperly recognized revenue through the use
9 of "round-trip" transactions.

10 (c) Defendant KALINA was further aware of the scheme to
11 improperly recognize revenue through the use of "round-trip"
12 transactions because he participated in the scheme, by, among other
13 things,

14 (i) helping to structure Homestore's transactions
15 with the advertisers that Homestore referred to the major media
16 company as discussed in paragraphs 9 through 12 of this information;

17 (ii) facilitating the collection of money from the
18 major media company that Homestore recognized as revenue as
19 discussed in paragraphs 9 through 12 of this information; and

20 (iii) concealing the "round-trip" transactions from
21 PwC and assisting others in misleading PwC concerning the nature of
22 the "round-trip" transactions.

23 (d) As a result of the fraudulent scheme to improperly
24 recognize revenue, defendant KALINA was aware that Homestore's
25 revenues were materially overstated throughout 2001.

26 (e) Defendant KALINA knew that this information was
27 material and non-public, and that he could not buy or sell Homestore
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1 common stock before the information had been announced to the
2 public.

3 (f) Based on the material non-public information in his
4 possession, from on or about April 17, 2001 to on or about July 6,
5 2001, defendant KALINA sold approximately 5,649 shares of Homestore
6 common stock.

7 (g) During the course of, and as a result of, the scheme,
8 defendant KALINA realized profits of \$69,802 through the sale of
9 Homestore stock.

10 (h) During the course of the scheme, defendant KALINA
11 used telephones to cause the trading of his Homestore securities,
12 and caused mailings confirming trades of his Homestore securities to
13 be sent to him.

14 IV. DEFENDANT'S SALE OF HOMESTORE STOCK

15 16. On or about the following dates, in the Central District
16 of California and elsewhere, by the use of the means and the
17 instrumentalities of interstate commerce and of the mails, defendant
18 KALINA caused the following securities trades to be executed:

19 <u>Date</u>	<u>Sales of Homestore Stock</u>
20 4/17/01	500 shares of Homestore stock
21 4/24/01	100 shares of Homestore stock
22 4/24/01	400 shares of Homestore stock
23 4/24/01	500 shares of Homestore stock
24 4/26/01	500 shares of Homestore stock
25 4/26/01	500 shares of Homestore stock
26 5/2/01	250 shares of Homestore stock
27 5/7/01	250 shares of Homestore stock

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1 5/22/01 500 shares of Homestore stock
2 5/24/01 200 shares of Homestore stock
3 6/21/01 124 shares of Homestore stock
4 6/21/01 500 shares of Homestore stock
5 6/25/01 200 shares of Homestore stock
6 6/26/01 500 shares of Homestore stock
7 7/6/01 625 shares of Homestore stock

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DEBRA W. YANG
United States Attorney

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JACQUELINE CHOOLJIAN
Assistant United States Attorney
Chief, Criminal Division

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GREGORY J. WEINGART
Assistant United States Attorney
Chief, Major Frauds Section

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