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9 UNITED STATES DISTRICT COURT
10 FOR THE CENTRAL DISTRICT OF CALIFORNIA

11 UNITED STATES OF AMERICA,) CR No. 03-_____
12)
13 Plaintiff,) I N F O R M A T I O N
14 v.)
15) [18 U.S.C. §§ 1343, 1346:
16 JESSICA MCLELLAN,) Wire Fraud;
17 SAILESH PATEL,) 15 U.S.C. §§ 78j(b), 78ff;
18 THOMAS VO,) 17 C.F.R. § 240.10b-5:
19 Defendants.) Insider Trading]

20 The United States Attorney charges:

21 At all times relevant to this information:

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

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

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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").
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COUNT ONE

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

[Insider Trading]

[Defendant MCLELLAN]

6. The United States Attorney realleges and incorporates by reference the allegations of paragraphs 1 through 5 above.

7. During 2001, defendant JESSICA MCLELLAN ("MCLELLAN") was employed in Homestore's Strategic Alliance Group. In this capacity, defendant MCLELLAN and other Homestore officers and employees negotiated business transactions with other companies, including the sale of online advertising to appear on Homestore's Internet website.

8. In or about July 2001, within the Central District of California and elsewhere, defendant MCLELLAN knowingly and willfully and in connection with the purchase and sale of Homestore stock employed a device, artifice, and scheme to defraud, and engaged in acts, practices, and courses of business that operated as a fraud and deceit, through the use of the means and instrumentalities of interstate commerce and the use of the mails.

9. Defendant MCLELLAN obtained material non-public information in the regular course of her duties as a Homestore employee that Homestore was engaging in fraudulent "round-trip" transactions whereby Homestore entered into agreements with various intermediaries to facilitate the circular flow of money from Homestore to the various intermediaries and then back to Homestore. These "round-trip" transactions and the accompanying circular flow of money enabled Homestore to recognize its own cash as revenue in

1 violation of GAAP. These illegal arrangements allowed Homestore to
2 fraudulently inflate its revenue by essentially buying that revenue
3 in violation of GAAP.

4 10. In the second quarter of 2001, defendant MCLELLAN and
5 other Homestore officers and employees negotiated the following
6 transaction: Homestore agreed to pay \$2,400,000 to a vendor ("Vendor
7 NP") in order to purchase vanity website domain names and other
8 Internet-related products for resale to real estate brokers
9 affiliated with Homestore. Vendor NP then agreed to have a related
10 company ("Vendor BFI") purchase \$2,000,000 in online advertising to
11 appear on Homestore's Internet website.

12 11. At the time of these transactions, defendant MCLELLAN knew
13 that Vendor NP and Vendor BFI had common management, had common
14 ownership, and were physically located in the same city. Defendant
15 MCLELLAN also knew that Homestore had initially approached personnel
16 at Vendor NP about participating in the domain name/advertising
17 transaction.

18 12. Homestore paid far above fair market value for the
19 services that Vendor NP was to provide Homestore under the contract.
20 The sole reason that Homestore paid this excessive price to Vendor
21 NP was so that Vendor BFI, the related company, would have
22 sufficient funds to purchase the online advertising at Homestore.
23 By overpaying Vendor NP and obtaining advertising from Vendor BFI,
24 Homestore was able to artificially increase its advertising revenue
25 and meet financial estimates of Wall Street securities analysts.

26 13. Defendant MCLELLAN asked employees of Vendor NP and Vendor
27 BFI to take actions that had the effect of disguising the true
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1 nature of the transaction. Among other things, defendant MCLELLAN
2 asked Vendor NP and Vendor BFI to:

- 3 a. "scrub" their websites to eliminate references and
4 links between the two companies and the individuals
5 who were officers of both entities;
- 6 b. prepare and backdate correspondence to make it
7 falsely appear that Vendor BFI had contacted
8 Homestore to purchase advertising before the
9 transaction with Vendor NP had commenced; and
- 10 c. use an address for Vendor BFI in a different state
11 than that of Vendor NP on a contract with Homestore
12 to make it falsely appear that the two companies were
13 unrelated.

14 14. Defendant MCLELLAN knew that documents containing this
15 false information would be presented to PwC within the Central
16 District of California during the course of the firm's quarterly
17 audit for the purpose of deceiving PwC about the true nature of the
18 transaction.

19 15. As a result of the round-trip transaction involving Vendor
20 NP and Vendor BFI, defendant MCLELLAN was aware that Homestore's
21 revenues for the second quarter 2001 were materially overstated.

22 16. Defendant MCLELLAN knew that this information was material
23 and non-public, and that she could not buy or sell Homestore common
24 stock before the information had been announced to the public.

25 17. Based on the material non-public information in her
26 possession, on July 5, 2001, defendant MCLELLAN exercised stock
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1 options and sold Homestore common stock, thereby realizing a profit
2 through the sale of Homestore stock.

3 18. During the course of the scheme, defendant MCLELLAN used
4 telephones to cause the trading of her Homestore securities, and
5 caused mailings confirming trades of her Homestore securities to be
6 sent to her.

7 19. On or about July 5, 2001, in the Central District of
8 California and elsewhere, by the use of the means and the
9 instrumentalities of interstate commerce and of the mails, defendant
10 MCLELLAN caused the exercise of options to purchase 1,000 shares of
11 Homestore stock at a strike price of \$18.07 per share, and the
12 subsequent sale of 1,000 shares of Homestore stock at a market price
13 of \$36.60 per share, thereby realizing a profit of \$18,530.

COUNT TWO

[18 U.S.C. §§ 1343, 1346]

[Wire Fraud]

[Defendant PATEL]

20. The United States Attorney realleges and incorporates by reference the allegations of paragraph 1 through 5 above.

21. During the second quarter of 2001, defendant SAILESH PATEL ("PATEL") was employed as a director in Homestore's Business Development Group. In this capacity, defendant PATEL and other Homestore officers and employees negotiated business transactions with other companies, including the sale of online advertising to appear on Homestore's Internet website.

22. During the second quarter of 2001, in Los Angeles County, within the Central District of California, and elsewhere, defendant PATEL, knowingly and with intent to defraud, devised, participated in, and executed a scheme and artifice to defraud Homestore as to material matters by depriving it of its intangible right to the honest services of its employee, defendant PATEL, as described below.

23. In furtherance of this scheme, defendant PATEL and other Homestore officers and employees negotiated transactions with several counter-parties in the second quarter of 2001. Homestore purchased products and services from these counter-parties. Homestore generally had no business need to enter into these transactions with these counter-parties and also overpaid for the products and services it purchased from these counter-parties. As an unwritten condition of these transactions, Homestore required

1 these counter-parties to purchase on-line advertisements from a
2 major media company with most or all of the money Homestore spent
3 with the counter-parties. The major media company, in turn, agreed
4 to purchase on-line advertising from Homestore. The amount of
5 advertising purchased by the major media company from Homestore was
6 dependent on, and correlated to, the amount of advertising purchased
7 through Homestore's referrals of the counter-parties. The counter-
8 parties kept a small portion of the money spent by Homestore for
9 themselves for helping to facilitate the transaction.

10 24. During the second quarter of 2001, defendant PATEL and
11 other Homestore officers and employees negotiated a transaction in
12 which Homestore agreed to pay \$6,441,760 to two companies
13 ("Vendor A" and "Vendor S") controlled by a former Homestore
14 employee. Vendor A and Vendor S agreed to sell Homestore software
15 that was related to the real estate industry. Vendor A and Vendor S
16 then agreed to purchase \$6,000,000 of on-line advertising to appear
17 on the website of a major media company. The major media company,
18 in turn, agreed to purchase on-line advertising from Homestore.

19 25. During the second quarter of 2001, defendant PATEL and
20 other Homestore officers and employees also negotiated a transaction
21 in which Homestore agreed to pay \$4,200,000 to a company
22 ("Vendor C") controlled by a high school friend of defendant PATEL.
23 Vendor C agreed to sell Homestore software that was related to the
24 real estate industry. Vendor C also agreed to purchase \$4,000,000
25 of on-line advertising to appear on the website of a major media
26 company. The major media company, in turn, agreed to purchase
27 on-line advertising from Homestore.

1 26. The principals of Vendor A, Vendor S, and Vendor C paid
2 defendant PATEL \$138,899 in cash in connection with this
3 transaction. Contrary to his duty and obligations to Homestore,
4 defendant PATEL did not disclose to Homestore that he received this
5 kickback from the vendors. Homestore therefore never knew that its
6 employee and others were personally profiting from transactions
7 executed with Homestore's money. Homestore also received a lower
8 amount of online advertising from the transaction because defendant
9 PATEL misappropriated this money. By accepting this kickback,
10 defendant PATEL acted in his own interest and for his own benefit,
11 and to the detriment of his employer, Homestore.

12 27. To further conceal the kickback, defendant PATEL arranged
13 for the money to travel in a circuitous route before reaching him.
14 Defendant PATEL arranged for Homestore to wire \$6,441,760 to Vendors
15 A and S and \$4,200,000 to Vendor C. Defendant PATEL then had a
16 principal of Vendors A and S send a portion of the \$6,441,760 to
17 Vendor C. A principal at Vendor C then wired the money sent to it
18 by the principal of Vendors A and S, as well as a portion of the
19 \$6,441,760 wired to Vendor C by Homestore, to a bank account in
20 Lebanon. This money was then wired to one of defendant PATEL's
21 relatives in Kampala, Uganda. The money was then finally provided
22 to defendant PATEL in a variety of ways, including: (1) wire
23 transfers from Uganda to bank accounts controlled by defendant PATEL
24 at Wells Fargo Bank in the United States; (2) wire transfers from
25 Uganda to a bank account controlled by a relative of defendant PATEL
26 in the United States; (3) a trip to Uganda by defendant PATEL to
27 retrieve a portion of the money and carry it back to the United
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1 States; and (4) trips by defendant PATEL's relatives from Uganda to
2 the United States to bring a portion of the money to defendant
3 PATEL.

4 28. On or about August 28, 2001, within the Central District
5 of California and elsewhere, defendant PATEL, for the purpose of
6 executing the scheme to defraud, caused and aided and abetted the
7 transmission of, the following wire communication in interstate and
8 foreign commerce: a wire transfer of \$19,970 from bank account
9 number 87001-117074-00 at the Standard Chartered Bank in Kampala,
10 Uganda, by one of defendant PATEL's relatives, to defendant PATEL's
11 account number 037-5296324 at Wells Fargo Bank in Los Angeles,
12 California.

COUNT THREE

[18 U.S.C. §§ 1343, 1346]

[Wire Fraud]

[Defendant VO]

29. The United States Attorney realleges and incorporates by reference the allegations of paragraph 1 through 5 above.

30. During the third quarter of 2001, defendant THOMAS VO ("VO") was employed in Homestore's Strategic Alliance Group. In this capacity, defendant VO and other Homestore officers and employees negotiated business transactions with other companies, including the sale of online advertising to appear on Homestore's Internet website.

31. During the third quarter of 2001, in Los Angeles County, within the Central District of California, and elsewhere, defendant VO, knowingly and with intent to defraud, devised, participated in, and executed a scheme and artifice to defraud Homestore as to material matters by depriving it of its intangible right to the honest services of its employee, defendant VO, as described below.

32. In furtherance of this scheme, defendant VO and other Homestore officers and employees negotiated a transaction with several counter-parties in the third quarter of 2001. Homestore agreed to pay \$7,042,000 to two vendors in order to purchase (i) an e-mail marketing campaign and (ii) a software license. These two vendors then agreed to pay a sum of money to an online direct marketing company. The online direct marketing company and companies related to one of the vendors, in turn, agreed to purchase

1 \$6,330,000 in online advertising to appear on Homestore's Internet
2 website. Defendant VO knew that Homestore was overpaying for the
3 products it was receiving from the two vendors so the vendors would
4 have funds with which to purchase advertising from Homestore.

5 33. An officer of the online direct marketing company then
6 diverted a portion of the payments intended for his employer to a
7 separate company that he owned and controlled, and paid defendant VO
8 a \$7,000 cash kickback in connection with this transaction.

9 Contrary to his duty and obligations to Homestore, defendant VO did
10 not disclose to Homestore that he received this payment. Homestore
11 therefore never knew that its employee and others were personally
12 profiting from transactions executed with Homestore's money.

13 Homestore also received a lower amount of online advertising from
14 the transaction because defendant VO misappropriated this money. By
15 accepting this payment, defendant VO acted in his own interest and
16 for his own benefit, and to the detriment of his employer,
17 Homestore.

1 34. On or about September 15, 2001, within the Central
2 District of California, defendant VO, for the purpose of executing
3 the scheme to defraud, caused and aided and abetted the transmission
4 of, the following wire communication in interstate commerce: a wire
5 transfer of \$1,290,000 from an account of RealSelect, Inc. (a
6 subsidiary of Homestore), at Bank of America in Westlake Village,
7 California, to an account of a software vendor at U.S. Bank in
8 Edina, Minnesota.

9
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