

FILED

SEP 29 2004

RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE

KEVIN V. RYAN (CSBN 118321)
United States Attorney

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

MICHAEL WATTS and
JAN WATTS,

Defendants.

CR 04 20178

VIOLATION: 26 U.S.C. § 7201-
Tax Evasion

SAN JOSE VENUE

INDICTMENT

The Grand Jury charges:

COUNT ONE: (26 U.S.C. § 7201-Tax Evasion)

On or about and between January 1, 1997, and October 14, 1998, in Santa Clara County,
in the Northern District of California, and elsewhere, the defendants

MICHAEL WATTS and
JAN WATTS

did willfully attempt to evade and defeat part of the income tax due and owing by them to the
United States of America for the calendar year 1997, by the following means:

- 1 a. preparing and causing to be prepared, and signing and causing to be
2 signed, a false and fraudulent U.S. Individual Income Tax Return,
3 Form 1040, which was filed with the Internal Revenue Service on
4 or about October 14, 1998, wherein taxable income was understated
5 by approximately \$2,000,054.85 and tax due and owing was understated
6 by approximately \$782,624.00;
- 7 b. establishing off shore corporations for the purpose of concealing income
8 derived from the sale of stock options;
- 9 c. transferring stock options to an offshore corporation to conceal income derived
10 from the sale of stock options;
- 11 d. maintaining offshore bank accounts for the purpose of concealing income
12 derived from the sale of stock options; and
- 13 e. hiring a third party to falsely pose as president of a separate company in
14 order to claim a purported debt owed for a software purchase;

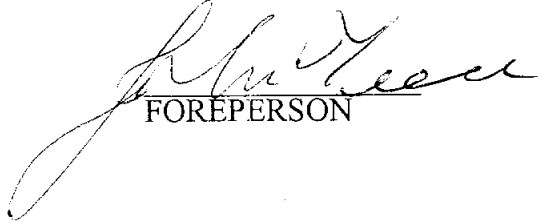
15 All in violation of Title 26, United States Code, Section 7201.

16 Enhancement Allegations

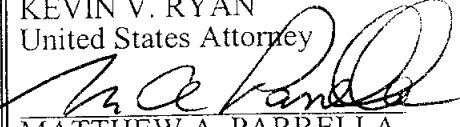
- 17 1. The approximate tax loss as a result of the defendants' conduct was more than \$550,000
18 but not more than \$950,000.
- 19 2. The tax evasion in this case involved the use of sophisticated means to commit the
20 evasion.

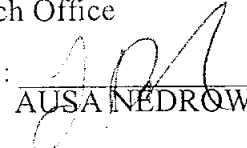
21 DATED: 9-29-04

22 A TRUE BILL.

23 
FOREPERSON

24 KEVIN V. RYAN
25 United States Attorney

26 
27 MATTHEW A. PARRELLA
28 Chief, San Jose Branch Office

(Approved as to form: 
AUSA NEDROW