UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA v. JAIME CASTLE, Defendant.	[redacted] **INDICTMENT** 26 Cr. ___ 26 CRIM 0177

COUNT ONE

(Conspiracy to Commit Securities Fraud, to Make False Filings with the Securities and Exchange Commission, to Make False Statements to Auditors and Improperly Influence the Conduct of Audits, and to Commit Wire Fraud)

The Grand Jury charges:

1. From at least in or about 2021 through at least in or about 2023, JAIME CASTLE, the defendant, orchestrated a scheme to enrich herself by fraudulently inflating the revenue and financial performance of a cosmetics company called Obagi Cosmeceuticals LLC ("Obagi") in order to defraud an acquiring public company, Waldencast Plc ("Waldencast") and its shareholders. CASTLE, the chief executive officer ("CEO") of Obagi, created the illusion that Obagi was a growing company by artificially inflating purported sales of cosmetic products to a Vietnamese distributor ("Distributor-1"), even though CASTLE and others at Obagi knew that Distributor-1 could not pay for and, in many cases, had no need for those products. This illusion of growth made Obagi appear to be an attractive acquisition target for Waldencast and for Waldencast's shareholders, who voted to approve a merger with Obagi in July 2022. CASTLE received a bonus of over $2 million for the successful completion of that merger. She then continued to lie to Waldencast's management, shareholders, and auditors about Obagi's sales and revenue, in the hopes of receiving additional bonuses and to conceal her scheme. When Waldencast

discovered CASTLE's scheme, it restated Obagi's revenue for 2021 and 2022, showing that more than $50 million in revenue had been fraudulently reported based on CASTLE's lies.

<u>The Channel-Stuffing Scheme to Inflate Obagi's Revenue</u>

2. JAIME CASTLE, the defendant, was the CEO of Obagi, a private specialty skincare company that sells Obagi-branded products, with a focus on prescription-strength, physician-dispensed skincare treatments. In or about 2020, CASTLE began positioning Obagi for a sale—a transaction from which she stood to collect a substantial sum—and wanted to give the appearance to potential acquirers that Obagi was a profitable and growing business. To create that false impression, CASTLE orchestrated a scheme to fraudulently inflate Obagi's revenue by directing shipments of cosmetic products to Distributor-1, who she knew could not meet her payment obligations, generating the appearance of robust revenue growth that did not exist. CASTLE's scheme worked: Waldencast, a public company whose shares trade on Nasdaq under the ticker symbol "WALD," agreed to acquire Obagi, with Waldencast's shareholders voting to approve the transaction on July 25, 2022, and the merger closing two days later. In connection with that merger, and continuing after it closed, CASTLE misled Waldencast management, shareholders, and auditors by falsely presenting Obagi as a company with robust revenue growth, negligible credit risk, and a business on track to meet or exceed its targets.

The Relationship Between CASTLE and Distributor-1

3. Under the leadership of JAIME CASTLE, the defendant, purported sales to Distributor-1 became a primary driver of Obagi's revenue. Distributor-1 owned several companies that distributed Obagi products to Southeast Asia, primarily Vietnam. Beginning at least in or about 2019, CASTLE identified Distributor-1 as a customer who would be willing to take on large quantities of Obagi product when Obagi needed to hit revenue targets. CASTLE asserted direct

control over the relationship with Distributor-1 by taking the account away from Obagi's sales team and by taking personal responsibility for the relationship going forward. CASTLE instituted irregular business practices with Distributor-1 to ensure that CASTLE could continue to use Distributor-1 to place large orders so that Obagi would hit its revenue targets. For example:

a. Beginning in or about 2019, CASTLE directed Obagi to offer Distributor-1 free product in the future, in exchange for Distributor-1 placing several large orders in 2019 that would contribute to Obagi's revenue that year. The promise of future free product was an incentive for Distributor-1 to agree to place large orders. But the deal meant that Distributor-1 was ordering more product than Distributor-1 could sell in 2019, and was entitled to free product in the future, which would further reduce Distributor-1's need to buy from Obagi.

b. Although Obagi's distribution agreements with Distributor-1 required Distributor-1 to pay for ordered products in full within 30 days of delivery and maintain a maximum of $500,000 in outstanding invoices, under CASTLE, these provisions were not enforced. By May 2020, one of Distributor-1's companies accounted for approximately $8 million in receivables past due for more than 60 days. Text messages between CASTLE and Distributor-1 show that CASTLE knew that Distributor-1 was struggling to pay off that debt, but that CASTLE continued to rely on Distributor-1 to meet revenue targets.

c. Because Distributor-1 was flexible about making large orders that allowed Obagi to hit revenue targets, CASTLE also did not stop Distributor-1 from diverting product that was supposed to go to Vietnam into the United States, even though this diversion undercut the pricing parameters that Obagi was otherwise setting for its authorized U.S. distributors. For instance, in or about early 2020, CASTLE wrote in an email to Obagi employees that she had confirmed that Distributor-1, who was supposed to be Obagi's distributor in the Vietnam market, was selling about 80 percent of its inventory in the United States on the "grey market." CASTLE wrote: "It is what it is but [Distributor-1] is truly killing the US market."

4. By the end of 2020, Distributor-1 was regularly helping Obagi hit revenue targets by agreeing to buy large quantities of products despite growing unpaid balances. Because JAIME CASTLE, the defendant, was allowing Distributor-1 to ignore the terms of the distribution agreement with Obagi, the amount of money Distributor-1 owed the company was nearly $9 million by the end of the year, approximately $6 million of which was past due by more than 60 days.

CASTLE's 2021 Channel Stuffing to Distributor-1

5. Going into 2021, JAIME CASTLE, the defendant, planned to find an acquiror for Obagi or to take the company public. Against that backdrop, Obagi's revenue numbers—driven by sales to Distributor-1's—became even more important. Despite the fact that Distributor-1 had failed to pay amounts owed for 2019 and 2020 in a timely manner and was holding a backlog of unsold product, at CASTLE's direction, Obagi used the amount that Distributor-1 had ordered in the past as a baseline for the 2021 budget. Obagi projected that its 2021 sales to Distributor-1 would exceed $20 million, which was approximately three times higher than Distributor-1's 2020 sales.

6. During 2021, two issues with Distributor-1 repeatedly recurred:

a. First, although Distributor-1 was put on various payment plans designed to clear her overdue accounts, and did make some payments to Obagi, Distributor-1 never made a meaningful difference in her accounts receivable. These amounts started the year at about $8.7 million at the end of the first quarter and finished the year at $24.5 million at the end of the fourth quarter.

b. Second, as the end of each quarter approached, JAIME CASTLE, the defendant, and others working at her direction, would ask Distributor-1 to "pull forward" more product that had initially been forecast for a later quarter. CASTLE made these requests so Obagi could ship the product and recognize revenue before quarter-end, to make it appear that Obagi was hitting its quarterly targets. Because Distributor-1 was hopelessly behind on payments and oversaturated with product, these pull-forwards represented revenue that Obagi had no meaningful expectation of collecting in the time required by Distributor-1's agreements (if ever). The pull-forwards also had the cumulative effect of ballooning the overall amount of product Obagi shipped to Distributor-1 because, when Obagi pulled orders into an earlier quarter, it would eventually add product to subsequent quarters.

7. JAIME CASTLE, the defendant, directed these large shipments to Distributor-1—notwithstanding Distributor-1's serious payment problems—because CASTLE knew the shipments were necessary to give the appearance that Obagi was growing. For example, in or about August 2021 Obagi "pulled forward" orders Distributor-1 had originally forecast for the fourth quarter, so that Obagi could recognize additional revenue in the third quarter. Only a few days later, Distributor-1 flagged that she would need to lower her orders for 2022. Nonetheless, the same day, on or about September 2, 2021, CASTLE and another Obagi employee discussed by text message the need to "push out more" product to Distributor-1 to meet Obagi's revenue goals. CASTLE remarked, in part, that "we can force her" to take more product and added, "stuff that channel hahah".

8. Because Obagi, at the direction of JAIME CASTLE, the defendant, used Distributor-1 to meet revenue targets, the amount of goods Obagi sold to Distributor-1 eclipsed its 2021 projections, amounting to approximately $38 million in sales. That revenue accounted for a

large portion of Obagi's growth in 2021, which Obagi and CASTLE touted to Waldencast and Waldencast's shareholders. CASTLE, however, did not disclose that Obagi's revenue growth was not based on the natural and sustainable expansion of its business, but instead depended largely on using shipments to Distributor-1 to hit revenue targets, knowing that Distributor-1 was not able to pay for those products in a timely manner.

CASTLE's 2021 Gross-Up Scheme to Inflate Revenue

9. An interrelated way that JAIME CASTLE, the defendant, directed Obagi employees to make revenue appear higher was what Obagi referred to as the "gross up" or the "reclass." Beginning in the summer of 2021, CASTLE directed Obagi to begin reclassifying a portion of the discounts it was providing international distributors, including Distributor-1, as payments for services the distributors were supposedly providing. This had the effect of allowing Obagi to claim the amount of the discount that was supposedly paying for services as revenue. By using gross-up accounting, Obagi was effectively able to supercharge revenue for sales to Distributor-1's entities. Every time Obagi sold inventory that Distributor-1, theoretically, would have to pay $1 for, Obagi recognized revenue above $1 because of the gross up, to reflect that Obagi was (theoretically) compensating Distributor-1 for services that Obagi did not even attempt to verify that she was providing.

10. Although gross-up accounting can be proper, it requires careful analysis and documentation to ensure that the correct amounts are being recognized. Obagi, at the direction of JAIME CASTLE, the defendant, told its auditors that it used a two-step process to calculate the "gross up" revenue for each customer: First, Obagi agreed with customers on the percentage of each customer's discount that the customer would spend on services, such as marketing, sales, and regulatory activities. Obagi used that percentage to increase—or "gross up"—the revenue and

expenses associated with sales to that customer. Second, Obagi conveyed to auditors that it would communicate with customers regularly to validate that the amount by which Obagi was grossing up revenue and expenses reflected the fair value of actual services those customers were providing. This validation process purportedly included Obagi interviewing the customer about the work they were doing, the number of employes and hours devoted to that work, and calculating what it would cost Obagi to perform or hire out the same tasks.

11. In practice, however, JAIME CASTLE, the defendant, used the gross-up numbers to artificially hit revenue targets. CASTLE and others in Obagi leadership dictated to Distributor-1 the percentage of Distributor-1's discount that Distributor-1 should claim she was spending on marketing, sales, and regulatory services. Obagi employees, at CASTLE's direction, then prepared fraudulent supporting materials that were designed to justify the gross up Obagi was claiming, rather than to accurately reflect the fair value of services Distributor-1 was providing. When auditors attempted to verify that information by sending confirmation letters to Distributor-1, CASTLE told Distributor-1 how to fill out the confirmations with false information that would support Obagi's fraudulent claims.

The Expansion of CASTLE's Channel-Stuffing Scheme in 2022

12. Notwithstanding Distributor-1's significant payment problems, JAIME CASTLE, the defendant, directed Obagi to prepare revenue projections for 2022 that relied on even more sales to Distributor-1 in 2022 than in the preceding year. Because Obagi's business was not growing in other areas, CASTLE needed that growth in sales to Distributor-1 to keep up the appearance that Obagi was growing overall.

13. Saddled with large debts and too much product, Distributor-1's business situation deteriorated throughout 2022. In the first quarter of 2022, Distributor-1 asked to cancel several

large orders and to reduce forecasts for other products. Distributor-1 also continuously fell behind on payment plans designed to address her massive debts. JAIME CASTLE, the defendant, however, continued to charge ahead. CASTLE instructed Obagi employees to push back on Distributor-1's request to reduce orders, saying in part, "we cant [sic] alter this forecast . . . this is a huge loss." And CASTLE instructed Obagi employees not to tell Obagi's chief financial officer ("CFO") "too much" about Distributor-1 out of a concern that the CFO would "panic[]" and refuse to release further orders to Distributor-1.

14. Meanwhile, Waldencast leadership, which was preparing for the vote of its shareholders to approve the Obagi merger in the summer of 2022, began having concerns about the extent to which Obagi relied on Distributor-1 for its growth. In response to these concerns, JAIME CASTLE, the defendant, presented Waldencast with misleading information designed to make it seem like Distributor-1's business was healthy and growing. This included: (i) describing Distributor-1 as Obagi's distributor in Vietnam and Southeast Asia, without disclosing her significant diversion of product into the United States; (ii) falsely representing that Obagi limited orders with Distributor-1 to manage credit risk; and (iii) falsely claiming that Obagi's leadership team visited Southeast Asia multiple times per year as a means of supervising Distributor-1's business. CASTLE also continued to affirm the projections that Obagi's revenue would grow to $190 million in 2022 and $213 million in 2023—growth driven by projected increases in sales to Distributor-1's business. Waldencast, in turn, presented that bullish financial information to its shareholders. CASTLE hid from Waldencast leadership and investors material information about Distributor-1's payment problems and Distributor-1's efforts to cut back on orders from Obagi.

15. Distributor-1's business problems only worsened from there. In or about May 2022, Obagi's CFO told Distributor-1 that, in light of how behind Distributor-1 was in her payments to

Obagi, Distributor-1 would need to make an additional $1 million catch-up payment that month and that Obagi would not release any new orders until the $1 million was paid. JAIME CASTLE, the defendant, quickly countermanded her CFO, asking Distributor-1 to do her best to pay but indicating that Obagi would continue to release orders.

16. In or about June of 2022, Distributor-1 texted JAIME CASTLE, the defendant, to say that Distributor-1 was having money problems, that sales in Vietnam would be slow that year, and that Distributor-1 would not be able to pay Obagi more than $5 million (a fraction of what she owed) before the end of 2022. CASTLE was undeterred, directing Obagi to ship extra product to Distributor-1 at the end of the second quarter—even above what was forecast and despite her payment problems—so that Obagi could make its second-quarter revenue projection.

17. With such large quantities of product coming from Obagi, Distributor-1 again tried to cut back. On or about July 6, 2022, Distributor-1 sent Obagi an updated 2023 forecast, which significantly reduced anticipated purchases across many product lines. Distributor-1 explained that the cuts were due to the need to move the stock Distributor-1 had left over from 2022 and to catch up on overdue payments. But Distributor-1's revised projections contradicted what JAIME CASTLE, the defendant, had been promising Waldencast. Obagi leadership had indicated they expected strong growth in 2023, based in large part on increasing sales to Distributor-1. Accordingly, CASTLE and others pushed Distributor-1 to increase the forecasts, and, as with prior quarters, Distributor-1 caved to these demands.

18. Meanwhile, Distributor-1 had a dispute with her longstanding business partner ("Distributor-2") who was Obagi's exclusive reseller in Vietnam and had relationships with local distributors. JAIME CASTLE, the defendant, in turn complained to Distributor-2 about her own problems with Distributor-1, writing in text messages that Obagi was "getting almost no payments

[and] it's becoming a massive issue for us." CASTLE went on to explain that she had "been trying to keep how bad the account standing [is] under wraps." She also acknowledged that "[Distributor-1] has a ton of inventory" and that CASTLE was "not sure how to handle [the situation] without sounding every alarm and scar[]ing everyone in the company."

19. Shortly after this exchange, Distributor-1 and Distributor-2 severed their business relationship, which created a new and serious problem: Distributor-2 had held the registrations required to sell Obagi products in Vietnam. Without him, Distributor-1 had to go through a cumbersome registration process to obtain the necessary licenses; until that resolved, Distributor-1 was not legally permitted to bring products into the country for sale.

20. JAIME CASTLE, the defendant, did not disclose any of this information to Waldencast or its shareholders before their vote on the merger, but instead tried to keep the problems "under wraps." While Waldencast management knew that Distributor-1 had a large accounts-receivable balance with Obagi, CASTLE gave the fraudulent misimpression that the outstanding balance did not reflect problems with Distributor-1's business by concealing, among other things, that Distributor-1 had an excess of Obagi inventory; that Distributor-1 was not only failing to pay consistent with Obagi's distribution agreement, but also could not keep up with generous payment plans that CASTLE offered; that Distributor-1 had said she would be unlikely to pay more than $5 million for the remainder of 2022; that Distributor-1 had repeatedly requested to lower future forecasts; or that Distributor-1 had split with her longtime partner responsible for distributing Obagi products within Vietnam and that she was therefore no longer legally permitted to sell products there. Instead, because of CASTLE's scheme, Waldencast shareholders had only a misleading picture of Obagi's finances, including representations that it had over-achieved in

2021, had "strong momentum" in 2022, and was on track to hit its 2022 revenue projection. On or about July 25, 2022, in a close vote, Waldencast shareholders approved the merger.

21. After the merger, JAIME CASTLE, the defendant, continued to manage the Obagi-Distributor-1 relationship as before: At the end of the third quarter, Obagi had pulled forward revenue even above the already unrealistic projection to create the appearance of third-quarter growth, despite the fact that Distributor-1 had failed to stick with various payment plans. CASTLE herself recognized the problem, writing to others at Obagi that Obagi could not hit its revenue numbers without Distributor-1 but that "the liability" of Distributor-1's ballooning accounts-receivable balance had become too much. To paper over the hole—and to give Waldencast the impression that Distributor-1 could still make significant payments—CASTLE orchestrated a deal whereby another company ("Company-2") would buy Obagi product from Distributor-1 at reduced prices and then pay Obagi directly to bring down some of Distributor-1's debt. At the end of December 2022, Company-2 paid Obagi $3.5 million for this arrangement. To hide that the payment was not actually from Distributor-1 for sales in Vietnam, CASTLE lied to Waldencast executives, referring to the unrelated entity as Distributor-1's "transfer agent" to explain why the wire should be applied to Distributor-1's debt. All the while, CASTLE was continuing to approve new, large shipments of Obagi product to Distributor-1, so Obagi could meet its year-end revenue targets.

22. In all, over the course of 2022, Obagi made over $61 million of sales to Distributor-1. That was far in excess of the sales to Distributor-1 that Obagi had projected at the beginning of the year, even though Distributor-1's business deteriorated significantly throughout the year. Against those $61 million in sales, Obagi collected only $21.8 million in payment, leaving Distributor-1 with a cumulative accounts-receivable balance of over $61.4 million.

Fraudulent Statements in Public SEC Filings

23. In addition to misleading Waldencast's management, JAIME CASTLE, the defendant, also deceived Waldencast's shareholders—both before and after the Obagi-Waldencast merger—by causing Waldencast to make false and misleading public announcements, including in filings with the United States Securities and Exchange Commission ("SEC").

24. As a public company, Waldencast was required to comply with the federal securities laws, which included requirements to file with the SEC annual financial statements and quarterly financial reports. Beginning on November 15, 2021, when Waldencast announced its intention to acquire Obagi, Waldencast also began sharing Obagi's financial information in its SEC filings and other public announcements.

25. Both before the merger with Waldencast was consummated on July 25, 2022, and after the completion of that merger, JAIME CASTLE, the defendant, directed Obagi to share its revenue information and projections with Waldencast, so Waldencast could include that information in its SEC filings and other public statements.

26. JAIME CASTLE, the defendant, knew that Obagi's financial information must be reported in compliance with Generally Accepted Accounting Principles ("GAAP"). GAAP imposed specific constraints on how Obagi could record and report its financials. Because Obagi sold cosmetics to distributors on credit—typically giving distributors 30 to 60 days to pay the company for each delivery—the timing and recognition of revenue were governed by Financial Accounting Standards Board Accounting Standards Codification Topic ("FASB") 606, Revenue From Contracts With Customers ("ASC 606"), which permits a company to recognize revenue only when, among other things, it is probable that the seller will collect substantially all of the consideration (typically money) it is owed for the goods sold to a customer. In assessing

collectability, ASC 606 directs companies to consider only the customer's ability and intention to pay that amount of consideration when it is due. On the receivable side, FASB Accounting Standards Codification Topic 310 requires companies to record losses or doubtful accounts if it becomes probable that the customer will not pay.

27. Notwithstanding those requirements, the financial information that JAIME CASTLE, the defendant, directed Obagi to send Waldencast for inclusion in public filings was false and misleading. That information conveyed a picture of steady, accelerating growth, and little credit risk, when in reality Obagi's growth was based on CASTLE's channel-stuffing scheme. For example:

a. On April 27, 2022, Waldencast filed publicly and with the SEC an Analyst Day Presentation, based on information Obagi—at CASTLE's direction—had provided to Waldencast. That presentation reported that Obagi had achieved $178 million in net revenue in 2021, exceeding the company's original $168 million estimate. The presentation also projected that Obagi's net revenue would reach $190 million in 2022 and $213 million in 2023. Weeks later, on May 13, 2022, Waldencast filed publicly and with the SEC a draft registration statement for its planned merger, which again reported that Obagi had net revenue of approximately $178 million for 2021. It also disclosed that Obagi had accounts receivable of approximately $71 million as of the end of that year. The registration statement went on to explain that, historically, Obagi had not had receipt of payment from customers exceed 60 days, that the company performed credit evaluations of customers with accounts receivable, and that Obagi recorded allowances for accounts receivable that it estimated to be partially or entirely uncollected. As of December 31, 2021, that allowance was only $62,000.

b. As the merger approached, the disclosures continued on the same trajectory. On June 30, 2022, Waldencast filed publicly and with the SEC an amended draft registration statement. The June 30 registration repeated the information about revenue from 2021 and added that Obagi had net revenue of approximately $43 million from the first quarter of 2022. It also stated that Obagi had accounts receivable of approximately $59 million as of March 31, 2022, with $62,000 of allowances for accounts receivable. Days later, on July 5, 2022, Waldencast released an investor presentation that included financial information about Obagi. The presentation repeated the 2021 and first-quarter 2022 numbers from the June 30 registration statement, touting that Obagi had "[o]ver-delivered on topline" in 2021 and had "[s]trong momentum" in 2022 "with Q1 outperforming versus budget and last year." The presentation also reaffirmed the projection that Obagi would have $190 million in net revenue in 2022.

c. After the merger closed, Waldencast continued to report Obagi's financial performance separately, and the story remained the same. On August 11, 2022, after the merger, Waldencast filed publicly and with the SEC a Form 6-K, providing financial information for the second quarter of 2022. That report continued to show that Obagi was achieving meaningful growth, stating that the company had achieved $56 million of net revenue in the second quarter of 2022 (a 23.8% increase compared to the same quarter in 2021) and $99 million in the first half of 2022 (18.1% greater than net revenue over the first half of 2021). Once again, Obagi reported a large accounts-receivable balance—approximately $75 million as of June 30, 2022—but only $62,000 of allowances for doubtful accounts. On November 10, 2022, Waldencast released another Form 6-K, this time reporting on the company's third-quarter performance. The updated financial information reflected that Obagi had net revenue in the third quarter of approximately $60 million, representing a 12.1% increase over the same quarter in 2021. Waldencast also reaffirmed the projections for 2022 that it had given at the time of the merger, which anticipated $190 million in net revenue from Obagi for the full year.

28. Taken together, Waldencast's disclosures about Obagi, which were based on information provided by JAIME CASTLE, the defendant, presented a consistent and compelling narrative: robust revenue growth, negligible credit risk, and a company on track to meet or exceed revenue targets. That narrative was false and misleading because it was based on CASTLE's unsustainable channel-stuffing scheme.

The Scheme Unravels

29. In or about 2023, JAIME CASTLE, the defendant, continued to conceal the true state of Obagi's financial position from both Waldencast and its auditor ("Auditor-1"). She focused her efforts on two objectives: first, to solve the problem of Distributor-1's massive debt to Obagi by having Waldencast acquire Distributor-1 and wipe out her debt, and second, to avoid any adjustments to revenue Obagi had already recognized. In furtherance of these objectives, and to hide her fraud, CASTLE repeatedly lied to Waldencast and Auditor-1.

30. Toward the end of 2022, JAIME CASTLE, the defendant, attended a meeting with Distributor-1, other Obagi executives, and a Waldencast executive to discuss Waldencast's increasing concerns about Distributor-1's accounts-receivable balance and a potential reorganization of the relationship whereby Obagi would collect money directly from distributors in Vietnam and pay Distributor-1 a fee for distribution services. In early 2023, CASTLE proposed a modification of this proposal: instead, Waldencast would buy Distributor-1's Vietnam business.

Rather than acquire the business with cash, it would pay for it by reducing Distributor-1's accounts-receivable balance, effectively forgiving much of her debt.

31. Waldencast executives approved the arrangement in principle and hoped to close the deal by April, which triggered a flurry of diligence activity on Distributor-1's business. JAIME CASTLE, the defendant, inserted herself into this process to further the lies and misimpressions she had already conveyed to Waldencast about the strength of Distributor-1's business. These included falsely representing that Distributor-1's payment problems were the aberrational result of her lost registration to do business in Vietnam, rather than a longstanding issue; misleading Waldencast about Distributor-1's relationship with Distributor-2, to make it appear that Distributor-1 had been less reliant on Distributor-2 than was actually the case; and lying about how much product Distributor-1 had at the time of the deal.

32. These misrepresentations gave Waldencast management that impression that Distributor-1 had a stronger business in Vietnam than was actually the case. As one example, the proposed deal between Distributor-1 and Waldencast contemplated that Distributor-1 had approximately $28 million of product at a warehouse in California, which Waldencast would acquire when it acquired the business. When Obagi employees went to count the product, they found that the amount was closer to $42 million. JAIME CASTLE, the defendant, knew that the true amount would raise concerns about why Distributor-1 had so much unsold product. So CASTLE directed Obagi employees to report falsely that there was only $28 million worth of unsold product in the warehouse. CASTLE furthered this misrepresentation by giving false and misleading information to Waldencast management about products Obagi had shipped to Distributor-1, claiming that some product had been destroyed in a hurricane and that Distributor-

2 had taken other product without paying for it. Through these lies and others, CASTLE was able to steer Waldencast to acquire Distributor-1 in or about April 2023.

33. As JAIME CASTLE, the defendant, was trying to help eliminate Distributor-1's accounts-receivable balance by arranging a sale to Waldencast, she was also fielding questions from Auditor-1 about whether Obagi should be permitted to recognize revenue for sales to Distributor-1 in 2022. Much of the information CASTLE provided to Auditor-1 was memorialized in a memo (the "Memo"), which CASTLE reviewed.

34. The Memo contained numerous misrepresentations about the nature and strength of Distributor-1's business and Distributor-1's history of payment problems. Among other things, the Memo: (i) provided misleading information about Distributor-1's business by describing sales in Southeast Asia while omitting Distributor-1's long history of diversion in the United States; (ii) misleadingly downplayed Distributor-1's reliance on Distributor-2 to sell products in Vietnam; (iii) provided misleading information about Obagi's distribution agreements with Distributor-1, designed to conceal a discount reduction Obagi imposed due to late payments; (iv) falsely claimed that Obagi shipped products to Distributor-1 in Florida to support CASTLE's misrepresentation that Distributor-1 had lost products in a Florida hurricane; (v) fraudulently claimed that Obagi sold products to Distributor-1 in the second half of 2022 because Distributor-1 was low on product; (vi) falsely claimed that Obagi and Distributor-1 negotiated extended payment terms on an invoice-by-invoice basis; and (vii) concealed that Distributor-1 did not make the $3.5 million payment to Obagi in December, but instead relied on another customer for the payment. CASTLE intended these misrepresentations, and others in the Memo, to give auditors the misimpression that

Distributor-1's payment problems in 2022 were a short-term issue caused by a lost license, and to hide CASTLE's fraudulent scheme.

35. In further support of her effort to defraud Auditor-1, JAIME CASTLE, the defendant, also misled Auditor-1 by having Obagi fill out a detailed confirmation about Distributor-1's purchases, inventory levels, amounts owed, and payment terms. As CASTLE knew, this confirmation was supposed to be filled out independently by Distributor-1 herself. The version CASTLE caused to be filled in on Distributor-1's behalf gave Auditor-1 a misimpression about Distributor-1's ability to keep track of the amounts she owed Obagi and allowed CASTLE to perpetuate the lie that Distributor-1 had only $28 million worth of unsold product in her warehouse.

36. The lies eventually caught up to JAIME CASTLE, the defendant. Waldencast executives traveled to Vietnam to meet with some of Distributor-1's distributors, and in the process began uncovering the truth about the nature of the relationship between Distributor-1 and Obagi. At the same time, the company launched an internal investigation into whether Obagi leadership had made misrepresentations. By early August 2023, Waldencast decided that it should recognize revenue only for money that Distributor-1 actually paid, rather than upon shipment of goods. The company concluded that Obagi lacked a contract with Distributor-1 with defined terms because it ignored the payment terms in her distribution agreement and instead attempted to get whatever money it could through ad hoc payment plans. And, Waldencast determined that it was not probable that Distributor-1 would comply with her payment terms because of her changing payment plans and the recurring problems Obagi had collecting from her.

37. In the spring of 2023, Waldencast announced that its 2022 annual report would be delayed pending an internal investigation prompted by concern with accounting issues related to

Obagi's sales in the Vietnam market. Between January and March 2024, Waldencast issued multiple restatements to financial reports that it issued in 2021 and 2022. Those restatements had the effect of, among other things, reducing revenue from Obagi's sales to Distributor-1 by over $14 million for 2021 and by over $40 million for 2022.

Statutory Allegations

38. From at least in or about 2021 through at least in or about 2023, in the Southern District of New York and elsewhere, JAIME CASTLE, the defendant, and others known and unknown, willfully and knowingly combined, conspired, confederated, and agreed together and with each other to commit offenses against the United States, to wit, (a) securities fraud, in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5; (b) making false and misleading statements of material fact in applications, reports and documents required to be filed with the SEC under the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, in violation of Title 15, United States Code, Sections 78m(a) and 78ff, and Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13; and (c) making false and misleading statements to auditors and improperly influencing the conduct of audits, in violation of Title 15, United States Code, Sections 78m, 7202, 7242, and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-2(a)-(b).

39. It was a part and an object of the conspiracy that JAIME CASTLE, the defendant, and others known and unknown, willfully and knowingly, directly and indirectly, by the use of a means and instrumentality of interstate commerce and of the mails, and of a facility of a national securities exchange, would and did use and employ, in connection with the purchase and sale of a security, a manipulative and deceptive device and contrivance, in violation of Title 17, Code of

Federal Regulations, Section 240.l0b-5, by: (a) employing a device, scheme, and artifice to defraud; (b) making an untrue statement of a material fact and omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in an act, practice, and course of business which operated and would operate as a fraud and deceit upon a person, in violation of Title 15, United States Code, Sections 78j(b) and 78ff.

40. It was further a part and an object of the conspiracy that JAIME CASTLE, the defendant, and others known and unknown, willfully and knowingly would and did make and cause to be made a statement in reports and documents required to be filed with the SEC under the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, which statement was false and misleading with respect to a material fact, in violation of Title 15, United States Code, Sections 78m(a) and 78ff, and Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13.

41. It was further a part and an object of the conspiracy that JAIME CASTLE, the defendant, and others known and unknown, willfully and knowingly, being a director and an officer of an issuer, and a person acting under the direction thereof, directly and indirectly (a) made, and caused to be made, a materially false and misleading statement to an accountant, (b) omitted to state, and caused another person to omit to state, a material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading to an accountant, and (c) took an action to coerce, manipulate, mislead, and fraudulently influence an accountant in connection with an audit, review and examination of the financial statements of the issuer required to be made and the preparation and filing of a document

and report required to be filed with the SEC, in violation of Title 15, United States Code, Sections 78m, 7202, 7242, and 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2(a)-(b).

42. It was further a part and an object of the conspiracy that JAIME CASTLE, the defendant, and others known and unknown, knowingly having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, would and did transmit and cause to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce, writings, signs, signals, pictures, and sounds for the purpose of executing such scheme and artifice, in violation of Title 18, United States Code, Section 1343.

Overt Acts

43. In furtherance of the conspiracy and to effect the illegal objects thereof, the following overt acts, among others, were committed and caused to be committed in the Southern District of New York and elsewhere:

a. On or about on or about September 2, 2021, JAIME CASTLE, the defendant, told an Obagi employee by text message that CASTLE could "force" Distributor-1 to take more Obagi product so that Obagi could recognize revenue.

b. In or about June 2022, CASTLE directed Obagi to ship a large quantity of product to Distributor-1, to help Obagi meet revenue targets.

c. In or about December 2022, CASTLE directed Obagi to ship a large quantity of product to Distributor-1, to help Obagi meet revenue targets.

d. In or about December 2022, CASTLE brokered a deal between Distributor-1 and Distributor-2, whereby Distributor-2 would help pay off some of Distributor-1's debt to

Obagi, so Obagi could continue shipping products to Distributor-1.

(Title 18, United States Code, Section 371.)

COUNT TWO
(Securities Fraud)

The Grand Jury further charges:

44. The allegations contained in paragraphs 1 through 37 of this Indictment are repeated and realleged as if fully set forth herein.

45. From at least in or about 2021 up to and including at least in or about 2023, in the Southern District of New York and elsewhere, JAIME CASTLE, the defendant, willfully and knowingly, directly and indirectly, by the use of a means and instrumentality of interstate commerce and of the mails, and of a facility of a national securities exchange, used and employed, in connection with the purchase and sale of a security, a manipulative and deceptive device and contrivance, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by: (a) employing a device, scheme, and artifice to defraud; (b) making an untrue statement of a material fact and omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaging in an act, practice, and course of business which operated and would operate as a fraud and deceit upon a person, to wit, CASTLE engaged in a scheme to defraud Waldencast and purchasers and holders of Waldencast securities by fraudulently inflating Obagi's net revenue.

(Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.l0b-5; and Title 18, United States Code, Section 2.)

COUNT THREE
(False Statement to Auditor and Improperly Influencing an Audit)

The Grand Jury further charges:

46. The allegations contained in paragraphs 1 through 37 of this Indictment are repeated and realleged as if fully set forth herein.

47. From at least in or about 2021, up to and including at least in or about 2023, in the Southern District of New York and elsewhere, JAIME CASTLE, the defendant, willfully and knowingly, being a director and an officer of an issuer, and a person acting under the direction thereof, directly and indirectly (a) made, and caused to be made, a materially false and misleading statement to an accountant, (b) omitted to state, and caused another person to omit to state, a material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading to an accountant, and (c) took an action to coerce, manipulate, mislead, and fraudulently influence an accountant, in connection with an audit, review and examination of the financial statements of the issuer required to be made and the preparation and filing of a document and report required to be filed with the United States Securities Exchange Commission, to wit, CASTLE made, and caused another to make, affirmative misrepresentations to Auditor-1, and intentionally withheld information from Auditor-1, regarding Obagi's revenue recognition practices and growing accounts receivable.

(Title 15, United States Code, Sections 78m, 7202, 7242, and 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2(a)-(b); and Title 18, United States Code, Section 2.)

COUNT FOUR
(Wire Fraud)

The Grand Jury further charges:

48. The allegations contained in paragraphs 1 through 37 of this Indictment are repeated and realleged as if fully set forth herein.

49. From at least in or about 2021 through at least in or about 2023, in the Southern District of New York and elsewhere, JAIME CASTLE, the defendant, knowingly having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, transmitted and caused to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce, writings, signs, signals, pictures, and sounds, for the purpose of executing such scheme and artifice, to wit, CASTLE engaged in a scheme to defraud Waldencast and purchasers and holders of Waldencast securities by fraudulently inflating Obagi's net revenue, and sent and received, and caused others to send and receive, emails and other electronic communications, to and from the Southern District of New York and elsewhere, in furtherance of that scheme.

(Title 18, United States Code, Sections 1343 and 2.)

FORFEITURE ALLEGATIONS

50. As a result of committing one or more of the offenses charged in Counts One through Four of this Indictment, JAIME CASTLE, the defendant, shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461, all property, real and personal, that constitutes or is derived from proceeds traceable to the commission of said offenses, including but not limited to a sum of money in United States currency representing the amount of proceeds traceable to the commission of said offenses that the defendant personally obtained.

Substitute Assets

51. If any of the above-described forfeitable property, as a result of any act or omission by the defendant:

a. cannot be located upon the exercise of due diligence;

b. has been transferred or sold to, or deposited with, a third party;

c. has been placed beyond the jurisdiction of the court;

d. has been substantially diminished in value; or

e. has been commingled with other property which cannot be divided without difficulty;

it is the intent of the United States, pursuant to Title 21, United States Code, Section 853(p), and Title 28, United States Code Section 2461, to seek forfeiture of any other property of the defendant up to the value of the forfeitable property described above.

(Title 18, United States Code, Section 981(a)(C);
Title 21, United States Code, Section 853(p);
Title 28, United States Code, Section 2461.)

[redacted]
FOREPERSON

Jay Clayton
JAY CLAYTON
United States Attorney