

Judge Ronald B. Leighton

Presented to the Court by the foreman of the Grand Jury in open Court, in the presence of the Grand Jury and FILED in the U.S. DISTRICT COURT at Seattle, Washington.

SEPTEMBER 30 15
WILLIAM M. McCOOL, Clerk
By [Signature] Deputy

UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

UNITED STATES OF AMERICA,
Plaintiff,
v.
TROY X. KELLEY,
Defendant.

No. CR15-5198RBL

SUPERSEDING INDICTMENT

THE GRAND JURY CHARGES THAT:

INTRODUCTION

I. Background

A. *The Defendant and Relevant Entities*

1. TROY X. KELLEY, a resident of Tacoma, Washington, holds a J.D. and an M.B.A., and is an attorney licensed to practice law in the States of California, New York, and Washington, and in the District of Columbia. TROY X. KELLEY's experience includes work as counsel, and then general counsel, for a real estate title company in California, as president of a division of that company, and as a small business owner and operator whose business served the title industry.

1 2. Blackstone International, Inc. (“Blackstone”), is an S Corporation formed
2 in the State of Nevada on or about October 26, 2000. Since Blackstone’s inception,
3 TROY X. KELLEY has been Blackstone’s President and sole owner.

4 3. Attorney Trustee Services, Inc. (“ATS”), is an S Corporation. Originally,
5 TROY X. KELLEY’s wife, D.D.K., was the President of ATS. Subsequently, TROY X.
6 KELLEY became the President of ATS. Through at least 2008, D.D.K. was the sole
7 owner of ATS.

8 4. United National, LLC (“United National”), was a limited liability company
9 incorporated in Washington State on or about August 2, 2002. TROY X. KELLEY was
10 United National’s President. Originally, Blackstone owned 50% of United National. By
11 2008, Blackstone owned 79.3% of United National, ATS owned 18.1% of the company,
12 and a minority partner owned 2.6% of the company. United National operated under the
13 name Post Closing Department (also known as “PCD”) and provided reconveyance-
14 tracking services to real estate escrow companies. On August 11, 2008, TROY X.
15 KELLEY cancelled United National’s registration in Washington State.

16 5. Fidelity National Title of Washington (“Fidelity”) and Old Republic Title
17 (“Old Republic”) were escrow companies that offered real estate settlement services in
18 Washington State. United National d/b/a Post Closing Department, provided
19 reconveyance-tracking services to these escrow companies and others.

20 ***B. The Reconveyance-Processing Industry***

21 6. Generally, individuals who borrow money to purchase or refinance a home
22 (“borrowers”) are required to grant a deed of trust to a trustee. The trustee holds title to
23 the property on behalf of the lender, pursuant to that deed of trust, to secure repayment of
24 the loan. When an underlying loan is paid in full, such as through the sale of the property
25 or through a refinancing, the lender sends the trustee proof of repayment, after which the
26 trustee transfers title back to the original borrower. The process of transferring title back
27 to the borrower is called “reconveyance.” The reconveyance process is completed when
28 a deed of reconveyance is executed by the trustee and recorded in the recorder’s office of

1 the county where the property is located. Trustees may charge a fee to process a
2 reconveyance (a “trustee fee”), and county recording offices generally charge a fee to
3 record a reconveyance (a “county recording fee”).

4 7. Escrow companies performing real estate settlement services collect and
5 disburse loan funds and sales proceeds, and facilitate documentation of real estate
6 transactions, all in accordance with the escrow instructions of the parties to a real estate
7 transaction. As part of their service, escrow companies also facilitate the reconveyance
8 process by collecting from borrowers fees in amounts sufficient to cover the potential
9 costs associated with the reconveyance process.

10 8. The potential costs associated with the reconveyance process include the
11 cost of paying trustee fees and county recording fees (collectively, “reconveyance-
12 processing fees”), as well as the cost of tracking reconveyances to ensure that they are
13 completed (“reconveyance tracking”). During the period relevant to this Superseding
14 Indictment, escrow companies typically collected between \$100 and \$150 per
15 reconveyance (a “reconveyance fee”) from borrowers to cover reconveyance-processing
16 fees and reconveyance-tracking costs.

17 9. In many cases, lenders processed reconveyances themselves, either for a
18 minimal fee charged directly to the borrower as part of the borrower’s loan payoff, or for
19 no fee. When lenders processed reconveyances, escrow companies did not need to pay
20 reconveyance-processing costs, such as trustee fees or county recording fees.

21 10. Rather than administer reconveyance fees and track reconveyances
22 themselves, in some cases, escrow companies contracted with outside vendors that
23 administered reconveyance fees and performed reconveyance-tracking services. Post
24 Closing Department was a vendor utilized by escrow companies to administer
25 reconveyance fees, and track reconveyances, for the benefit of escrow parties.

26 **II. Summary of Charges**

27 11. Between about 2003 and about June 2008, TROY X. KELLEY, through
28 Post Closing Department, provided reconveyance-tracking services to Fidelity and Old

1 Republic. TROY X. KELLEY represented to Fidelity and Old Republic that, in return
2 for a flat fee per reconveyance, Post Closing Department would receive and administer
3 the full amount of reconveyance fees collected by the escrow companies from borrowers
4 and (1) track the filing of reconveyances; (2) pay any necessary reconveyance-processing
5 fees, such as trustee fees and county recording fees; and (3) refund the unused portions of
6 the reconveyance fees back to the borrowers. In reliance upon TROY X. KELLEY's
7 representations, Fidelity and Old Republic entrusted TROY X. KELLEY and Post
8 Closing Department with millions of dollars of reconveyance fees. In truth and in fact,
9 TROY X. KELLEY lied to Fidelity and Old Republic and did not administer the
10 reconveyance fees as promised. Contrary to his representations, TROY X. KELLEY did
11 not refund unused portions of reconveyance fees to borrowers, but instead fraudulently
12 retained, stole, and converted them to his own use. Based upon this conduct, Count 1 of
13 this Superseding Indictment charges TROY X. KELLEY with Possession and
14 Concealment of Stolen Property, namely, approximately \$1,463,171 of unused
15 reconveyance-processing fees that should have been refunded to borrowers, as well as
16 more than \$5,000, of reconveyance-tracking fees that should have been refunded to
17 escrow companies or borrowers for transactions that were not complete when TROY X.
18 KELLEY closed Post Closing Department.

19 12. In May 2008, class action lawsuits were filed on behalf of borrowers
20 against Fidelity and Old Republic, seeking, among other things, the return of
21 reconveyance fees charged by the escrow companies for services that were in fact
22 performed by lenders. In June 2008, anticipating that borrowers and escrow companies
23 might seek the return of such fees from Post Closing Department, TROY X. KELLEY,
24 attempted to conceal the funds by moving them rapidly between numerous bank
25 accounts, and eventually depositing the funds into an account in the name of a newly-
26 created shell entity controlled by TROY X. KELLEY. TROY X. KELLEY also
27 attempted to divert attention from himself, and to discredit and disqualify one of the
28 named plaintiffs in the civil suits, by issuing a refund check to him. In about December

1 2009, Old Republic sued TROY X. KELLEY, seeking the return of unused reconveyance
2 fees. In the course of the litigation with Old Republic, TROY X. KELLEY gave false
3 testimony during a deposition, and lied in sworn declarations submitted to the Court.
4 Based upon this conduct, Counts 2- 5 of this Superseding Indictment charge TROY X.
5 KELLEY with False Declarations.

6 13. Beginning in 2011, after all of the litigation against him had been resolved,
7 TROY X. KELLEY sought ways to spend for his own benefit the unlawfully-retained
8 reconveyance fees, while concealing and disguising the nature and source of his assets.
9 As an elected official, and later, as a candidate for state-wide office, TROY X. KELLEY
10 well knew that the sources of his income and assets would continue to be subject to
11 reporting requirement and likely would be subject to additional scrutiny. Therefore,
12 starting in 2011 and continuing through 2015, TROY X. KELLEY withdrew \$245,000
13 annually from the pool containing his illicit proceeds, and, rather than pay himself
14 directly, funneled the money through an account held in the name of his long-existing S
15 Corporation, Blackstone. As a result, TROY X. KELLEY made it appear that a company
16 he long had owned earned annually some form of legitimate income, while concealing
17 and disguising and attempting to conceal and disguise the fact that TROY X. KELLEY
18 was simply drawing down the accumulated proceeds he had unlawfully taken through his
19 prior business, Post Closing Department. Based upon this conduct, Counts 6-10 of this
20 Superseding Indictment charge TROY X. KELLEY with Money Laundering.

21 14. Finally, TROY X. KELLEY engaged in a long-running scheme to avoid
22 and reduce his taxes on the unlawfully-retained reconveyance fees. For the tax years
23 between 2006 and 2008, TROY X. KELLEY fraudulently underreported United
24 National's and his own gross receipts and income, and avoided declaring and paying
25 taxes on the reconveyance fees that he had unlawfully retained. Beginning in 2011, after
26 all of the litigation against him had been resolved, TROY X. KELLEY began
27 withdrawing \$245,000 annually from the pool of unlawfully-retained reconveyance fees.
28 TROY X. KELLEY reported the \$245,000 that he drew down annually as income to his

1 wholly-owned S Corporation, Blackstone. For the 2011 and 2012 tax years, however,
 2 TROY X. KELLEY sought to reduce his tax by fraudulently claiming as business
 3 deductions, on Blackstone's return, personal and campaign-related expenditures that were
 4 not legitimate business expenses. Finally, when Internal Revenue Service (IRS) agents
 5 interviewed TROY X. KELLEY in April 2013, TROY X. KELLEY falsely stated he
 6 reported \$245,000 of income in each of 2011 and 2012, because he was continuing to
 7 perform reconveyance-tracking services and was only reporting income as he earned it.
 8 Based upon this conduct, Counts 11-17 of this Superseding Indictment charge TROY X.
 9 KELLEY with Corrupt Interference with Internal Revenue Laws, with Filing False
 10 Income Tax Returns, and with False Statements to IRS Agents.

11 **III. The Reconveyance-Fee Fraud Scheme**

12 **A. *The Fraud Relating to Fidelity***

13 15. During 2003, TROY X. KELLEY entered into a business agreement with
 14 Fidelity. Both orally and in writing, TROY X. KELLEY represented that, for a flat fee of
 15 \$15 per file, Post Closing Department would (1) provide Fidelity reconveyance-tracking
 16 services for real estate transactions in King and Snohomish Counties; (b) receive from
 17 Fidelity the full amount of reconveyance fees entrusted to Fidelity by borrowers; and,
 18 (c) where Post Closing Department was not required to use the full amount of those fees
 19 to pay trustee fees and/or county recording fees, or its own \$15 reconveyance-tracking
 20 fee, return the unused portion of reconveyance fees to borrowers.

21 16. A written agreement, signed by Fidelity's Operations Manager on October
 22 9, 2003, defined Fidelity as the "Client," and borrowers as "Customers," and provided, in
 23 relevant part:

24 Fees are as follows: \$15.00 post closing tracking fee per
 25 item.

26 **Payment Terms:**

27 Client shall collect post closing fee and make check payable
 28 to PCD (leave the check to be picked up by representative
 and/or coordinator). Expenses such as trustee fees and
 recording fees that are associated with a file will be advanced

1 and charged to that file. At the completion of the post closing
2 documentation if extra funds are left over, PCD shall forward
3 the funds to Customer, with sample letter attached.

4 17. In reliance upon TROY X. KELLEY's representations and promises,
5 beginning in 2003, Fidelity began using Post Closing Department to perform
6 reconveyance-tracking work, and caused borrowers to authorize disbursement of funds
7 from Fidelity to Post Closing Department for reconveyance processing and tracking.
8 Fidelity provided Post Closing Department files accompanied by checks made payable to
9 Post Closing Department in the full amount of the reconveyance fees that had been
10 entrusted to Fidelity for reconveyance processing and tracking by borrowers. TROY X.
11 KELLEY and Post Closing Department employees subsequently cashed those checks,
12 depositing the funds into an account at Columbia Bank that Post Closing Department
13 used to hold funds received from Fidelity. In doing so, TROY X. KELLEY and the
14 employees caused wire communications to be transmitted in interstate commerce in order
15 to effect the transactions.

16 18. To track Fidelity's reconveyances, a Post Closing Department employee
17 entered the data for each reconveyance into a line in a large spreadsheet. Post Closing
18 Department then tracked the reconveyances by logging onto county recorder's offices'
19 websites to check the status of the reconveyances. When a title was reconveyed, an
20 employee noted the number assigned to the reconveyance in the spreadsheet. Because
21 the employees understood that Post Closing Department received a flat \$15 fee per
22 transaction tracked regardless of the amount of work involved, they did not use the
23 spreadsheet to record the specific tasks performed on each file.

24 19. Because major lenders processed the vast majority of the reconveyances
25 Post Closing Department tracked, Post Closing Department generally did not need to
26 perform additional work, or pay additional trustee fees or county recording fees, to effect
27 reconveyances. As a result, in the vast majority of cases, Post Closing Department
28 received from Fidelity, and retained at the completion of the reconveyances, funds

1 entrusted to Fidelity to cover possible reconveyance-processing costs that were not
2 actually needed to pay a trustee fee or a county recording fee.

3 20. By no later than in or about January 2006, TROY X. KELLEY devised a
4 scheme and artifice to defraud Fidelity and borrowers, to obtain money from Fidelity by
5 means of false and fraudulent representations, and to steal money from Fidelity and from
6 borrowers, namely to take and convert to his own use and benefit reconveyance-
7 processing fees that TROY X. KELLEY knew should have been refunded to borrowers.

8 21. TROY X. KELLEY decided not to pay refunds to borrowers, all the while,
9 continuing to keep up a pretense that Post Closing Department was administering fees as
10 promised, and continuing to obtain from Fidelity fees entrusted to Fidelity by borrowers.
11 Unbeknownst to Fidelity and borrowers, and contrary to his representations and
12 promises, TROY X. KELLEY directed Post Closing Department employees to issue
13 refund checks in limited circumstances, typically, when an escrow company or a
14 borrower complained that the borrower had not received a refund to which the borrower
15 was entitled.

16 22. To conceal further from Fidelity the fact that Post Closing Department was
17 keeping unused reconveyance-processing fees, TROY X. KELLEY falsely and
18 fraudulently represented to Fidelity that Post Closing Department continued to charge
19 only a flat \$15 fee per transaction tracked.

20 23. For example, on February 16, 2006, TROY X. KELLEY sent an email to
21 an employee at Fidelity, advising that Ticor Title was raising its trustee fees to \$120,
22 suggesting that Fidelity might want to do the same, and noting that PCD would hold only
23 \$105 in processing fees "after our \$15 fee."

24 24. Similarly, on May 9, 2007, TROY X. KELLEY caused an employee to
25 send an email to an employee at Fidelity, stating that Post Closing Department collected
26 \$15 per file, and that, in tracking each file, Post Closing Department sent letters and made
27 telephone calls.

28

1 25. And on July 31, 2007, TROY X. KELLEY sent an email to an employee at
2 Fidelity, stating that he wanted “to confirm our fees are \$15 per deed of trust tracked and
3 we hold what you direct us to in order that the trustee gets paid and records the
4 reconveyance.” In reliance upon these false representations, Fidelity continued to cause
5 borrowers to instruct at closing that reconveyance fees entrusted to Fidelity be disbursed
6 to Post Closing Department, and Fidelity continued to disburse such fees to Post Closing
7 Department.

8 26. In approximately March 2008, Fidelity decided to stop using Post Closing
9 Department to track reconveyances. After being notified of that fact, on March 14, 2008,
10 TROY X. KELLEY sent an employee at Fidelity an email in which he offered to
11 continue tracking Fidelity’s reconveyances for a flat fee of \$15 per transaction tracked,
12 while allowing Fidelity to retain the remainder of the reconveyance fees. The email
13 stated, in relevant part:

14 I just wanted to let you know that there is a reconveyance
15 service model that allows you to hold the income generated
16 and we are paid though a monthly invoice that is \$15 per file.

17 27. On April 7, 2008, TROY X. KELLEY sent a similar email to another
18 employee at Fidelity, stating, in relevant part:

19 I want to confirm the option that we can track new payoffs
20 Our price is still only \$15 per item and can be invoiced
21 monthly. . . . We operate this way for six counties in Oregon
22 and we even advance substantial recording fees on Fidelity’s
23 behalf. We do all the work after close, and Fidelity holds the
24 money.

25 Despite TROY X. KELLEY’s emails, Fidelity stopped using Post Closing Department in
26 March 2008.

27 28. After Fidelity stopped using Post Closing Department to provide
28 reconveyance-tracking services, TROY X. KELLEY terminated one of the Post Closing
Department employees who had been primarily responsible for performing the work for
Fidelity. In approximately May 2008, TROY X. KELLEY picked up the Post Closing

1 Department documents remaining at the employee's residence, and caused all Post
2 Closing Department-related files to be deleted from the employee's computer.

3 29. Because major lenders had processed the vast majority of the
4 reconveyances Post Closing Department tracked for Fidelity, Post Closing Department
5 retained a substantial amount of unused reconveyance-processing fees. Between January
6 2006 and March 2008, Fidelity asked Post Closing Department to track approximately
7 21,158 reconveyances. Of these, Fidelity collected reconveyance fees in an amount
8 designed to cover reconveyance-processing costs, as well as reconveyance-tracking costs,
9 in approximately 18,208 cases.

10 30. By March 2008, the vast majority of the files tracked had reconveyed.
11 With respect to those reconveyed transactions, Post Closing Department had been
12 required to issue only approximately 460 checks to pay reconveyance-processing fees.
13 Accordingly, Post Closing Department should have refunded unused reconveyance-
14 processing fees to thousands of borrowers. In fact, however, Post Closing Department
15 had issued only approximately 25 refund checks, totaling approximately \$4,340, to
16 borrowers from the Columbia Bank account that it used to conduct Fidelity business.
17 (Post Closing Department had issued approximately 423 additional checks to pay
18 reconveyance-processing fees from bank accounts not related to specific escrow
19 companies, and had issued approximately 34 additional refund checks, totaling
20 approximately \$8,837, from such accounts. Some of those checks may have related to
21 borrowers in transactions that Post Closing Department tracked for Fidelity.)

22 31. Instead of refunding unused reconveyance-processing fees to borrowers,
23 TROY X. KELLEY retained the vast majority of these fees in the Columbia Bank
24 account from which he conducted Fidelity business. As a result, the balance in this
25 account, which was \$745,121 on January 1, 2006, had grown to \$2,361,181 by June
26 2008. (In addition, during the same period, although Post Closing Department was
27 entitled to only approximately \$317,370 for reconveyance-tracking services that it
28

1 performed for Fidelity, TROY X. KELLEY transferred approximately \$443,006 from the
2 account to his own personal account at Bank of America.)

3 ***B. The Fraud Relating to Old Republic***

4 32. By no later than April 2006, TROY X. KELLEY devised a scheme and
5 artifice to defraud Old Republic and borrowers, to obtain money from Old Republic by
6 means of false and fraudulent representations, and to steal money from Old Republic and
7 borrowers. This scheme was functionally-identical to the scheme to defraud Fidelity.

8 33. On or about April 10, 2006, TROY X. KELLEY met with a Senior Vice
9 President of Old Republic. TROY X. KELLEY falsely and fraudulently represented that,
10 for a flat fee of \$20.00 per reconveyance, Post Closing Department would (a) provide
11 reconveyance-tracking services for real estate transactions in which Old Republic acted
12 as the escrow agent; (b) receive from Old Republic the full reconveyance fees entrusted
13 to Old Republic by borrowers; and, (c) where Post Closing Department was not required
14 to use the full reconveyance fees to pay trustee fees and county-recording fees, or its own
15 \$20 reconveyance-tracking fee, it would return the unused reconveyance-processing fees
16 to borrowers.

17 34. On or about the following day, TROY X. KELLEY sent the Old Republic
18 officer an email in which TROY X. KELLEY stated that he had created a refund letter
19 for a client who “wanted to hit the issue of the refund and integrity extra hard.” The
20 letter provided, in relevant part:

21 To ensure that the reconveyance is done properly, Old
22 Republic collects a Post Closing fee for each reconveyance.
23 A portion of this fee is charged to track county records for
24 your reconveyance and the balance is charged so that Old
25 Republic or another trustee can process your reconveyance if
26 additional [funds] are needed. In your case, the county
27 records show the reconveyance document has been recorded,
28 so we can close our file and we are refunding you the excess
processing fee.

1 35. In May 2006, Old Republic and Post Closing Department signed an
2 agreement for Post Closing Department to provide reconveyance-tracking services to Old
3 Republic. The agreement provided, in relevant part:

4 Fees are as follows:

5 \$20.00 post closing tracking fee per item,
6 fee includes management of funds due trustees &
7 client refunds

* * *

8 Additional Terms and Conditions:

9 PCD shall provide client with monthly progress reports
10 of reconveyance activity on each of client's files being
11 tracked as well as an accounting on all funds received
12 from client that have been disbursed and/or refunded
to principals.

13 36. In truth and in fact, however, TROY X. KELLEY did not intend for Post
14 Closing Department to issue refund checks to the vast majority of borrowers to whom
15 refunds were owed. Instead, TROY X. KELLEY intended to take and convert to his own
16 benefit reconveyance-processing fees that TROY X. KELLEY knew should have been
17 refunded to borrowers.

18 37. In June 2006, in reliance upon TROY X. KELLEY's representations and
19 promises, Old Republic began using Post Closing Department to provide reconveyance-
20 tracking services. Old Republic caused borrowers to instruct at closing that
21 reconveyance fees entrusted to Old Republic be disbursed to Post Closing Department,
22 and Old Republic disbursed such fees to Post Closing Department.

23 38. Old Republic provided Post Closing Department files accompanied by
24 checks made payable to Post Closing Department in the full amount that had been
25 entrusted to Old Republic for reconveyance processing and tracking by borrowers.
26 TROY X. KELLEY and Post Closing Department employees subsequently cashed those
27 checks, depositing the funds into an account at Columbia Bank that Post Closing
28 Department used to hold funds received from Old Republic. In doing so, TROY X.

1 KELLEY and the employees caused wire communications to be transmitted in interstate
2 commerce in order to effect the transactions.

3 39. To track Old Republic's reconveyances, Post Closing Department
4 employees entered the data for each reconveyance into a line in a large spreadsheet. Post
5 Closing Department then tracked the reconveyances by logging onto county recorder's
6 offices' websites to check the status of the reconveyances. When a title was reconveyed,
7 an employee noted the number assigned to the reconveyance in a spreadsheet. Because
8 employees understood that Post Closing Department received a flat \$20 fee per
9 transaction tracked regardless of the amount of work involved, the employees did not use
10 the spreadsheet to record the specific tasks they performed on each file.

11 40. Unbeknownst to Old Republic and borrowers, and contrary to his
12 representations and promises, TROY X. KELLEY directed Post Closing Department
13 employees to issue refund checks in only two limited situations. First, when an escrow
14 company or a borrower complained that the borrower had not received a refund to which
15 the borrower was entitled, TROY X. KELLEY directed an employee to issue a refund
16 check to that borrower. Second, on rare occasions, TROY X. KELLEY directed Post
17 Closing Department employees to issue small batches of refund checks. TROY X.
18 KELLEY did this either to respond to questions from Old Republic, or to create a defense
19 in the event that he subsequently was questioned about Post Closing Department's
20 actions.

21 41. To conceal from Old Republic the fact that Post Closing Department was
22 keeping unused reconveyance-processing fees, TROY X. KELLEY falsely and
23 fraudulently represented to Old Republic that Post Closing Department continued to
24 charge only a flat \$20 fee per transaction tracked. For example, on March 26, 2007, a
25 representative of Old Republic emailed Post Closing Department asking, among other
26 things, "[d]o you have a fee schedule . . . ?" TROY X. KELLEY caused an employee of
27 Post Closing Department to respond, "[t]he fee is \$20 flat for each item (each DOT to be
28 tracked)."

1 42. On July 26, 2007, TROY X. KELLEY again represented that Post Closing
2 Department charged a flat fee in an email to an Old Republic employee in which he
3 stated, in relevant part:

4 It seems that most companies are raising their trustee (recon)
5 fee by \$10 to offset the two County Recorder's increases.
6 Thus they are having us increase the funds held by \$10. Our
\$20 tracking fee does NOT change.

7 43. At some point, Old Republic employees in fact requested proof that Post
8 Closing Department was using reconveyance fees appropriately. Thereafter, TROY X.
9 KELLEY regularly directed a Post Closing Department employee to produce "zeroed
10 out" spreadsheets. These spreadsheets showed that all reconveyance fees relating to
11 borrowers whose reconveyances were complete had been (1) paid out as third-party fees
12 to trustees or county recorder's offices, or (2) refunded to borrowers. TROY X.
13 KELLEY provided the employee the check number that supposedly had been used to
14 make one payment, and directed that the employee have the spreadsheets show that
15 payments relating to other borrowers had been made using the next-in-sequence checks.

16 44. After the Post Closing Department employee prepared "zeroed out"
17 spreadsheets that falsely showed that large numbers of third-party and refund payments
18 had been made, TROY X. KELLEY caused the spreadsheets to be provided to the Old
19 Republic personnel who had requested the information as supposed proof that Post
20 Closing Department was handling reconveyance fees appropriately. In truth and in fact,
21 TROY X. KELLEY well knew that Post Closing Department had not made the payments
22 to trustees and county recorder's offices shown in the spreadsheets, and that it was not
23 paying refunds as required.

24 45. Because major lenders processed the vast majority of the reconveyances
25 that Post Closing Department tracked for Old Republic, Post Closing Department
26 retained a substantial amount of unused reconveyance-processing fees. Between June
27 2006 and June 2008, Old Republic asked Post Closing Department to track
28 approximately 11,773 reconveyances. Of these, Old Republic collected reconveyance

1 fees in an amount designed to cover reconveyance-processing costs, as well as
2 reconveyance-tracking costs, in approximately 9,072 cases.

3 46. By June 2008, more than 3,500 of the reconveyances that Post Closing
4 Department was tracking for Old Republic had been completed. With respect to those
5 reconveyed transactions, Post Closing Department had been required to issue only
6 approximately 150 checks to pay reconveyance-processing fees. Accordingly, Post
7 Closing Department should have refunded unused reconveyance-processing fees to
8 thousands of borrowers. In fact, however, Post Closing Department issued only
9 approximately 30 refund checks, totaling approximately \$5,660, to borrowers. (Post
10 Closing Department had issued approximately 423 additional checks to pay
11 reconveyance-processing fees from bank accounts not related to specific escrow
12 companies, and had issued approximately 34 additional refund checks, totaling
13 approximately \$8,837, from such accounts. Some of those checks may have related to
14 borrowers in transactions that Post Closing Department tracked for Old Republic.)

15 47. Instead of refunding unused reconveyance-processing fees to borrowers,
16 TROY X. KELLEY retained the vast majority of these fees in the Columbia Bank
17 account from which he conducted Old Republic business. As a result, the balance in this
18 account had grown to \$888,949 by June 2008. (In addition, between June 2006 and June
19 2008, TROY X. KELLY transferred approximately \$95,000 from the account to his
20 personal account at Bank of America.)

21 **IV. The Tax Fraud Scheme**

22 48. Under federal law relating to taxation, income must be reported in the tax
23 year in which it is received or earned.

24 49. IRS Form 1065, U.S. Return of Partnership Income ("Form 1065"), is an
25 IRS form used to report the income and deductions of a partnership. Generally,
26 partnership income flows through to partners, according to their share in the partnership.
27 United National reported its income as a partnership using IRS Form 1065. From 2006
28

1 through 2008, United National's income flowed through to its partners, including
2 Blackstone and ATS.

3 50. IRS Form 1120S, U.S. Income Tax Return for an S Corporation ("Form
4 1120S") is an IRS form used to report the income and deductions of an S Corporation.
5 S Corporation income flows through to the corporation's owners, according to their share
6 in the S Corporation. Blackstone and ATS reported their income using Form 1120S.
7 From 2006 through 2008, Blackstone's income flowed through to its sole owner, TROY
8 X. KELLEY, and ATS' income flowed through to its sole owner, D.D.K.

9 51. IRS Form 1040, U.S. Individual Income Tax Return ("Form 1040"), is an
10 IRS form used by individual taxpayers to report their annual income, deductions, and
11 credits, and their tax due and owing.

12 52. Having fraudulently obtained and stolen funds from Fidelity, Old Republic,
13 and borrowers, TROY X. KELLEY sought to avoid payment of taxes on those funds. In
14 addition, TROY X. KELLEY realized that the escrow companies and borrowers might
15 seek the return of their funds. Accordingly, TROY X. KELLEY particularly sought to
16 avoid payment of taxes on the funds until after any such potential claims were resolved.
17 As a result, for tax years between 2006 and 2008, TROY X. KELLEY underreported the
18 income he earned.

19 53. On or about February 28, 2007, TROY X. KELLEY filed a Form 1065
20 partnership return for United National for the tax year 2006. On or about February 28,
21 2008, TROY X. KELLEY filed a Form 1065 partnership return for United National for
22 the tax year 2007. And, on or about October 9, 2008, TROY X. KELLEY filed a Form
23 1065 partnership return for United National for the tax year 2008.

24 54. These Forms 1065 were false in that they underreported income United
25 National earned between 2006 and 2008 by an aggregate amount of more than
26 \$3,000,000. By underreporting this income, which ultimately flowed through to his and
27 D.D.K's joint personal Forms 1040, TROY X. KELLEY reduced the individual income
28

1 taxes he was required to pay for tax years 2006 through 2008 by approximately
2 \$1,000,000.

3 55. In particular, the Form 1065 that TROY X. KELLEY filed for United
4 National for the tax year 2008, was false in that it underreported income United National
5 earned during 2008 by in excess of approximately \$304,019. By underreporting this
6 income, which ultimately flowed through to his and D.D.K.'s personal Form 1040
7 Individual Income Tax Return, TROY X. KELLEY reduced the individual income taxes
8 he was required to pay for tax year 2008 by approximately \$100,000.

9 **V. Obstruction of Civil Lawsuits**

10 56. On May 14, 2008, class action lawsuits were filed in the United States
11 District Court for the Western District of Washington against Fidelity and Old Republic.
12 The class actions, *Cornelius v. Fidelity National Title Insurance*, C08-0754MJP (W.D.
13 Wash.), and *McFerrin v. Old Republic Title*, C08-5309BHS (W.D. Wash.), alleged,
14 among other things, that Fidelity and Old Republic collected reconveyance-processing
15 fees from borrowers, that, even though they went unused, “[n]o portion of the
16 reconveyance processing fees [were] credited or returned with the final settlement,” and
17 that the two companies “kept these duplicative and unearned sums for no settlement
18 services rendered” TROY X. KELLEY learned of the existence of these class action
19 lawsuits no later than the day after they were filed, that is, May 15, 2008.

20 **A. TROY X. KELLEY Falsely Claims that Post Closing Department**
21 **Previously Provided a Refund to F.C.**

22 57. In *Cornelius v. Fidelity National Title*, Post Closing Department had
23 performed the tracking services for the lead plaintiff, F.C.'s, real estate transaction. As
24 TROY X. KELLEY well knew, Fidelity had delivered to Post Closing Department the
25 \$280 in reconveyance fees entrusted to Fidelity by F.C., to cover two reconveyances
26 involved in F.C.'s refinance.

27 58. As TROY X. KELLEY also well knew, despite the fact that Post Closing
28 Department had not been required to pay any trustee fees or county recording fees, Post

1 Closing Department had kept the entire reconveyance fee, rather than refund all but the
2 \$30 to which it was entitled for tracking two reconveyances. To divert attention from this
3 fact, and thereby seek to avoid being made a defendant in the class action lawsuits, and
4 also to discredit and disqualify F.C. as a plaintiff, TROY X. KELLEY sought to convince
5 F.C. that Post Closing Department had timely sent him a refund of his reconveyance-
6 processing fees.

7 59. On May 16, 2008, at 9:17 a.m., TROY X. KELLEY used an ATM at a
8 Bank of America branch near his home to withdraw \$300 in cash from his personal Bank
9 of America account. TROY X. KELLEY immediately traveled to a nearby Washington
10 Mutual Bank branch. There, at 9:27 a.m., TROY X. KELLEY used the cash to purchase
11 a \$250 cashier's check payable to F.C. To avoid fees associated with the purchase of the
12 cashier's check, TROY X. KELLEY provided Washington Mutual Bank with the account
13 number for his Washington Mutual Bank campaign finance account in the name of
14 Friends of Troy Kelley. Finally, because he paid for this check using money withdrawn
15 from his personal account, TROY X. KELLEY wrote a check dated May 16, 2008, on the
16 Post Closing Department account at Columbia Bank that he used for Fidelity business,
17 and made it payable to himself in the amount of \$250. On the memo line, TROY X.
18 KELLEY wrote the word "reimbursement."

19 60. TROY X. KELLEY caused the \$250 cashier's check that he had purchased
20 to be mailed to F.C. In an accompanying letter, TROY X. KELLEY acknowledged that
21 Post Closing Department was entitled to a flat reconveyance-tracking fee of \$15 per
22 reconveyance, and falsely claimed that Post Closing Department previously had refunded
23 the remainder of F.C.'s reconveyance fees to F.C., but that F.C. had failed to cash Post
24 Closing Department's check. The letter, which was not signed, provided in relevant part:

25 Dear [F.C.]:

26 A review of our records shows that you did not cash
27 our check of January 7, 2008. The letter mailed to you was
28 not returned by the post office, and you have not contacted
Fidelity National Title or The Post Closing Department since

1 the time your escrow closed. That check is now stale dated
2 and you should not cash it.

3 We are enclosing an official bank check to zero out
4 your account balance, and mailing it to you with proof of
5 mailing.

6 The enclosed official bank check is for \$250. Fidelity
7 National Title collected \$140 on the payoff of each deed of
8 trust. \$15 was charged to track each reconveyance. There
9 was a balance on each deed of trust of \$125 when the
10 beneficiary secured the reconveyance. This recording of the
11 reconveyance may have been after being contacted by the
12 Post Closing Department to confirm that the document was
13 being processed. Thus, you are being refunded \$125 for each
14 deed of trust that was paid off in escrow for a total of \$250.

15 61. TROY X. KELLEY also included with the cashier's check a copy of the
16 letter that Post Closing Department allegedly had sent to F.C. on January 7, 2008. In the
17 letter, TROY X. KELLEY again acknowledged that Post Closing Department was
18 entitled to retain only a flat \$15 tracking fee. TROY X. KELLEY fraudulently placed a
19 slightly-incorrect address in the letter's heading in an attempt to create a plausible
20 explanation for the fact that it never had been delivered to F.C.

21 **B. *TROY X. KELLEY Conceals Post Closing Department's Money***

22 62. Within a month after learning of the class action lawsuits, TROY X.
23 KELLEY sought to conceal \$3,782,226 held in Post Closing Department's Columbia
24 Bank accounts by moving the money through a series of convoluted wire transfers
25 through various newly-opened bank accounts. As part of this series of transfers, TROY
26 X. KELLEY transferred the money out of the State of Washington and into accounts
27 opened in the name of entities not associated with United National or Post Closing
28 Department.

63. On June 10, 2008, TROY X. KELLEY opened an account at Wells Fargo
Bank in the name of United National. On June 12, 2008, TROY X. KELLEY wire
transferred (1) \$2,361,181 from the Columbia Bank account that he had used for Fidelity

1 business, (2) \$888,949 from the Columbia Bank account that he had used for Old
2 Republic business, and (3) \$532,096 from the Columbia Bank account number that he
3 had used for Stewart Title business, for a combined total of \$3,782,226, into the newly
4 opened account at Wells Fargo Bank.

5 64. On June 12, 2008, TROY X. KELLEY opened an account at U.S. Bank in
6 the name of United National. On June 13, 2008, TROY X. KELLEY wire transferred
7 \$3,785,667 from the United National account at Wells Fargo Bank to the newly-opened
8 United National account at U.S. Bank.

9 65. On June 17, 2008, TROY X. KELLEY opened an account at Nevada State
10 Bank in the name of Blackstone. On June 18, 2008, TROY X. KELLEY wire transferred
11 \$3,784,619 from the United National account at U.S. Bank to the newly-opened
12 Blackstone account at Nevada State Bank in Nevada.

13 66. On June 23, 2008, TROY X. KELLEY formed Berkeley United, LLC
14 ("Berkeley United"), a Nevada limited liability company. At approximately the same
15 time, TROY X. KELLEY formed Wellington Trust, a trust organized under the laws of
16 Belize. Although TROY X. KELLEY did not technically own Wellington Trust, for all
17 practical purposes, TROY X. KELLEY controlled the trust, which operated for his
18 benefit. Wellington Trust owned 99% of Berkeley United. Blackstone owned the
19 remaining 1%.

20 67. On June 26, 2008, TROY X. KELLEY opened an account at Vanguard in
21 the name of Berkeley United. On June 27, 2008, TROY X. KELLEY transferred
22 \$3,634,673 from the Blackstone account at Nevada State Bank, in Nevada, to the newly-
23 opened Berkeley United account at Vanguard, in Pennsylvania.

24 68. Between January 2006 and June 2008, Post Closing Department failed to
25 refund to borrowers (in the case of completed reconveyances) or to Fidelity or Old
26 Republic (in the case of reconveyances that had not yet been completed when Post
27 Closing Department ceased operations), a total of at least approximately \$2,964,679. Of
28 this amount, at least approximately \$1,618,744 was included in money that TROY X.

1 KELLEY transferred to the Blackstone account at the Bank of Nevada on June 18, 2008,
2 and at least approximately \$1,463,171 was included in the money that TROY X.
3 KELLEY held in the Berkeley United account at Vanguard on January 1, 2011.

4 **C. *TROY X. KELLEY Shuts Down Post Closing Department***

5 69. In approximately June 2008, TROY X. KELLEY transferred Post Closing
6 Department's two remaining employees in the State of Washington from Post Closing
7 Department's payroll to the payroll of ATS. On the evening of June 25, 2008, a fire was
8 reported at the Stewart Title offices in Everett, Washington. By 11:00 p.m., on June 25,
9 2008, Stewart Title had burned to the ground. TROY X. KELLEY subsequently
10 represented that all of Post Closing Department's records had been destroyed in that fire
11 and in a subsequent crash of his computer.

12 70. On August 11, 2008, having shut down Post Closing Department's
13 operations in the States of Washington and Oregon, TROY X. KELLEY filed a
14 Certificate of Withdrawal/Cancellation with the Washington State Secretary of State,
15 thereby immediately canceling the registration of United National, d/b/a Post Closing
16 Department.

17 71. On September 23, 2008, after learning of the existence of Post Closing
18 Department, the class action plaintiffs served TROY X. KELLEY with subpoenas
19 demanding that he produce books and records. On that same date, to ensure his ability to
20 further conceal the funds he previously had hidden from the class action litigants, TROY
21 X. KELLEY submitted to Vanguard an International Wire Option Form, providing him
22 with the option of wiring funds from the Berkeley United account at Vanguard, to an
23 account in the name of Wellington Trust at Atlantic International Bank in Belize.

24 **D. *Old Republic Sues TROY X. KELLEY, and TROY X. KELLEY Seeks to***
25 ***Conceal from Old Republic the Location of its Funds and Makes False***
26 ***Declarations in a Deposition***

27 72. On March 3, 2009, counsel for class-action defendant Old Republic filed a
28 third-party complaint against TROY X. KELLEY charging, among other things, that, by
failing to refund unused reconveyance-processing fees to borrowers, Post-Closing

1 Department had breached its agreement with, and been unjustly enriched to the detriment
2 of, Old Republic.

3 73. Between March 2009, and September 8, 2009, counsel for Fidelity sought
4 to locate the stolen funds that TROY X. KELLEY had concealed. They did so by issuing
5 subpoenas to Columbia Bank, Wells Fargo Bank, Washington Mutual Bank, U.S. Bank,
6 HSBC, and, ultimately, on September 8, 2009, to the Vanguard Group.

7 74. On July 9, 2009, and October 29, 2009, after finding that Old Republic,
8 which had disclosed the payment of reconveyance fees to Post Closing Department in the
9 settlement document that the plaintiffs signed at their closing, had not breached any
10 agreement with, or duty of good faith to, the plaintiffs, the Court dismissed the class
11 action lawsuit against Old Republic. Likewise, on April 1, 2010, the Court dismissed the
12 class action lawsuit against Fidelity.

13 75. On December 10, 2009, Old Republic filed a new lawsuit against TROY X.
14 KELLEY, in King County Superior Court. On June 6, 2010, that lawsuit was removed to
15 the United States District Court for the Western District of Washington, *Old Republic*
16 *Title, Ltd. v. Troy X. Kelley, et al.*, No. C10-0038JLR (W.D. Wash.). All of Old
17 Republic's claims stemmed from its core allegation that TROY X. KELLEY had agreed,
18 in June 2006, to perform reconveyance-tracking services for a flat fee of \$20 per escrow
19 transaction, and to refund all other unused reconveyance fees to borrowers, but that
20 TROY X. KELLEY instead improperly had kept the unused fees.

21 76. As part of the civil discovery in the *Old Republic Title* case, written
22 interrogatories were served upon TROY X. KELLEY. A key objective of these
23 interrogatories was locating the reconveyance fees that were entrusted to Old Republic
24 and then provided to Post Closing Department pursuant to borrowers' escrow
25 instructions. In his responses to those interrogatories, TROY X. KELLEY repeatedly
26 sought to conceal the Berkeley United account at Vanguard that held the fees.

27 77. Thus, Interrogatory 15 of Old Republic's First Set of Interrogatories
28 required TROY X. KELLEY to disclose all entities in which he held an ownership

1 interest. On February 22, 2010, TROY X. KELLEY submitted a response that objected
 2 to the interrogatory in general terms and did not provide any substantive response. On
 3 March 25, 2010, TROY X. KELLEY submitted a supplemental response stating that his
 4 response to another interrogatory (which he described as Interrogatory 15, but by which
 5 he likely intended to refer to Interrogatory 16) responded to the question. On July 26,
 6 2010, TROY X. KELLEY again supplemented his response, stating:

- 7
- 8 • The Kelleys were and are the sole owners of the stock of
Blackstone International, Inc.;
- 9 • the Kelleys were the sole owners of the LLC interest in
10 United National, LLC, prior to its cancellation;
- 11 • the Kelleys were the sole owners of the LLC interest in
12 United National 14, LLC, prior to its cancellation;
- 13 • the Kelleys were and are the sole owners Attorney Trust
14 Services, Inc.;
- 15 • the Kelleys control the education foundation and Mr.
Kelley controls and the campaign organization, but they
do not have an “ownership interest” in them.

16 In truth and in fact, as TROY X. KELLEY well knew, Blackstone held a 1% ownership
 17 interest, and Wellington Trust, which for all practical purposes TROY X. KELLEY
 18 controlled, held the remaining 99% interest, in Berkeley United, the entity that held the
 19 Vanguard account into which TROY X. KELLEY had moved Old Republic’s funds.

20 78. Interrogatory 16 required TROY X. KELLEY to disclose all entities in
 21 which he was an officer. On March 25, 2010, TROY X. KELLEY responded to this
 22 interrogatory, stating:

23 Mr. Kelley has formed the following entities, . . . :

24
 25 Blackstone International Inc. 2000 – present. (President)
 26 United National LLC, 2002-2008, cancelled. (President)
 27 United National 14 LLC, 2004-2008, cancelled. (President)
 28 Attorney Trustee Services Inc, 2003-present. (President)
 Kelley Education Foundation, 2007-present, very small, give money for
 education or internships (Chairman)

1 Friends of Troy Kelley, political association for campaign, 2006-present
2 (Candidate)

3 In truth and in fact, as TROY X. KELLEY well knew, TROY X. KELLEY also was the
4 President of Berkeley United, the entity that held the Vanguard account into which
5 TROY X. KELLEY had moved Old Republic's funds.

6 79. Interrogatory 18 required TROY X. KELLEY to disclose all bank accounts
7 into which he had "deposited any money originally received from Old Republic." On
8 March 25, 2010, TROY X. KELLEY responded to this interrogatory, stating "[t]he only
9 account used for the deposit of checks from ORT was #[*****]1629 at Columbia Bank.
10 The account was in the name of United National, LLC; dba Post Closing Department."
11 On July 26, 2010, TROY X. KELLEY supplemented his Response to Interrogatory 18, as
12 follows:

13 RESPONSE: As noted above, the only account used for the
14 deposit of checks was Account No. [*****]1629 at
15 Columbia Bank. From time to time, as reflected in the
16 Columbia bank records, United National would transfer funds
17 representing service fees from this account to Account No.
18 [*****]5529 at Columbia Bank.

19 In addition, as also reflected in the Columbia Bank records, at
20 the conclusion of United National's reconveyance work for
21 Old Republic, United National transferred the remaining
22 funds in Account No. [*****]1629 to Wells Fargo Account
23 No. [***-***]3310, another business account held by United
24 National. At that point, the funds were commingled with
25 other funds that United National had received from other
26 business operations, including other reconveyance business.

27 In truth and in fact, as TROY X. KELLEY well knew, Berkeley United held a Vanguard
28 account into which TROY X. KELLEY had transferred funds entrusted to Old Republic
and then delivered to Post Closing Department pursuant to borrowers' escrow
instructions. By his response to Interrogatory 18, TROY X. KELLEY sought to conceal
that bank account.

1 80. On August 2, 2010, TROY X. KELLEY was deposed in *Old Republic Title,*
2 *Ltd. v. Troy Kelley et al.* During the deposition, counsel for Old Republic directly
3 confronted TROY X. KELLEY about the funds TROY X. KELLEY had concealed in the
4 Vanguard account he had opened in the name of Berkeley United, inquiring “[w]hy were
5 the funds transferred to Berkeley United?” On January 28, 2011, TROY X. KELLEY
6 supplemented his prior interrogatory responses, admitting both that he had transferred
7 Old Republic’s funds to a Vanguard account held by Berkeley United, and that he was
8 the President of Berkeley United.

9 81. During that same deposition, TROY X. KELLEY also provided false
10 testimony concerning other matters. Thus, TROY X. KELLEY falsely testified that he
11 had negotiated the right to charge Old Republic additional fees beyond the \$20 fee per
12 transaction. TROY X. KELLEY falsely testified that Post Closing Department’s
13 spreadsheets identified and broke down the amounts of these individual fees for each
14 transaction. And TROY X. KELLEY falsely testified that he did not send the letter to
15 F.C. after the class action lawsuits were filed, or ask anyone to do so.

16 82. During that same deposition, TROY X. KELLEY also testified that, after
17 shuttering Post Closing Department, he had performed a final reconciliation of all of the
18 work done by Post Closing Department for each of its escrow clients. TROY X.
19 KELLEY further testified that Post Closing Department was entitled to keep the money
20 in the Berkeley United account as “fees earned” for “services provided.” TROY X.
21 KELLEY also testified that he had not paid tax on this money because, although Post
22 Closing Department had “earned” the money, the income had not yet been “realized.”

23 VI. Continuation of the Tax Fraud Scheme

24 83. On May 3, 2011, Old Republic and TROY X. KELLEY settled *Old*
25 *Republic Title, Ltd. v. Troy Kelley et al.* Following the settlement TROY X. KELLEY
26 paid Old Republic \$1,050,000 drawn from the money in the Berkeley United account at
27 Vanguard, in order that Old Republic could refund the money to borrowers.

28

1 84. After he settled *Old Republic Title, Ltd. v. Troy Kelley et al.*, TROY X.
2 KELLEY maintained approximately \$2,581,653 of the funds he had concealed during
3 June 2008 in the Berkeley United account at Vanguard. Beginning in 2011, TROY X.
4 KELLEY transferred \$245,000 per year to accounts he controlled, which he then reported
5 as income on Forms 1120S he filed on behalf of Blackstone. TROY X. KELLEY sought
6 to evade the full taxes due and owing on the reported income, however, by fraudulently
7 deducting various items as business expenses, knowing full well that the deductions were
8 not for legitimate business expenses.

9 85. On or about June 3, 2011, a month after the settlement in *Old Republic*
10 *Title, Ltd. v. Troy Kelley et al.*, TROY X. KELLEY wired \$245,030 from the Berkeley
11 United account at Vanguard to a Berkeley United account at Wells Fargo Bank. On June
12 7, 2011, TROY X. KELLEY issued a check on the Wells Fargo Berkeley United account,
13 in the amount of \$245,000, to Blackstone. TROY X. KELLEY deposited the check into
14 an account at Columbia Bank in the name of Blackstone.

15 86. On or about February 28, 2012, TROY X. KELLEY filed a Form 1120S for
16 Blackstone for the tax year 2011. That form stated that Blackstone's business was
17 "[i]nformation [s]ervices," and described its product or service as "[d]ocument
18 [t]racking." TROY X. KELLEY declared that the company made gross profits of
19 \$245,000 for tax year 2011. Blackstone's declared income for 2011, however, was offset
20 by business expense deductions that totaled \$66,147.

21 87. According to an attached Form 4562 Depreciation and Amortization,
22 approximately \$28,535.32 of the declared deductions consisted of depreciation of two
23 vehicles, including a new vehicle purchased in 2011. TROY X. KELLEY indicated in
24 Form 4562 that both vehicles were used 100% for the business. The remaining business
25 deductions were itemized in a personally-prepared schedule entitled "Profit & Loss
26 Statement," and appended to Blackstone's return. The schedule noted, for example,
27 \$5,162.21 in fuel expenses, \$8,830.40 in business travel, \$3,065.48 in conference
28

1 education expenses, \$7,402.12 in sales expenses, and \$2,974.35 for subscriptions and
2 books.

3 88. In truth and fact, as TROY X. KELLEY well knew, many of the expenses
4 that TROY X. KELLEY declared as business deductions on Blackstone's Form 1120S
5 were personal expenses, and the expenses were not expenses associated with any
6 business that Blackstone had engaged in during the tax year 2011.

7 89. On about January 6, 2012, TROY X. KELLEY issued a check on the
8 Berkeley United account at Vanguard, in the amount of \$245,000, to Blackstone, which
9 he deposited into Blackstone's account at Columbia Bank. On about February 1, 2012,
10 TROY X. KELLEY transferred the remaining \$2,090,818 in the Berkeley United account
11 at Vanguard to an account at Vanguard in the name of Blackstone.

12 90. On or about February 2, 2013, TROY X. KELLEY filed a Form 1120S on
13 behalf of Blackstone for the tax year 2012, in which he declared gross profits of
14 \$245,000, for Blackstone. As with the previous year's form, that form stated that
15 Blackstone's business was "[i]nformation [s]ervices," and described its product or service
16 as "[d]ocument [t]racking." Blackstone's declared income in 2012 was offset by
17 business-expense deductions totaling \$60,425.

18 91. Attached to the 2012 Form 1120S was a personally-prepared schedule
19 itemizing the various categories of claimed business expenses. The schedule noted,
20 among other things, \$5,953.85 in fuel costs, \$12,573.81 in business travel, \$4,979.40 in a
21 category entitled "conference education," \$9,975.04 in sales expenses, and \$6,270 in
22 depreciation for a vehicle. On an attached Form 4562, which detailed the depreciated
23 vehicle, TROY X. KELLEY noted that the vehicle claimed was used 100% for business
24 and that the vehicle had been driven 15,000 miles during that year.

25 92. In truth and fact, as TROY X. KELLEY well knew, many of the expenses
26 that TROY X. KELLEY declared as business deductions on Blackstone's Form 1120S
27 were personal or campaign-related expenses, and at least approximately \$57,273 were not
28

1 expenses associated with any business that Blackstone had engaged in during the tax year
2 2012.

3 93. On April 19, 2013, at Olympia, IRS Criminal Investigation (“IRS-
4 CI”) Special Agents interviewed TROY X. KELLEY. During the interview, TROY X.
5 KELLEY was asked to explain his tax treatment of the reconveyance fees that TROY X.
6 KELLEY had consolidated in 2008, but did not declare as income on his 2006 to 2008
7 income tax returns. TROY X. KELLEY stated that his company was earning the
8 \$245,000 he was transferring to Blackstone each year by continuing to perform work on
9 old reconveyance files.

10 94. The statements and representations were false because, as TROY X.
11 KELLEY then and there knew, TROY X. KELLEY and Blackstone were not tracking
12 reconveyance transactions. Post Closing Department had terminated the employees who
13 previously had performed the work. In addition, TROY X. KELLEY previously had
14 testified under oath that Post Closing Department’s files had been destroyed in a fire at
15 Stewart Title’s office on June 25, 2008, and in the subsequent crash of TROY X.
16 KELLEY’s computer.

17 95. On or about February 27, 2014, TROY X. KELLEY filed a Form 1120S on
18 behalf of Blackstone for the tax year 2013, in which he declared gross profits of
19 \$245,000, the same amount that TROY X. KELLEY had declared on the forms for the
20 previous two years. Although the form declared \$72,446 of business expenses, the
21 principal such expense was legal fees, which totaled \$57,945. Unlike the forms for the
22 previous two years, the form did not declare any depreciation for vehicles. In addition, it
23 declared substantially-lower amounts of expenses for items such as business travel, and
24 subscriptions and books.

25 **VII. TROY X. KELLEY Continues to Conceal and Disguise his Illicit Proceeds**

26 96. In 2006, TROY X. KELLEY was elected to the Washington House of
27 Representatives. TROY X. KELLEY served three two-year terms in that body. In 2012,
28

1 TROY X. KELLEY campaigned for, and was elected, Washington State Auditor, a
2 position that he currently holds.

3 97. In 2011, after he had funneled the proceeds of his fraudulent business, Post
4 Closing Department, through multiple companies and accounts, and after settlement of
5 the litigation brought by Old Republic, TROY X. KELLEY sought to begin spending for
6 his own benefit the remainder of the proceeds in a manner that would conceal and
7 disguise the nature, location, source, ownership, and control of the funds.

8 98. As an elected public official, and as a candidate for office, TROY X.
9 KELLEY knew that the source of his income and wealth likely would be subject to
10 additional scrutiny. TROY X. KELLEY was required to file, at regular intervals,
11 financial disclosure forms with the Washington State Public Disclosure Commission,
12 including a Form F-1, Personal Financial Affairs Statement, or a short-form version of
13 that form (collectively, "F-1 Reports"). F-1 Reports detail a candidate/official's sources
14 of income, investments, and ownership interest in companies. F-1 Reports are signed and
15 submitted by the candidate/official under penalty of perjury, and are publicly-available
16 through the Washington State Public Disclosure Commission. Starting with his first F-1
17 Report, filed in 2005, TROY X. KELLEY described Blackstone as a legitimate "holding
18 company" or "company holding investments."

19 99. TROY X. KELLEY sought to conceal from the victims of his fraud, the
20 government, including the IRS, and the general public, facts relating to his misconduct at
21 Post Closing Department, and, specifically, the fact that a substantial portion of his
22 income and assets derived from his fraudulent conduct. For example, after settling Old
23 Republic's lawsuit against him, TROY X. KELLEY sought unsuccessfully to seal court
24 records in the case.

25 100. Rather than pay himself directly the remaining fraud proceeds, beginning in
26 2011, TROY X. KELLEY withdrew \$245,000 annually from the remaining fraud
27 proceeds that he held first in the Vanguard account in the name of Berkeley United, and
28

1 then in the Vanguard account in the name of Blackstone, and funneled the withdrawn
2 funds through another account held in the name of Blackstone.

3 101. By making annual payments through Blackstone, which TROY X.
4 KELLEY portrayed as a legitimate company, TROY X. KELLEY concealed and
5 disguised and attempted to conceal and disguise the nature, location, source, ownership,
6 and control of the fraud proceeds by making his withdrawals appear as if they were
7 legitimately-earned income of a business that had been operating for many years, rather
8 than derived from his illicit activities at Post Closing Department.

9 102. In each of 2013, 2014, and 2015, TROY X. KELLEY withdrew an
10 additional \$245,000 from the Blackstone account at Vanguard. As a result, by February
11 27, 2015, the balance on the account had been reduced to \$1,355,843.

12 103. On March 26, 2015, notwithstanding the fact that he had told IRS-CI agents
13 that he still was performing work to earn this money, TROY X. KELLEY wrote two
14 checks on the account -- which he previously had described as an impound account that
15 held moneys that he had not earned -- that reduced the balance in the account to zero.
16 First, TROY X. KELLEY wrote a check to the United States Treasury for \$447,421. On
17 the memo line of that check, TROY X. KELLEY wrote "Form 1040 2016-2020."
18 Second, TROY X. KELLEY wrote a check in the amount of \$908,397 to a trust account
19 in Seattle in which the funds were to be held for his benefit.

20
21 **COUNT 1**
22 **(Possession and Concealment of Stolen Property)**

23 104. The allegations set forth in Paragraphs 1 through 103 of this Superseding
24 Indictment are re-alleged and incorporated as if fully set forth herein.

25 105. From in or about June 2008, to in or about January 2012, at Tacoma, in the
26 Western District of Washington, and elsewhere, TROY X. KELLEY did possess and
27 conceal stolen property, knowing the same to have been stolen, unlawfully converted,
28 and taken, namely, money of a value of \$5,000 or more, which money had crossed a State
boundary after being stolen, unlawfully converted, and taken, to wit, funds that were

1 taken by fraud from Fidelity National Title and borrowers between January 2006 and
2 March 2008, taken by fraud from Old Republic Title and borrowers between June 2006
3 and June 2008, and stolen by TROY X. KELLEY between January 2006 and June 2008,
4 and that subsequently were transferred to an account in the name of Blackstone
5 International, Inc., at Nevada State Bank, in the State of Nevada, and further transferred
6 to an account in the name of Berkeley United, LLC, at Vanguard, in the State of
7 Pennsylvania.

8 All in violation of Title 18, United States Code, Section 2315.

9
10 **COUNT 2**
11 **(False Declaration)**

12 106. The allegations set forth in Paragraphs 1 through 12, 14 through 94, and
13 102 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully
14 set forth herein.

15 107. On or about August 2, 2010, at Seattle, in the Western District of
16 Washington, TROY X. KELLEY, while under oath and testifying in a civil deposition,
17 knowingly did make a false material declaration in a proceeding before and ancillary to a
18 court of the United States.

19 108. On December 10, 2009, Old Republic Title filed a civil lawsuit in King
20 County Superior Court, which was removed to the United States District Court for the
21 Western District of Washington, *Old Republic Title, Ltd v. Troy Kelley, et al.*, C10-
22 0038JLR, on January 6, 2010. The lawsuit included allegations that, pursuant to TROY
23 X. KELLEY's agreement with Old Republic Title, TROY X. KELLEY and Post Closing
24 Department were obligated to return unused reconveyance-processing fees to borrowers,
25 but did not do so. Among other things, the lawsuit alleged that this failure constituted a
26 breach of contract and unjust enrichment. Accordingly, at the time and place of
27 aforesaid deposition, it was material whether, during a previous class action lawsuit in
28 relation to an agreement similar to the one TROY X. KELLEY entered into with Old
Republic Title, TROY X. KELLEY, after the class action lawsuit was filed,

1 acknowledged that he was obligated to pay refunds to borrowers by sending the lead
2 plaintiff, F.C., a \$250 refund under cover of a letter acknowledging Post Closing
3 Department's obligation to pay the refund.

4 109. At the time and place alleged, TROY X. KELLEY appearing as a witness
5 under oath during a deposition, knowingly made the following declarations in response to
6 questions with respect to the material matter alleged, as follows:

7
8 Question: But you're denying that you sent this letter?

9 Answer: Yes.

10 Question: Or denying a recollection of it?

11 Answer: Yes.

12 Question: Which –

13 Answer: I don't remember this at all.

14 Question: You think it's likely that you sent it?

15 Answer: No.

16 Question: Think it's most likely that you did not?

17 Answer: Yes.

18
19
20 110. The answer given by TROY X. KELLEY to the next-to-last question, as he
21 then and there well knew and believed, was false in that, as he was well aware, TROY X.
22 KELLEY personally wrote the letter and caused the letter to be written, purchased the
23 check made payable to F.C. for \$250, and sent the letter to F.C.

24 All in violation of Title 18, United States Code, Section 1623(a).
25
26
27
28

COUNT 3
(False Declaration)

111. The allegations set forth in Paragraphs 1 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully set forth herein.

112. On or about April 8, 2011, at Olympia and Seattle, in the Western District of Washington, TROY X. KELLEY, in a declaration under penalty of perjury as permitted under Title 28, United States Code, Section 1746, knowingly did make a false material declaration in a proceeding before and ancillary to a court of the United States.

113. On December 10, 2009, Old Republic Title filed a civil lawsuit in King County Superior Court, which was removed to the United States District Court for the Western District of Washington, *Old Republic Title, Ltd v. Troy Kelley, et al.*, C10-0038JLR, on January 6, 2010. The lawsuit included allegations that, pursuant to TROY X. KELLEY's agreement with Old Republic Title, TROY X. KELLEY and Post Closing Department were obligated to return unused reconveyance-processing fees to borrowers, but did not do so. Among other things, the lawsuit alleged that this failure constituted a breach of contract and unjust enrichment. Accordingly, it was material whether during a previous class action lawsuit, in relation to an agreement similar to the one TROY X. KELLEY entered into with Old Republic Title, TROY X. KELLEY, after the class action lawsuit was filed, acknowledged that he was obligated to pay refunds to borrowers by sending the lead plaintiff, F.C., a \$250 refund under cover of a letter acknowledging Post Closing Department's obligation to pay the refund.

114. At the time and place alleged, TROY X. KELLEY signed and filed with the court a declaration in which he knowingly made the following statement with respect to the material matter alleged:

Old Republic has also submitted a copy of a letter from the *Cornelius* litigation in which someone tried to return money to the plaintiff in that case. As I testified at my deposition, I didn't send this letter, and I don't know who did.

1 115. The aforesaid statement of TROY X. KELLEY, as he then and there well
2 knew and believed, was false in that, as he was well aware, TROY X. KELLEY
3 personally wrote the letter and caused the letter to be written, purchased the check made
4 payable to F.C. for \$250, sent the letter to F.C., and knew who sent the letter to F.C.

5 All in violation of Title 18, United States Code, Section 1623(a).

6
7 **COUNT 4**
8 **(False Declaration)**

9 116. The allegations set forth in Paragraphs 1 through 12, 14 through 94, and
10 102 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully
11 set forth herein.

12 117. On or about August 2, 2010, at Seattle, in the Western District of
13 Washington, TROY X. KELLEY, while under oath and testifying in a civil deposition,
14 knowingly did make a false material declaration in a proceeding before and ancillary to a
15 court of the United States.

16 118. On December 10, 2009, Old Republic Title filed a civil lawsuit in King
17 County Superior Court, which was removed to the United States District Court for the
18 Western District of Washington, *Old Republic Title, Ltd v. Troy Kelley, et al.*, C10-
19 0038JLR, on January 6, 2010. The lawsuit included allegations that, pursuant to TROY
20 X. KELLEY's agreement with Old Republic Title, TROY X. KELLEY and Post Closing
21 Department were obligated to return unused reconveyance-processing fees to borrowers,
22 but did not do so. Among other things, the lawsuit alleged that this failure constituted a
23 breach of contract and unjust enrichment. Accordingly, at the time and place of
24 aforesaid deposition, it was material whether any verbal amendments had been made
25 which would allow Post Closing Department to charge more for reconveyance tracking
26 than had been provided for in the written agreement.

27 119. At the time and place alleged, TROY X. KELLEY appearing as a witness
28 under oath during a deposition knowingly made the following declaration in response to
questions with respect to the material matter alleged, as follows:

1 Question: Who at Old Republic discussed or negotiated with you any of
2 your charges beyond the \$20 fee specified in the agreement
3 with Old Republic?

4 Answer: Carl [Lago].

5 120. The aforesaid testimony of TROY X. KELLEY, as he then and there
6 well knew and believed, was false in that Carl Lago never discussed or negotiated with
7 TROY X. KELLEY the option of earning more than \$20 per file.

8 All in violation of Title 18, United States Code, Section 1623(a).

9
10 **COUNT 5**
11 **(False Declaration)**

12 121. The allegations set forth in Paragraphs 1 through 12, 14 through 94, and
13 102 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully
14 set forth herein.

15 122. On or about August 2, 2010, at Seattle, in the Western District of
16 Washington, TROY X. KELLEY, while under oath and testifying in a civil deposition,
17 knowingly did make a false material declaration in a proceeding before and ancillary to a
18 court of the United States.

19 123. On December 10, 2009, Old Republic Title filed a civil lawsuit in King
20 County Superior Court, which was removed to the United States District Court for the
21 Western District of Washington, *Old Republic Title, Ltd v. Troy Kelley, et al.*, C10-
22 0038JLR, on January 6, 2010. The lawsuit included allegations that, pursuant to TROY
23 X. KELLEY's agreement with Old Republic Title, TROY X. KELLEY and Post Closing
24 Department were obligated to return unused reconveyance processing fees to borrowers,
25 but did not do so. Among other things, the lawsuit alleged that this failure constituted a
26 breach of contract and unjust enrichment. It was TROY X. KELLEY's position that he
27 had not returned unused reconveyance fees because the agreement he had entered with
28 Old Republic Title had been verbally modified, providing that Post Closing Department
could charge additional fees for every task it performed in relation to each file, and, as a

1 result, there were no unused reconveyance-processing fees. Accordingly, at the time and
2 place of aforesaid deposition, it was material whether Post Closing Department
3 employees kept records reflecting all of the tasks they performed on each file.

4 124. At the time and place alleged, TROY X. KELLEY appearing as a witness
5 under oath during a deposition knowingly made the following declarations in response to
6 questions with respect to the material matter alleged, as follows:

7 Question: So you had a log or spreadsheet? What word would you use?

8 Answer: I would use either word.

9 Question: And it would have a specific breakdown of each of these fees
10 and expenses on each transaction?

11 Answer: Correct.

12 Question: Would it identify who the – what the specific fee was paid to
13 PCD?

14 Answer: Correct.

15 Question: So for example, you mentioned a fee for contacting lenders.

16 Answer: Correct.

17 Question: Would it say what the fee was and that this particular fee was
18 charged to that escrow file and to contact the lender?

19 Answer: That's exactly how –

20 Question: It wouldn't just be "PCD fees \$55" without indicating what?

21 Answer: No, there were separate columns for each different fee.

22 125. The answer given by TROY X. KELLEY to the last question, as he then
23 and there well knew and believed, was false in that, as he was well aware, TROY X.
24 KELLEY had entered into an agreement with Old Republic Title to track its
25 reconveyances for a flat fee of \$20.00 per transaction tracked. Therefore, Post Closing
26 Department employees were not asked to, and did not, keep track of the individual tasks
27
28

1 they performed on files. As a result, Post Closing Department's spreadsheets did not
2 identify specific fees paid to Post Closing Department.

3 All in violation of Title 18, United States Code, Section 1623(a).

4
5 **COUNT 6**
6 **(Money Laundering)**

7 126. The allegations set forth in Paragraphs 1 through 103 of this Superseding
8 Indictment are re-alleged and incorporated as if fully set forth herein.

9 127. On or about June 7, 2011, at Tacoma, in the Western District of
10 Washington, and elsewhere, TROY X. KELLEY, did knowingly conduct and attempt to
11 conduct a financial transaction affecting interstate and foreign commerce, to wit, deposit
12 a check in the amount of \$245,000 written on an account at Wells Fargo Bank in the
13 name of Berkeley United, LLC, into an account at Columbia Bank in the name of
14 Blackstone International, Inc., which involved the proceeds of a specified unlawful
15 activity, that is, mail fraud, in violation of Title 18, United States Code, Section 1341,
16 and wire fraud in violation of Title 18, United States Code, Section 1343, knowing that
17 the transaction was designed in whole and in part to conceal and disguise the nature,
18 location, source, ownership, and control of the proceeds of specified unlawful activity,
19 and while conducting and attempting to conduct such financial transaction knew that the
20 property involved in the financial transaction represented the proceeds of some form of
21 unlawful activity.

22 All in violation of Title 18, United States Code, Sections 1956(a)(1)(B)(i) and 2.

23
24 **COUNT 7**
25 **(Money Laundering)**

26 128. The allegations set forth in Paragraphs 1 through 103 of this Superseding
27 Indictment are re-alleged and incorporated as if fully set forth herein.

28 129. On or about January 6, 2012, at Tacoma, in the Western District of
Washington, and elsewhere, TROY X. KELLEY, did knowingly conduct and attempt to

1 conduct a financial transaction affecting interstate and foreign commerce, to wit, deposit
2 a check in the amount of \$245,000 written on an account at Vanguard in the name of
3 Berkeley United, LLC, into an account at Columbia Bank in the name of Blackstone
4 International, Inc., which involved the proceeds of a specified unlawful activity, that is,
5 mail fraud, in violation of Title 18, United States Code, Section 1341, and wire fraud in
6 violation of Title 18, United States Code, Section 1343, knowing that the transaction was
7 designed in whole and in part to conceal and disguise the nature, location, source,
8 ownership, and control of the proceeds of specified unlawful activity, and while
9 conducting and attempting to conduct such financial transaction knew that the property
10 involved in the financial transaction represented the proceeds of some form of unlawful
11 activity.

12 All in violation of Title 18, United States Code, Sections 1956(a)(1)(B)(i) and 2.

13
14 **COUNT 8**
15 **(Money Laundering)**

16 130. The allegations set forth in Paragraphs 1 through 103 of this Superseding
17 Indictment are re-alleged and incorporated as if fully set forth herein.

18 131. On or about January 3, 2013, at Tacoma, in the Western District of
19 Washington, and elsewhere, TROY X. KELLEY, did knowingly conduct and attempt to
20 conduct a financial transaction affecting interstate and foreign commerce, to wit, deposit
21 a check in the amount of \$245,000 written on an account at Vanguard in the name of
22 Blackstone International, Inc., into an account at Columbia Bank in the name of
23 Blackstone International, Inc., which involved the proceeds of a specified unlawful
24 activity, that is, mail fraud, in violation of Title 18, United States Code, Section 1341,
25 and wire fraud in violation of Title 18, United States Code, Section 1343, knowing that
26 the transaction was designed in whole and in part to conceal and disguise the nature,
27 location, source, ownership, and control of the proceeds of specified unlawful activity,
28 and while conducting and attempting to conduct such financial transaction knew that the

1 property involved in the financial transaction represented the proceeds of some form of
2 unlawful activity.

3 All in violation of Title 18, United States Code, Sections 1956(a)(1)(B)(i) and 2.
4

5 **COUNT 9**
6 **(Money Laundering)**

7 132. The allegations set forth in Paragraphs 1 through 103 of this Superseding
8 Indictment are re-alleged and incorporated as if fully set forth herein.

9 133. On or about January 24, 2014, at Tacoma, in the Western District of
10 Washington, and elsewhere, TROY X. KELLEY, did knowingly conduct and attempt to
11 conduct a financial transaction affecting interstate and foreign commerce, to wit, deposit
12 a check in the amount of \$245,000 written on an account at Vanguard in the name of
13 Blackstone International, Inc., into an account at Columbia Bank in the name of
14 Blackstone International, Inc., which involved the proceeds of a specified unlawful
15 activity, that is, mail fraud, in violation of Title 18, United States Code, Section 1341,
16 and wire fraud in violation of Title 18, United States Code, Section 1343, knowing that
17 the transaction was designed in whole and in part to conceal and disguise the nature,
18 location, source, ownership, and control of the proceeds of specified unlawful activity,
19 and while conducting and attempting to conduct such financial transaction knew that the
20 property involved in the financial transaction represented the proceeds of some form of
21 unlawful activity.

22 All in violation of Title 18, United States Code, Sections 1956(a)(1)(B)(i) and 2.
23

24 **COUNT 10**
25 **(Money Laundering)**

26 134. The allegations set forth in Paragraphs 1 through 103 of this Superseding
27 Indictment are re-alleged and incorporated as if fully set forth herein.
28

1 within the Department of Treasury of the United States responsible for enforcing and
2 administering the tax laws of the United States. The federal income tax system of the
3 United States relies upon citizens to truthfully, accurately, and timely report income and
4 expense information to the IRS.

5 139. Between 2006 and 2008, having fraudulently obtained and stolen funds
6 from Fidelity National Title, Old Republic Title, and borrowers, TROY X. KELLEY
7 fully realized that the title companies and borrowers might seek the return of their funds.
8 Accordingly, TROY X. KELLEY sought to avoid payment of taxes on the fraudulently-
9 obtained and stolen funds, at least until after any such action was resolved.

10 140. To do so, between 2006, and 2008, TROY X. KELLEY deliberately
11 underreported on tax returns for the tax years 2006 through 2008, the income that United
12 National earned and that flowed through to Blackstone and ATS, and then to TROY X.
13 KELLEY's and D.D.K.'s tax returns. In total, TROY X. KELLEY failed to report a total
14 of more than \$3,000,000 of income on United's tax returns for 2006 through 2008. As a
15 result, TROY X. KELLEY failed to report on his and D.D.K.'s joint tax returns, and to
16 pay, a total of approximately \$1,000,000 of taxes for those three years.

17 141. After failing to report Post Closing Department's true income on United
18 National's tax returns for the years 2006 through 2008, TROY X. KELLEY kept that
19 untaxed money in an account in the name of Berkeley United at Vanguard from 2008
20 through 2011. On May 3, 2011, TROY X. KELLEY settled the last remaining piece of
21 litigation against him relating to the stolen reconveyance funds. Following that
22 settlement, TROY X. KELLEY paid Old Republic \$1,050,000 drawn from the Berkeley
23 United account at Vanguard, so that Old Republic could refund the money to borrowers.

24 142. Beginning a month later, on June 3, 2011, TROY X. KELLEY transferred
25 \$245,000 per year of this money to accounts that he controlled. TROY X. KELLEY
26 reported this amount as income on Blackstone tax returns for the years 2011 through at
27 least 2013. TROY X. KELLEY offset the income by claiming fraudulent deductions for
28 expenses that either were wholly fraudulent or that were for personal expenses, rather

1 than legitimate business expenses of Blackstone. TROY X. KELLEY claimed these
2 fraudulent expenses both to reduce his tax obligation, and in an attempt to provide an
3 appearance of legitimacy for Blackstone, which otherwise would have had substantial
4 income but no reported expenses.

5 143. TROY X. KELLEY claimed \$66,147 in fraudulent business deductions on
6 Blackstone's 2011 Form 1120S, and claimed \$60,425 in business deductions, at least
7 \$57,273 of which were fraudulent, on Blackstone's 2012 Form 1120S. Because
8 Blackstone's ordinary business income was reportable on TROY X. KELLEY's and
9 D.D.K.'s joint personal tax return, TROY X. KELLEY thereby reduced his own taxable
10 income for each of 2011 and 2012. The overall effect of the claimed expenses was to
11 reduce TROY X. KELLEY's personal tax obligation by approximately \$20,000 in each
12 of 2011 and 2012.

13 144. When TROY X. KELLEY was interviewed by Internal Revenue Service –
14 Criminal Investigation Special Agents, on April 19, 2013, TROY X. KELLEY made
15 false and fraudulent statements concerning his actions. In particular, TROY X. KELLEY
16 falsely claimed that Blackstone was continuing to work on reconveyance files, and,
17 thereby, had earned the \$245,000 in income that it reported in each of 2011 and 2012.

18 All in violation of Title 26, United States Code, Section 7212(a).

19
20 **COUNT 12**
21 **(Filing False Income Tax Return)**

22 145. The allegations set forth in Paragraphs 1 through 12, 14 through 94, and
23 102 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully
24 set forth herein.

25 146. On or about October 9, 2008, at Seattle, in the Western District of
26 Washington, TROY X. KELLEY, a resident of Tacoma, Washington, did willfully make
27 and subscribe a US Return of Partnership Income, Form 1065, for United National, LLC
28 for calendar year 2008, which was verified by a written declaration that it was made

under the penalties of perjury and which he did not believe to be true and correct as to
SUPERSEDING INDICTMENT/KELLEY (No. CR15-5198RBL) - 42

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1 every material matter. That income tax return, which was filed with the Internal Revenue
2 Service, reported "gross receipts or sales" of \$198,996, whereas, as TROY X. KELLEY
3 then and there well knew, United National LLC received additional gross receipts not
4 stated on the return, to wit, at least approximately \$304,019 of additional gross receipts.

5 All in violation of Title 26, United States Code, Section 7206(1).

6
7 **COUNT 13**
8 **(Filing False Income Tax Return)**

9 147. The allegations set forth in Paragraphs 1 through 12, 14 through 94, and
10 102 through 103 of this Superseding Indictment are re-alleged and incorporated as if fully
11 set forth herein.

12 148. On or about March 31, 2009, at Tacoma, in the Western District of
13 Washington, TROY X. KELLEY, a resident of Tacoma, Washington, did willfully make
14 and subscribe a U.S. Individual Income Tax Return, Form 1040, for himself and his wife
15 D.D.K. for calendar year 2008, which was verified by a written declaration that it was
16 made under the penalties of perjury and which he did not believe to be true and correct as
17 to every material matter. That income tax return, which was filed with the Internal
18 Revenue Service, reported income from Blackstone International, Inc., and Attorney
19 Trustee Services, Inc., of \$169,868 and total income of \$322,659, whereas, as TROY X.
20 KELLEY then and there well knew, he and D.D.K. had income from Blackstone
21 International, Inc., and Attorney Trustee Services, Inc., in addition to the amount stated
22 on the return, to wit, additional income of at least approximately \$292,954.

23 All in violation of Title 26, United States Code, Section 7206(1).

24
25 **COUNT 14**
26 **(Filing False Income Tax Return)**

27 149. The allegations set forth in Paragraphs 1 through 103 of this Superseding
28 Indictment are re-alleged and incorporated as if fully set forth herein.

1 150. On or about February 28, 2012, at Tacoma, in the Western District of
2 Washington, TROY X. KELLEY, a resident of Tacoma, Washington, did willfully make
3 and subscribe a U.S. Income Tax Return for an S Corporation, Form 1120S, for
4 Blackstone International, Inc., for calendar year 2011, which was verified by a written
5 declaration that it was made under the penalties of perjury and which he did not believe
6 to be true and correct as to every material matter. That income tax return, which was
7 filed with the Internal Revenue Service, reported gross profits of \$245,000 and reported
8 business expenses of \$66,147 as deductions, whereas, as TROY X. KELLEY then and
9 there well knew, Blackstone International did not have the gross profits declared and had
10 not incurred all of the expenses pursuant to any business it had conducted during 2011.

11 All in violation of Title 26, United States Code, Section 7206(1).

12
13 **COUNT 15**
14 **(Filing False Income Tax Return)**

15 151. The allegations set forth in Paragraphs 1 through 103 of this Superseding
16 Indictment are re-alleged and incorporated as if fully set forth herein.

17 152. On or about February 2, 2013, at Tacoma, in the Western District of
18 Washington, TROY X. KELLEY, a resident of Tacoma, Washington, did willfully make
19 and subscribe a U.S. Income Tax Return for an S Corporation, Form 1120S, for
20 Blackstone International, Inc., for calendar year 2012, which was verified by a written
21 declaration that it was made under the penalties of perjury and which he did not believe
22 to be true and correct as to every material matter. That income tax return, which was
23 filed with the Internal Revenue Service, reported gross receipts of \$245,000 and reported
24 business expenses of \$60,425, as deductions, whereas, as TROY X. KELLEY then and
25 there well knew, Blackstone International, Inc., did not have the gross receipts declared
26 and had not incurred \$57,273 of the expenses pursuant to any business it had conducted
27 during 2012.

28 All in violation of Title 26, United States Code, Section 7206(1).

1 TROY X. KELLEY then and there well knew, Blackstone International, Inc., did not
2 have the gross receipts declared during 2013.

3 All in violation of Title 26, United States Code, Section 7206(1).
4

5 **FORFEITURE ALLEGATION**

6 157. The allegations contained in Count 1 of this Superseding Indictment are
7 hereby re-alleged and incorporated by reference for the purpose of alleging forfeiture
8 pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States
9 Code, Section 2461(c).

10 158. Upon conviction of the offense of Possession and Concealment of Stolen
11 Property in violation of Title 18, United States Code, Section 2315, set forth in Count 1
12 above, TROY X. KELLEY shall forfeit to the United States, pursuant to Title 18, United
13 States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), all
14 property, real or personal, that constitutes or is derived from proceeds traceable to such
15 offense, including but not limited to the following property:

- 16 a. Money Judgment. A sum of money equal to approximately
17 \$1,463,171, representing the amount of proceeds obtained as a result
18 of the offense set forth in Count 1, above.

19 159. The allegations contained in Counts 6 through 10 of this Superseding
20 Indictment are hereby re-alleged and incorporated by reference for the purpose of
21 alleging forfeitures pursuant to Title 18, United States Code, Sections 982(a)(1). Upon
22 conviction of an offense in violation of Title 18, United States Code, Section 1956, the
23 defendant, TROY X. KELLEY, shall forfeit to the United States of America any
24 property, real or personal, involved in such offense, and any property traceable to such
25 property pursuant to Title 18, United States Code, Section 982(a)(1). The property to be
26 forfeited includes, but is not limited to, the following:

- 27 a. The sum of \$908,397.51 in United States funds, contained in Bank
28 of America account No. XXXXXXXXX3414, that was transferred

1 from Vanguard Prime Money Market Fund Account XXXX6680,
2 held in the name of Blackstone International, Inc., on March 26,
3 2015.

- 4 b. The sum of \$447,421.00 in United States funds that was transferred
5 from Vanguard Prime Money Market Fund Account XXXX6680,
6 held in the name of Blackstone International, Inc., on March 26,
7 2015.

8 160. If any of the property described above, as a result of any act or omission of
9 the defendant:

- 10 a. cannot be located upon the exercise of due diligence;
11 b. has been transferred or sold to, or deposited with, a third party;
12 c. has been placed beyond the jurisdiction of the court;
13 d. has been substantially diminished in value; or
14 e. has been commingled with other property which cannot be divided
15 without difficulty,

16 //

17 //

18 //

1 the United States of America shall be entitled to forfeiture of substitute property pursuant
2 to Title 21, United States Code, Section 853(p), as incorporated by Title 18, United States
3 Code, Section 982(b)(1) and Title 28, United States Code, Section 2461(c).

4 A TRUE BILL:

5 DATED: 9/03/2015

6 Signature of Foreperson redacted pursuant
7 to the policy of the Judicial Conference of the
8 United States

9 _____
10 FOREPERSON

11 
12 ANNETTE L. HAYES
United States Attorney

13 
14 ANDREW C. FRIEDMAN
15 Assistant United States Attorney

16 
17 KATHERYN K. FRIERSON
18 Assistant United States Attorney

19 
20 ARLEN R. STORM
21 Assistant United States Attorney