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U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
LOS ANGELES

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10 **UNITED STATES DISTRICT COURT**
CENTRAL DISTRICT OF CALIFORNIA

11 **CV07-07033 ODW**

JTLx

12 SECURITIES AND EXCHANGE
COMMISSION,

Case No.

13 Plaintiff,

**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS**

14 v.

15
16 QUAN ZHU,

17 Defendant.
18

19 Plaintiff Securities and Exchange Commission ("Commission") alleges as
20 follows:

21 **JURISDICTION AND VENUE**

22 1. This Court has jurisdiction over this action pursuant to Sections 20(b)
23 and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b) &
24 77v(a), and Sections 21(d)(1), 21(e), 21A(a)(1), and 27 of the Securities Exchange
25 Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1), 78u(e), 78u-1(a)(1) &
26 78aa. Defendant has, directly or indirectly, made use of the means or
27 instrumentalities of interstate commerce, of the mails, or of the facilities of a
28 national securities exchange, in connection with the transactions, acts, practices,

1 and courses of business alleged in this Complaint.

2 2. Venue is proper in this district pursuant to Section 22(a) of the
3 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.
4 § 78aa, because certain of the transactions, acts, practices, and courses of business
5 constituting violations of the federal securities laws occurred within this district,
6 and defendant resides in this district.

7 **THE DEFENDANT**

8 3. Quan Zhu (“Zhu”), resides in Santa Monica, California. Zhu was
9 employed by Countrywide from 1998 until June 2007 when he was terminated. At
10 all times relevant to this Complaint, Zhu was an Executive Vice President in
11 Countrywide’s Portfolio Risk Management group.

12 **RELATED ENTITY**

13 4. Countrywide Financial Corp. (“Countrywide”), is a Delaware
14 corporation headquartered in Calabasas, California which provides various
15 financial services. Countrywide’s common stock is registered with the
16 Commission and trades on the New York Stock Exchange and the Pacific Stock
17 Exchange. At all relevant times, Countrywide’s Employee Handbook
18 (“Handbook”) contained an insider trading policy that states that “all Countrywide
19 employees are subject to federal ‘insider trading’ laws that prohibit them from
20 buying or selling stock with advance knowledge of important company
21 information that is unavailable to the general public.” On March 23, 1998, Zhu
22 signed an acknowledgment that he either received the Handbook or had access to
23 an on-line copy.

24 **DEFENDANT ZHU’S FRAUDULENT INSIDER TRADING**

25 5. On or about October 14, 2004, Alan Cao, Countrywide’s Vice
26 President, Financial Planning, conveyed material nonpublic information to Zhu
27 that Countrywide would fall short of the Wall Street analysts’ consensus estimate
28 for third quarter earnings.

1 6. On October 15, 2004, Zhu sold 2,834 shares of Countrywide common
2 stock already owned.

3 7. On October 15 and October 18, 2004, expecting that Countrywide's
4 stock price would decline after the company's negative earnings announcement,
5 Zhu purchased a total of 120 Countrywide put options. Purchasing put options is
6 an investment strategy that profits from a decline in the underlying stock price.

7 8. On October 18 and 19, 2004, using his wife's brokerage account, Zhu
8 sold short (i.e., borrowed and then sold) a total of 1,200 shares of Countrywide
9 common stock. Short selling is an investment strategy that profits from a decline
10 in the underlying stock price.

11 9. Before the stock market opened on October 20, 2004, Countrywide
12 issued a press release publicly announcing that third quarter earnings were \$0.94
13 per share, compared to \$1.93 per share the year before. These earnings per share
14 were \$0.07 below Wall Street analysts' expectations of \$1.01 per share. That day,
15 Countrywide's common stock price closed at \$33.17 per share, a decrease of
16 11.5% from the prior trading day, on trading volume of 36,353,200 shares, a 307%
17 increase from the prior trading day.

18 10. Within two hours after the October 20 negative earnings
19 announcement, and after Countrywide's stock price had declined, Zhu purchased
20 1,200 shares of Countrywide stock to cover the shares he sold short for a profit of
21 \$4,205.08, and sold the 120 put options which he had purchased for a profit of
22 \$16,784.43. In addition, Zhu avoided \$14,558.42 in losses from selling the 2,834
23 Countrywide shares on October 15. Zhu's total profit and losses avoided was thus
24 \$35,547.93.

25 11. When Zhu sold 2,834 Countrywide shares on October 15, purchased
26 put options on October 15 and 18, and sold short 1,200 Countrywide shares on
27 October 18 and 19, for his own benefit, while aware of Countrywide's negative
28 earnings information before it became public, he did so in breach of his duty of

1 trust and confidence to Countrywide and its shareholders.

2 **FIRST CLAIM FOR RELIEF**

3 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

4 **Violations of Section 17(a) of the Securities Act**

5 12. The Commission realleges and incorporates by reference paragraphs 1
6 through 11 above.

7 13. Defendant Zhu, by engaging in the conduct described above, directly
8 or indirectly, in the offer or sale of securities by the use of means or instruments of
9 transportation or communication in interstate commerce or by use of the mails:

- 10 a. with scienter, employed devices, schemes, or artifices to
11 defraud;
- 12 b. obtained money or property by means of untrue statements of a
13 material fact or by omitting to state a material fact necessary in
14 order to make the statements made, in light of the circumstances
15 under which they were made, not misleading; or
- 16 c. engaged in transactions, practices, or courses of business which
17 operated or would operate as a fraud or deceit upon the
18 purchaser.

19 14. By engaging in the conduct described above, defendant Zhu violated,
20 and unless restrained and enjoined will continue to violate, Section 17(a) of the
21 Securities Act, 15 U.S.C. § 77q(a).

22 **SECOND CLAIM FOR RELIEF**

23 **FRAUD IN CONNECTION WITH THE**
24 **PURCHASE OR SALE OF SECURITIES**

25 **Violations of Section 10(b) of the Exchange Act**
26 **and Rule 10b-5 Thereunder**

27 15. The Commission realleges and incorporates by reference paragraphs 1
28 through 11 above.

1 16. Defendant Zhu, by engaging in the conduct described above, directly
2 or indirectly, in connection with the purchase or sale of a security, by the use of
3 means or instrumentalities of interstate commerce, of the mails, or of the facilities
4 of a national securities exchange, with scienter:

- 5 a. employed devices, schemes, or artifices to defraud;
- 6 b. made untrue statements of a material fact or omitted to state a
7 material fact necessary in order to make the statements made, in
8 light of the circumstances under which they were made, not
9 misleading; or
- 10 c. engaged in acts, practices or courses of business which operated
11 or would operate as a fraud or deceit upon other persons.

12 17. By engaging in the conduct described above, defendant Zhu violated,
13 and unless restrained and enjoined will continue to violate, Section 10(b) of the
14 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.
15 § 240.10b-5.

16 **PRAYER FOR RELIEF**

17 WHEREFORE, the Commission respectfully requests that the Court:

18 **I.**

19 Issue findings of fact and conclusions of law that defendant Zhu committed
20 the alleged violations.

21 **II.**

22 Issue a final judgment, in a form consistent with Fed. R. Civ. P. 65(d),
23 permanently enjoining defendant Zhu and his agents, servants, employees, and
24 attorneys, and those persons in active concert or participation with any of them,
25 who receive actual notice of the final judgment by personal service or otherwise,
26 and each of them, from violating Section 17(a) of the Securities Act,
27 15 U.S.C. § 77q(a), and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b),
28 and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

1 **III.**

2 Order defendant Zhu to disgorge all ill-gotten gains from his illegal conduct,
3 including both profits and losses avoided, together with prejudgment interest
4 thereon.

5 **IV.**

6 Order defendant Zhu to pay civil penalties under Section 21A(a) of the
7 Exchange Act, 15 U.S.C. § 78u-1(a).

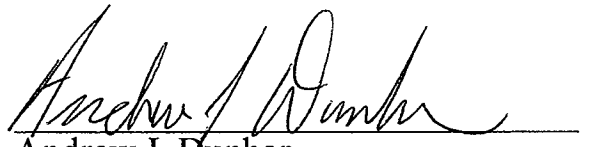
8 **V.**

9 Retain jurisdiction of this action in accordance with the principles of equity
10 and the Federal Rules of Civil Procedure in order to implement and carry out the
11 terms of all orders and decrees that may be entered, or to entertain any suitable
12 application or motion for additional relief within the jurisdiction of this Court.

13 **VI.**

14 Grant such other and further relief as this Court may determine to be just and
15 necessary.

16
17 Dated: October 29 2007


Andrew J. Dunbar
Attorney for Plaintiff
Securities and Exchange Commission