

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA**

**CASE NO.**

<b>SECURITIES AND EXCHANGE COMMISSION,</b>	)
	)
<b>Plaintiff,</b>	)
<b>v.</b>	)
	)
<b>JEFFREY L. SCHULTZ and REDFIN NETWORK, INC.,</b>	)
	)
<b>Defendants.</b>	)
<hr/>	

**COMPLAINT**

Plaintiff Securities and Exchange Commission alleges as follows:

**I. INTRODUCTION**

1. From July through August 2011, Defendants Jeffrey L. Schultz and Redfin Network, Inc. engaged in a fraudulent market manipulation scheme involving Redfin stock.
2. As part of the scheme, the Defendants paid a corrupt promoter so he and his purported buying group would purchase shares of Redfin stock in the open market.
3. Unbeknownst to the Defendants, the corrupt promoter was a witness cooperating with the FBI.
4. The Defendants engaged in this scheme in an effort to generate the appearance of market interest in Redfin, induce public purchases of Redfin stock, and artificially increase the stock's trading price and volume.
5. As a result of the conduct described in this Complaint, the Defendants violated Section 17(a)(1) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a)(1); and Section 10(b) and Rule 10b-5(a) and (c) of the Securities Exchange Act of 1934 ("Exchange

Act”), 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(a) and (c). Unless restrained and enjoined, they are reasonably likely to continue to violate the federal securities laws.

6. The Commission respectfully requests that the Court enter: (a) a permanent injunction restraining and enjoining the Defendants from violating the federal securities laws; (b) an order directing the Defendants to pay disgorgement with prejudgment interest; (c) an order directing the Defendants to pay civil money penalties; (d) an order barring Schultz from participating in any offering of a penny stock; and (e) an order barring Schultz from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

## **II. DEFENDANTS**

7. During the relevant time period, Schultz was Redfin’s president and CEO. He resides in Ft. Lauderdale, Florida.

8. During the relevant time period, Redfin was a Nevada corporation headquartered in Ft. Lauderdale. Redfin purported to be a provider of payment transaction processing solutions marketed to and utilized by traditional and Internet e-commerce merchants. Redfin’s common stock was quoted on the OTC Link operated by OTC Markets Group, Inc. under the symbol “RFNN.” Redfin’s common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act, and Redfin became subject to Section 13(a) reporting obligations. Redfin’s most recent filing was a Form 10-Q for the period ending September 30, 2012, filed on November 9, 2012.

9. Redfin’s stock is a “penny stock” as defined by the Exchange Act. At all times relevant to this Complaint, the stock’s shares traded at less than 8.36 cents per share. During the

same time period, Redfin's stock did not meet any of the exceptions to penny stock classification pursuant to Section 3(a)(51) and Rule 3a51-1 of the Exchange Act. For example, Redfin's stock did not trade on a national securities exchange and was not an "NMS stock," as defined in 17 C.F.R. § 242.600(b)(47). Furthermore, Redfin did not have net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of \$5,000,000; and did not have average revenue of at least \$6,000,000 for the last three years. *See* Exchange Act, Rule 3a51-1(g).

### **III. JURISDICTION AND VENUE**

10. The Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d) and 77v(a); and Sections 21(d) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78aa.

11. This Court has personal jurisdiction over the Defendants, and venue is proper in the Southern District of Florida, because Schultz resides in and Redfin is headquartered in the District. Also, many of the Defendants' acts and transactions constituting violations of the Securities Act and the Exchange Act occurred in the District. For example, Schultz, on behalf of Redfin, met with the cooperating witness in Ft. Lauderdale on July 29, 2011 and August 1, 2011 to pay him for participating in the manipulation scheme.

12. The Defendants, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce, or of a means or instrumentality of interstate commerce, or of the mails, in connection with the conduct alleged in this Complaint.

#### **IV. THE FRAUDULENT SCHEME**

13. On July 18, 2011, Schultz, who was then the president and CEO of Redfin, met with the cooperating witness to discuss a possible market manipulation scheme involving Redfin stock.

14. The scheme Schultz and the cooperating witness discussed during the meeting would work as follows: (a) the cooperating witness and his group would buy publicly-traded shares of Redfin stock in the open market; (b) the stock purchases would be coordinated with press releases that Schultz arranged to be issued on Redfin's behalf; and (c) Schultz would provide the cooperating witness with drafts of these press releases in advance of their public dissemination.

15. During their meeting, Schultz and the cooperating witness also discussed that the cooperating witness would "bring in the buying" that would attract "new players," and Schultz remarked that "buying begets buying." Schultz also claimed that people he knew would support the scheme, and that these people would help arrange the purchase of Redfin stock from the cooperating witness and his group when they wanted to sell.

16. During the meeting, Schultz also told the cooperating witness he wanted to increase the liquidity of Redfin stock and get the share price "to that 10 cent mark."

17. In exchange for the cooperating witness's agreement that he and his purported buying group would purchase Redfin stock in the open market, Schultz agreed to provide the cooperating witness with an inducement payment of 25% of the amount that the cooperating witness paid for the Redfin stock.

18. On July 27, 2011, Schultz agreed to pay the cooperating witness \$8,000 in exchange for his and his buying group's purchase of \$32,000 worth of Redfin stock in the open market.

19. On July 28, 2011, the FBI purchased a total of 25,605 shares of Redfin on the open market at 5.7 cents per share for a total cost of approximately \$1,459.

20. On July 29, 2011, the FBI purchased 78,513 shares of Redfin in the open market at prices per share ranging between 6.9 and 7.45 cents, for a total cost of approximately \$5,604. That same day, Schultz met with the cooperating witness in Ft. Lauderdale and gave him \$3,000 in cash toward the agreed-upon inducement payment.

21. On August 1, 2011, the FBI purchased a total of 225,000 shares of Redfin on the open market at prices per share ranging between 7.2 and 8.25 cents, for a total cost of approximately \$17,557.

22. Also on August 1, 2011, Schultz met with the cooperating witness in Ft. Lauderdale and gave him \$5,000 in cash toward the agreed-upon inducement payment. That same day, Schultz sent the cooperating witness a text message that Redfin would issue a "good" press release the following morning.

23. On August 2, 2011, Redfin issued a press release forecasting strong growth of its products and services. Redfin issued this press release to create the false impression that the buying activity was spurred by positive news about Redfin.

24. Also on August 2, 2011, the FBI purchased a total of 20,000 shares of Redfin on the open market at 8.35 cents per share, for a total cost of approximately \$1,670.

25. On August 26, 2011, Schultz told the cooperating witness he wanted to do another program involving Redfin stock the following month. Ultimately, however, there were no further transactions.

### **COUNT I**

#### **Fraud In Violation of Section 17(a)(1) of the Securities Act**

26. The Commission realleges and incorporates paragraphs 1 through 25 of its Complaint.

27. From July through August 2011, the Defendants, directly and indirectly, by use of any means or instruments of transportation or communication in interstate commerce and by use of the mails, in the offer or sale of securities, as described in this Complaint, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

28. By reason of the foregoing, the Defendants, directly and indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a)(1).

### **COUNT II**

#### **Fraud in Violation of Section 10(b) and Rule 10b-5(a) and (c) of the Exchange Act**

29. The Commission realleges and incorporates paragraphs 1 through 25 of its Complaint.

30. From July through August 2011, the Defendants, directly and indirectly, by the use of any means and instrumentality of interstate commerce, and of the mails in connection with the purchase or sale of securities, knowingly, willfully or recklessly:

- (a) employed devices, schemes or artifices to defraud; or

(b) engaged in acts, practices and courses of business which have operated, are now operating and will operate as a fraud or deceit upon any person.

31. By reason of the foregoing, the Defendants, directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(a) and (c), 17 C.F.R. §§ 240.10b-5(a) and (c).

### **RELIEF REQUESTED**

**WHEREFORE**, the Commission respectfully requests that the Court:

#### **I.**

#### **Declaratory Relief**

Declare, determine, and find that the Defendants have committed the violations of the federal securities laws alleged in this Complaint.

#### **II.**

#### **Permanent Injunctive Relief**

Issue a Permanent Injunction restraining and enjoining the Defendants, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Section 17(a)(1) of the Securities Act and Section 10(b) and Rule 10b-5(a) and (c) of the Exchange Act, as indicated above.

#### **III.**

#### **Disgorgement**

Issue an Order directing all Defendants to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts or courses of conduct alleged in this Complaint.

IV.

**Penalties**

Issue an Order directing the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d); and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

V.

**Penny Stock Bar**

Issue an Order barring Schultz from participating in any offering of penny stock, pursuant to Section 20(g) of the Securities Act, 15 U.S.C. § 77t(g), and Section 21(d)(6) of the Exchange Act, 15 U.S.C. § 78u(d)(6), for the violations alleged in this Complaint.

VI.

**Officer and Director Bar**

Issue an Order pursuant to Section 20(e) of the Securities Act and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 77t(e) and 15 U.S.C. § 78u(d)(2), barring Schultz from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

VII.

**Further Relief**

Grant such other and further relief as may be necessary and appropriate.

VIII.

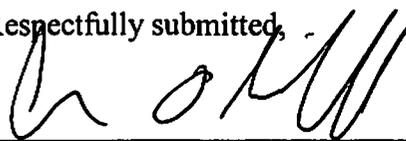
**Retention of Jurisdiction**

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

August 14, 2013

Respectfully submitted,

By:



Andrew O. Schiff  
Senior Trial Counsel  
S.D. Fla. Bar No. A5501900  
Direct Dial: (305) 982-6390  
E-mail: [SchiffA@sec.gov](mailto:SchiffA@sec.gov)  
*Lead Attorney*

Trisha D. Sindler  
Senior Counsel  
Florida Bar No. 0773492  
Telephone: (305) 982-6352  
E-mail: [FuchsT@sec.gov](mailto:FuchsT@sec.gov)

**ATTORNEYS FOR PLAINTIFF  
SECURITIES AND EXCHANGE COMMISSION**  
801 Brickell Avenue, Suite 1800  
Miami, Florida 33131  
Telephone: (305) 982-6300  
Facsimile: (305) 536-4154