

FILED IN OPEN COURT
ON 7/17/12
Julie A. Richards, Clerk
US District Court
Eastern District of NC

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
EASTERN DIVISION

NO. 4:12-CR-88-1H(2)

UNITED STATES OF AMERICA)
)
 v.)
)
STEPHEN A. LaROQUE)

I N D I C T M E N T

The Grand Jury charges that:

INTRODUCTION

I. Stephen A. LaRoque's 17-Year History of Running Federally-Funded Non-Profit Corporations.

1. Defendant, STEPHEN A. LaROQUE ("LaRoque"), graduated from East Carolina University ("ECU") in 1985, with a degree in Business Administration. From 1986 through 1992, LaRoque worked in various managerial positions at NationsBank of North Carolina. In 1992, LaRoque left Nationsbank to attend ECU, where he obtained a Masters of Business Administration in 1993. In January of 1995, LaRoque was hired as a loan officer by the Neuse River Council of Governments ("NR-COG"), in New Bern, North Carolina.

2. NR-COG is a non-profit entity which provides loans funded primarily with federal funds, including funds provided by the United States Department of Agriculture ("USDA") under the Rural Development Division's Intermediary Relending Program ("IRP") and the Rural Business Enterprise Grant ("RBEG") program. LaRoque was hired by NR-COG at a starting salary of \$33,000.

3. On August 5, 1997, LaRoque, while still employed as the loan administer of NR-COG, submitted an application to the USDA in the name of an entity named East Carolina Development Company, Inc. ("ECDC"), requesting a \$2,000,000 loan under the USDA's IRP program ("IRP Loan One").¹ From August 1997, through to the present, ECDC has received ten IRP loans and four RBEG grants from the USDA.²

4. Although LaRoque initially ran ECDC on a volunteer basis, in early 1999, LaRoque left his position at NR-COG and became a paid contractor of ECDC. At the time he left NR-COG, LaRoque was being paid an annual salary of approximately \$46,987.94, to, in his own words, "successfully administer[] . . . a loan portfolio of 99 loans totaling \$15.6 million." As shown in the following table, during LaRoque's tenure at ECDC, he received compensation significantly higher³ than what he was paid at NR-COG for administering a loan portfolio that never exceeded \$4.3 million:⁴

¹LaRoque signed the application as Executive Director of ECDC and listed his home address as ECDC's corporate office.

²Each IRP loan to ECDC was amortized over 30 years and had a fixed rate of one percent interest. In addition, the terms of each loan agreement allowed ECDC to pay only interest during the first three years of each loan. ECDC was not charged interest for the receipt of the RBEG grants.

³During its 2008-2009 fiscal year, ECDC paid LaRoque \$317,800 in compensation, a 676 percent increase from LaRoque's NR-COG salary. During this same period, LaRoque administered a loan portfolio of \$2.4 million, as opposed to the \$15.6 million portfolio he administered at NR-COG.

⁴ECDC's largest loan portfolio was approximately \$4,304,190.33, on or about May 31, 2005.

<u>Fiscal Year</u> <u>10/1 - 9/30</u>	<u>Compensation to</u> <u>LaRoque⁵</u>	<u>Reimbursements</u> <u>to LaRoque</u>	<u>ECDC's Year End</u> <u>Loan Portfolio⁶</u>
1998-99	\$ 18,000	\$ 11,300.26	\$1,197,344
1999-00	53,575	5,690.01	1,255,595
2000-01	70,395	10,677.79	1,646,404
2001-02	100,275	6,898.40	2,778,567
2002-03	124,750	7,389.77	3,265,431
2003-04	109,300	8,338.70	3,806,158
2004-05	187,800	5,923.76	4,148,066
2005-06	107,700	5,175.19	3,130,122
2006-07	195,000	7,980.24	2,904,701
2007-08	135,000	11,303.64	2,358,792
2008-09	317,800	19,761.47	2,397,893
2009-10	291,225	16,478.67	2,355,699
2010-11	122,250	13,283.83	2,338,028
2011-12 ⁷	134,219.38	3,390.12	N/A
Totals	\$1,967,289.38	\$ 133,591.85	

⁵Although LaRoque would often make his ECDC compensation checks payable to an entity named LaRoque Management Group, ECDC's tax returns consistently reported all management compensation as being paid solely to LaRoque in his individual capacity. LaRoque Management Group has never had a contractual relationship with ECDC.

⁶ECDC's 1998-2010 loan portfolios are taken from the "notes receivable" asset disclosed on ECDC's audited financial statements. The loan portfolio for 2010-11 is taken from ECDC's monthly financial records.

⁷The amounts shown for this period do not include any compensation or reimbursement payments made after June 19, 2012.

II. LaRoque's Success in Obtaining Federal Funding for ECDC from 1999 through Late 2003.

5. As noted above, LaRoque filed ECDC's application for its first IRP loan in August of 1997, before even incorporating ECDC. In the 15 years following ECDC's initial application, LaRoque became very adept at obtaining federal funding for ECDC,⁸ often during times when ECDC was not in need of federal funding. The following chart reflects the amount of funds that ECDC had on hand when it applied for federal funding through the IRP program:

<u>Loan No.</u>	<u>Date (On or about)</u>	<u>IRP Funds Requested⁹</u>	<u>Funds on Hand¹⁰</u>
1.	August 5, 1997	\$2,000,000	None
2.	August 31, 1998	1,000,000	\$ 104,912
3.	September 15, 1999	1,000,000	240,456
4.	March 28, 2001	750,000	907,495
5.	March 18, 2002	750,000	479,504
6.	December 11, 2002	750,000	562,803
7.	February 25, 2004	750,000	391,155
8.	December 23, 2004	750,000	1,101,446

⁸As discussed below, LaRoque created a second non-profit named Piedmont Development Corporation in 2003, for which he was able to obtain both an IRP loan and an RBEG grant.

⁹With regard to IRP Loans One, Three, and Five, the USDA only agreed to loan ECDC a portion of the requested amount.

¹⁰The funds on hand listed in connection IRP Loans Two through Five are taken from the audited financial statement for the close of the fiscal year in which the request was made. The funds on hand listed in connection with IRP Loans Six through Ten are taken from ECDC's monthly financial records.

9.	December 15, 2005	750,000	1,478,787
10.	February 13, 2009	750,000	3,416,103

6. The intent behind the USDA's funding of non-profit entities like ECDC is described as follows in the USDA Website:

The purpose the IRP program is to alleviate poverty and increase economic activity and employment in rural communities. Under the IRP program, loans are provided to local organizations (intermediaries) for the establishment of revolving loan funds.

Under the IRP program, a recipient, referred to as an "Intermediary," is granted a federally-funded low interest loan and allowed to re-loan the money to persons and businesses in rural communities at whatever interest rates can be negotiated.¹¹

7. Once an IRP loan is closed, the loan proceeds are required to remain with the USDA until the Intermediary's board and the USDA approve the loan to the ultimate recipient. Once approved, the USDA disburses the IRP loan proceeds to the Intermediary's bank account. The Intermediary then disburses the proceeds to the ultimate recipient. Due to this procedure, it often took ECDC several months to receive all the proceeds of an IRP loan. Of the \$6,717,980 in approved USDA IRP loans that

¹¹According to USDA Regulations, "[f]inancial assistance from the intermediary to the ultimate recipient must be for business facilities and community development projects in rural areas." 7 C.F.R. § 1951.853(b)(1). The Regulations further state that rural area includes "[a]ll territory of a State that is not within the outer boundary of any city having a population of 25,000 or more" 7 C.F.R. § 4274.302(a).

LaRoque was able to obtain for ECDC, ECDC received disbursement of \$6,134,480.¹²

8. Under the IRP program, the principal and interest repaid to the Intermediary by ultimate borrowers is required to be segregated into a bank account often called an "IRP revolving fund" and only used to pay reasonable administrative costs and to make additional loans to small rural businesses.

9. In order to ensure that excess administrative costs are not paid with revolved funds, the USDA imposes the following requirement on the Intermediary:

The intermediary must submit an annual budget of proposed administrative costs for Agency approval. The amount removed from the IRP revolving fund for administrative costs in any year must be reasonable, must not exceed the actual cost of operating the IRP revolving fund, including loan servicing and providing technical assistance, and must not exceed the amount approved by the Agency [USDA] in the intermediary's annual budget.

7 C.F.R. § 4274.332(b)(2). In addition to this limitation, the USDA requires an Intermediary to provide an annual audit of the Intermediary's activities to the USDA within 90 days following the end of the Intermediary's audit period. 7 C.F.R. § 1951.883(a)(1).

10. On August 20, 1997, following the submission of ECDC's application for IRP Loan One, LaRoque filed Articles of Incorporation with the North Carolina Secretary of State creating

¹²To date, ECDC has only drawn \$166,500 on its last authorized IRP loan.

ECDC.¹³ LaRoque listed himself as both the registered agent and sole incorporator of ECDC and listed ECDC's registered office as his home address.

11. On October 7, 1997, LaRoque, as Executive Director, held the first meeting of ECDC's Board of Directors ("ECDC Board") at the Kinston Country Club, in Kinston, North Carolina. The minutes from the meeting reflect the presence of four directors and LaRoque, who is identified as "Staff." After presenting a slate of three officers, which was unanimously approved, the Board adopted Bylaws of the East Carolina Development Company, Inc. ("ECDC Bylaws").

12. The ECDC Bylaws include the following provisions: (a) a listing of a ten county development area ("ECDC Development Area") to be served by ECDC (see ECDC Bylaws Art. II, Sec. 2); (b) a prohibition against any member¹⁴ of ECDC "own[ing] any financial interest in any project receiving assistance from . . ." ECDC (see ECDC Bylaws Art. II, Sec. 3); (c) a prohibition against any member of ECDC's Board being "an officer, director or owner of any business receiving direct assistance from . . ." ECDC (see ECDC Bylaws Art. III, Sec. 5); (d) a requirement that "forty percent of

¹³On June 8, 1998, ECDC amended its Articles of Incorporation to make some technical changes necessary to qualify for federal tax exempt status.

¹⁴On February 2, 1998, the Bylaws were amended to replace references to the word "member" with the word "director." In addition, some technical changes were made in order to allow ECDC to be eligible for tax exempt status under North Carolina law.

Directors then in office shall be necessary to constitute of [sic] quorum of the transaction of business; provided, however, that in no event shall a quorum be less than four (4) directors. . . ." (see ECDC Bylaws Art. IV, Sec. 5); (e) a requirement that each director be provided with three days written notice prior to any Board meeting (see ECDC Bylaws Art. V, Sec. 3); and (f) a provision stating that any Director that misses "three consecutive meetings or 50% of meetings held during the year will be considered as having resigned" (see ECDC Bylaws Art. II, Sec. 9).

13. In addition to providing the USDA with copies of ECDC's organizational documents (including ECDC's Bylaws), LaRoque also provided the USDA with a Work Plan ("ECDC Work Plan") for consideration in determining whether to make IRP Loan One to ECDC. In the ECDC Work Plan, LaRoque represents that ECDC will be operated by a ten member Board of Directors and that each loan will be approved by "a Loan Review Committee which is made up of 10 voting members of the Board of Directors." The Work Plan also requires that a majority of the Board members must vote in favor of each loan in order for approval. In addition, the ECDC Work Plan represents that ECDC will only make loans to borrowers from cities having a population of less than 25,000, will not make a loan to a borrower who could otherwise obtain the loan from a private lender, and will limit the total amount of loans made to any ultimate recipient to \$150,000.

14. In the portion of the ECDC Work Plan entitled "Ineligible Use of Proceeds - Intermediary," ECDC represents that it will not make loans for the purpose of assisting "principals, directors, officers and employees of ECDC and its affiliate organizations. Conflict of interest or the appearance of conflict of interest must be avoided."

15. On November 17, 1997, while its IRP Loan One application was still pending with the USDA, ECDC submitted an application to the USDA for an RBEG grant of \$120,000 ("RBEG Grant One"). As part of its application, ECDC executed a document entitled "Assurances - Non-Construction Programs" agreeing as follows:

[That ECDC] will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.

The RBEG program, which, like the IRP program, is administered by the USDA, provides grants to public bodies and private nonprofit corporations for use in financing small and emerging rural businesses. Unlike funds received under the IRP program, RBEG funds are given to the Intermediary at no cost. The Intermediary lender is allowed to negotiate a rate of interest to charge the ultimate recipient, but, as is the case with IRP funds, can only use the principal and interest payments from such borrowers to pay reasonable operational costs and make additional loans to small rural businesses.

16. On April 2, 1998, ECDC held a Board meeting at the Kinston Country Club during which it was announced that the USDA had approved the IRP Loan One in the amount of \$500,000 and the RBEG Grant One in the amount of \$90,000. The USDA Regulations governing the servicing and collection of loans funded by IRP loans and RBEG grants are contained in 7 C.F.R. Section 1951. In a Section entitled "Conflict of Interest," the regulations state as follows:

The intermediary will, for each proposed loan to an ultimate recipient, inform Rural Development in writing and furnish such additional evidence as Rural Development requests as to whether and the extent to which the intermediary or its principal officers (including immediate family) hold any legal or financial interest or influence in the ultimate recipient or the ultimate recipient or any of its principal officers (including immediate family) holds any legal or financial interest or influence in the intermediary. Rural Development shall determine whether such ownership, influence or financial interest is sufficient to create a potential conflict of interest. In the event Rural Development determines there is a conflict of interest, the intermediary's assistance to the ultimate recipient will not be approved until such conflict is eliminated.

7 C.F.R. § 1951.867.

17. During ECDC's April 2, 1998, Board meeting, LaRoque, as Executive Director, presented a three-year projected budget which included no compensation for staff during ECDC's first three years of existence. The Board authorized reimbursement to LaRoque for expenses that he had incurred on behalf of ECDC. The Board also

authorized LaRoque to make three loans using the USDA funds. All of the proceeds of the IRP Loan One and the RBEG Grant One were fully disbursed to ECDC and lent to ultimate recipients by the end of June 1998.

18. In mid-1998, ECDC sought an Internal Revenue Service ("IRS") ruling that it was tax exempt for federal tax purposes. On May 15, 1998, the IRS sent two letters to ECDC requesting information that was required by the IRS prior to ruling on ECDC's request for tax exempt status. One area of the IRS inquiry pertained to conflict of interest procedures that ECDC planned to use in setting compensation for ECDC's governing body. ECDC responded to the IRS's inquiry as follows:

[ECDC] currently has no employees. The Executive Director, Stephen LaRoque, works for the organization on a volunteer basis. He is reimbursed for actual expenses only such as travel and per diem. At such time as ECDC is financially able to support salaried employees, our policy will be as follows:

Any salaries, wages, together with fringe benefits or other forms of compensation (housing, transportation and other allowances) paid to or provided our employees, directors or officers will not exceed a value which is reasonable and commensurate with the duties and working hours associated with such employment and with the compensation ordinarily paid persons with similar positions or duties.

19. ECDC further informed the IRS that "[n]o members of the [ECDC's] governing body receive payments from the organization either directly or indirectly through financial interests in

organizations with which we do business." The IRS also requested the following information regarding conflict procedures that would be used in determining compensation to ECDC's governing body:

Will members of the governing body make decisions about compensation of employees and other parties providing services to the organization? If so, fully explain how officers and directors who are also employees of the organization salaries will be determined. . . . Provide a statement signed by all your officers and directors under penalty of perjury that officers and directors that are also employees will not take part in determining and voting on the salaries they or others will receive.

In response to this question, ECDC responded that "no officers receive compensation."

20. By letter dated June 25, 1998, ECDC was granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The letter further noted that as a tax exempt organization, ECDC was required to file a Form 990 Return of Organization Exempt from Income Tax ("Form 990") on the 15th day of the fifth month after the end of ECDC annual accounting period.¹⁵ The IRS also informed ECDC that it should provide notice to the IRS if it changed its "purposes, character, or method of operation" and that ECDC should provide the IRS with any amendment to ECDC's Bylaws. Finally, the IRS informed ECDC as follow:

¹⁵Because ECDC's operates on a fiscal year running from October 1st through the following September 30th, it's Form 990 is due on the February 15th following the end of each fiscal tax year.

To assure your continued exemption, you should keep records to show that funds are spent only for those [tax exempt] purposes. If you distribute funds to other organizations, your records should show whether they are exempt under section 501(c)(3). In cases where the recipient organization is not exempt under section 501(c)(3), you must have evidence that the funds will remain dedicated to the required purposes and that the recipient will use the funds for those purposes.

21. On August 31, 1998, ECDC filed an application with the USDA for a \$1,000,000 IRP Loan ("IRP Loan Two"). In support of its application, ECDC represented that it had eight Directors and that it had budgeted \$35,000 to be paid to its Executive Director for the 1998-1999 tax year. ECDC also represented that it does not loan to "any concern in which an officer, director . . . or proprietor . . ." of ECDC has a "substantial interest." Included with the loan application were copies of ECDC's Bylaws and a certification that ECDC "will operate in accordance with the Work Plan previously submitted in IRP loan application dated August, 1997."

22. On November 20, 1998, the ECDC Board had a meeting at the Kinston Country Club. LaRoque, who was still employed by NR-COG, attended the meeting as unpaid staff. During the meeting, the ECDC Board voted to amend its Bylaws to include term limits for its Directors. During the meeting, LaRoque reviewed a proposed 1998-99 budget which included an allocation of \$18,000 for "Contracted

Services - Executive Director."¹⁶ The Board approved the budget noting that "[e]xpenses include payments to the Executive Director in the event he terminates his current employment with the Neuse River Council of Governments."

23. LaRoque left his position at NR-COG in early 1999. On February 16, 1999, the ECDC Board had a meeting at the Kinston Country Club, during which the Board approved a contract hiring LaRoque as an independent contractor to operate ECDC in exchange for \$18,000 per year. The contract, which obligated ECDC to provide LaRoque with pay for the work he performed as a volunteer from October of 1998, through to his hiring date, also provided that LaRoque would be "reimbursed for all expenses directly related to particular projects. These expenses shall be pre-approved by ECDC."

24. On April 30, 1999, the USDA approved the IRP Loan Two in the amount of \$1,000,000. All of the proceeds of the IRP Loan Two were fully disbursed to ECDC and lent to ultimate recipients by the end of November 22, 1999. In accordance with ECDC's Work Plan, each loan made by ECDC in connection with IRP Loan Two was preapproved by ECDC's Board.

25. On August 24, 1999, the ECDC Board met at the Kinston Country Club. According to the Board meeting minutes:

¹⁶There is no mention in the minutes as to why the amount budgeted to be paid to LaRoque is less than the amount reflected in the IRP Loan One application.

Mr. LaRoque reminded the Board that his contract for services expires on September 30, 1999. The Board authorized . . . [the "Board President"] to pursue a new contract with Mr. LaRoque after consultation with other Directors.

The Board President agreed that ECDC pay LaRoque yearly compensation equal to three percent of program assets being administered (which was estimated by the parties to be \$48,000 in light of the loans ECDC anticipated making throughout the year). The Board President noted that the compensation agreement would need to be revisited once ECDC administered program assets reached about \$2-3 million. It also appears that the Board President agreed that LaRoque would be entitled to reimbursement for loan-related expenses pre-approved by ECDC's Board.

26. On September 15, 1999, ECDC filed an application with the USDA for another \$1,000,000 IRP Loan ("IRP Loan Three"). Included in the loan application were copies of ECDC's Bylaws and a certification that ECDC "will operate in accordance with the Work Plan previously submitted in IRP loan application dated August, 1997." In support of its application, ECDC represented that it had eight Directors and that it had budgeted \$48,000 to be paid to its Executive Director for the 1999-2000 tax year. ECDC also represented that it does not loan to "any concern in which an officer, director . . . or proprietor . . ." of ECDC has a "substantial interest."

27. On November 8, 1999, ECDC submitted an application with the USDA seeking a second RBEG grant in the sum of \$99,100 ("RBEG Grant Two"). In support of this application, ECDC certified that its would "establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain." ECDC also represented that it does not loan to "any concern in which an officer, director . . . or proprietor . . ." of ECDC has a "substantial interest."

28. Although the terms of LaRoque's compensation contract were never directly approved by the Board, and a signed copy of the contract does not exist, on November 16, 1999, the ECDC Board met at the Kinston Country Club and approved a budget for the fiscal year 1999-2000 which included an increase in the contract payment to LaRoque from \$18,000 to \$48,000. At this meeting, the Board followed LaRoque's proposal and added his brother ("LaRoque's Brother") as a Director.

29. On May 2, 2000, the ECDC Board had a meeting at the Kinston Country Club during which LaRoque informed the Board that the IRP Loan Three, in the sum of \$500,000, had been closed and that the RBEG Grant Two, in the sum of \$99,100 had been approved by the USDA. The proceeds from the IRP Loan Three were fully disbursed by the USDA to ECDC by March of 2001. The proceeds of RBEG Grant Two were fully disbursed to ECDC on December 5, 2001,

and then loaned by ECDC to the ultimate recipient on December 10, 2001.

30. On March 22, 2001, the Board held a Director's meeting at the Kinston Country Club that was attended by four Directors (including LaRoque's brother) and LaRoque as ECDC's staff. During the meeting, the Board approved an amendment to ECDC's Bylaws which made the following changes: (a) changed the quorum requirement for Board meetings from "in no event shall a quorum be less than four (4) Directors," to "in no event shall a quorum be less than four (3) [sic] Directors" (ECDC Bylaws Art. IV, Sec. 5); (b) changed the officers of ECDC from "President, Vice President, Secretary/Treasurer" to "Chairman, Vice Chairman, President, Secretary/Treasury" (ECDC Bylaws Art. V, Sec. 1); (c) excluded the office of President from term limitations (ECDC Bylaws Art. V, Sec. 1); and (d) changed the name of the staff position from "Executive Vice President" (ECDC Bylaws Art. V, Sec. 9) to "Executive Director" (ECDC Bylaws Art. V, Sec. 9). Although not contained in the revised ECDC Bylaws, the minutes of the Board meeting state that "the Executive Director shall serve as the President of the corporation and a Director" There is not any discussion reflected in the ECDC Board minutes regarding the apparent attempt to change the quorum requirement.

31. At this same Board meeting, ECDC approved a budget authorizing payment to LaRoque during the 2000-2001 fiscal year of

\$70,000. The Board also approved a loan of \$150,000 to Susan's Carpet and Interiors, Inc., d/b/a The Flooring Gallery ("Susan's Carpet"), which was owned by the woman who LaRoque would married on July 7, 2007 ("Susan's Carpet Owner"). According to ECDC's audited financial statements, during the period from its inception through September 30, 2001, ECDC made approximately 19 loans. Eighteen of the loans charged interest at annual rates of between 8 and 9.5 percent. The loan to Susan's Carpet, charged interest at an annual rate of 4.3 interest. Both LaRoque and the Susan's Carpet Owner provided certifications in support of the loan advance request stating that no officer of ECDC had any "legal or financial interest or influence in the ultimate recipient [Susan's Carpet]."

32. On or about March 28, 2001, ECDC submitted an application for a fourth IRP loan ("IRP Loan Four") in the amount of \$750,000. In the application, ECDC represented that LaRoque served as Executive Director and was budgeted to receive \$60,000 from ECDC during the fiscal year ending September 30, 2001. ECDC also represented that it does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest" and that ECDC would continue to operate in accordance with the original ECDC Work Plan.

33. On May 7, 2001, Susan's Carpet installed carpet in LaRoque's home, a portion of which was being used by LaRoque to operate his sole-proprietorship (LaRoque Management Group) and

ECDC. The invoice for the work, in the sum of \$414.63, was paid by ECDC.

34. On June 7, 2001, LaRoque was informed, by letter, that the USDA had agreed to make the \$750,000 IRP Loan Four to ECDC. The loan proceeds under this loan were fully disbursed to ECDC by May 28, 2002.

35. During the fall of 2001, LaRoque started making a number of loans to ultimate recipients without obtaining prior ECDC Board approval as was required pursuant to ECDC's Bylaws and ECDC's Work Plan.

36. On December 12, 2001, Susan's Carpet made a payment of \$150,000 in full payment of its ECDC loan. On January 9, 2002, the ECDC Board had a meeting at the Kinston Country Club. During this meeting, the Board granted a motion submitted by LaRoque and added the Susan's Carpet Owner to ECDC's Board. The Board then granted a number of large loans that LaRoque had made, without Board approval, to some ultimate recipients. The Board also approved a budget for ECDC 2001-2002 fiscal year which increased LaRoque's compensation to \$95,000.

37. On or about March 18, 2002, LaRoque filed an application for a fifth IRP loan ("IRP Loan Five") in the amount of \$750,000. In the application for IRP Loan Five, ECDC represented that LaRoque served as Executive Director and was budgeted to receive \$95,000 from ECDC during the fiscal year ending September 30, 2002.

LaRoque also represented that ECDC would continue to operate in accordance with it's the original ECDC Work Plan and that ECDC does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest."

38. On May 24, 2002, the ECDC Board had a meeting at the Kinston Country Club. During this meeting, the Board granted LaRoque's request to confirm a number of large loans that he had made, without Board approval, to a number of ultimate recipients.

39. On July 7, 2002, a Statement of Organization was filed with the North Carolina State Board of Election creating "Stephen LaRoque for NC House" and listing the Susan's Carpet Owner as treasurer of his campaign.

40. On September 20, 2002, LaRoque faxed a letter to the USDA stating that ECDC had become aware that the USDA would likely be limiting IRP Loan Five to \$217,000, rather than the requested \$750,000. LaRoque then stated that ECDC "is willing to accept these funds with the understanding that it can apply for subsequent loan funds in the next fiscal year (beginning October 1, 2002)." At the time of LaRoque's telefax, ECDC had cash available in the sum of approximately \$479,504. On September 30, 2002, the USDA approved IRP Loan Five in the sum of \$217,980. The loan proceeds for this loan were fully disbursed by December 11, 2002.

41. On October 30, 2002, LaRoque filed an application for a third RBEG loan in the amount of \$99,900 ("RBEG Grant Three"). Attached to the grant application was a certification signed by LaRoque stating that ECDC would "establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain."

42. On November 5, 2002, LaRoque was elected to the North Carolina House of Representative for North Carolina's Tenth District.

43. On December 12, 2002, LaRoque filed an application with the USDA for a sixth IRP loan in the amount of \$750,000 ("IRP Loan Six"). In response to question 12 of the application, LaRoque listed himself as President of ECDC, but left the box for "Annual Compensation" empty. However, it does appear that the USDA was provided with an ECDC proposed budget which lists "salaries" for 2002-2003 as \$118,200 and "contract services" as \$1,500. LaRoque also represented that ECDC would continue to operate in accordance with the original ECDC Work Plan and that ECDC does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest."

44. On April 28, 2003, the ECDC Board had a meeting at the Kinston Country Club. During this meeting, the Board approved a

budget for ECDC 2002-2003 fiscal year which increased LaRoque's compensation to \$125,000.

45. On May 12, 2003, the USDA approved RBEG Grant Three to ECDC in the sum of \$99,900. This amount was disbursed to ECDC on June 3, 2003.

46. On August 26, 2003, ECDC IRP Loan Six, in the amount of \$750,000, was formally approved by the USDA. The proceeds from this loan were disbursed during the period from September 30, 2003, through May 17, 2004.

III. LaRoque's Operation of ECDC and Piedmont Development Corporation from late 2003, through December 2005.

47. In the fall of 2003, LaRoque created a non-profit entity named Piedmont Development Company, Inc. ("PDC") which was based on ECDC's organizational structure, but intended to operate in eleven western North Carolina counties ("PDC Development Area"). On September 30, 2003, LaRoque held the first meeting of the Board of Directors of PDC. The directors at the first meeting consisted of LaRoque, the ECDC director who was co-signatory with LaRoque on ECDC checks ("ECDC Co-Signatory Director"), and a sitting North Carolina State Senator from the PDC Development Area ("State Senator"). The PDC Board adopted Bylaws and then passed a Resolution authorizing LaRoque to seek a \$1 million IRP loan and a \$250,000 RBEG grant.

48. PDC's Bylaws, which are almost identical to ECDC's Bylaws, include the following: (a) a listing of the eleven county development area to be served by PDC (see PDC Bylaws Art. II, Sec. 1); (b) a prohibition against any director of PDC "own[ing] any financial interest in any project receiving assistance from . . . " PDC (see PDC Bylaws Art. II, Sec. 3); (c) a prohibition against any member of PDC's Board member being "an officer, director or owner of any business receiving direct assistance from . . ." PDC (see PDC Bylaws Art. III, Sec. 4); (d) a requirement that "forty percent of directors then in office shall be necessary to constitute a quorum of the transaction of business; provided, however, that in no event shall a quorum be less than four (3) Directors. . ." (see PDC Bylaws Art. IV, Sec. 5); (e) a requirement that each director be provided with three days written notice prior to any Board meeting (see PDC Bylaws Art. IV, Sec. 3); (f) a provision stating that any Director that misses "three consecutive meetings or 50% of meetings held during the year will be considered as having resigned" (see PDC Bylaws Art. II, Sec. 9); and (g) a provision excluding the President of PDC from term limitations (PDC Bylaws Art. V, Sec. 2).

49. On September 30, 2003, LaRoque, as President and Intermediary Contact Person for PDC, filed a loan application requesting a \$1,000,000 IRP loan ("PDC IRP Loan One"). In the application, LaRoque represented that PDC does not "loan to . . .

any business or organization in which an officer, director, or member of the intermediary [PDC] has a substantial interest." LaRoque also submitted a Work Plan in support of the PDC IRP Loan One representing that PDC would be operated by a board consisting of members from each of the 11 counties listed in the PDC Development Area. LaRoque also represented that PDC had "a prospect list with over 300 companies listed that need funding"

50. LaRoque formally incorporated PDC on October 3, 2003. In support of PDC's application for tax exempt status with the IRS, LaRoque stated the PDC would use his services to manage funds received from the USDA and that he "is intimately familiar with all USDA rules and regulations governing USDA small business grant and loan programs." PDC was granted Section 501(c)(3) tax exempt status in June of 2004.

51. On November 7, 2003, LaRoque, as President for PDC, filed a loan application requesting a \$250,000 RBEG Grant ("PDC RBEG Grant"). In support of PDC's application, LaRoque signed a certification which stated that PDC would "establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain."

52. On February 25, 2004, LaRoque filed an application with the USDA for a seventh ECDC IRP loan in the amount of \$750,000

("IRP Loan Seven"). In the application, LaRoque left the box for his annual compensation blank. LaRoque also represented that ECDC would continue to operate in accordance with the original ECDC Work Plan and that ECDC does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest." The IRP Loan Seven was closed on July 23, 2004, and fully disbursed to ECDC during the period from August 27, 2004, through April 21, 2005.

53. In late April of 2004, PDC held a Board meeting during which the PDC Board authorized LaRoque to close the PDC IRP Loan One which LaRoque had applied for in September of 2003. According to the State Senator, at some point during this period she was involved in a discussion regarding a compensation package for LaRoque based on three percent of administered assets.

54. On May 4, 2004, the ECDC Board had a meeting at the Kinston Country Club. During this meeting, the Board approved a budget for ECDC 2003-2004 fiscal year which increased LaRoque's compensation to \$130,000. The Board also granted LaRoque's request to confirm a number of large loans that he had made without Board approval.

55. On September 10, 2004, the PDC IRP Loan One, in the amount of \$750,000, was closed. Notwithstanding the 300 prospective borrowers that LaRoque represented to the USDA, PDC was not able to make its first loan until December of 2005, and was

never able to find enough borrowers to fully draw on the entire \$750,000 loan.

56. In September of 2004, LaRoque incorporated his sole-proprietorship, LaRoque Management Group, and renamed it LaRoque Management Group, Inc. ("LMG"). LMG hired a part-time clerical assistant who was employed until approximately February of 2007. Following his incorporation of LMG, LaRoque began writing many of his pay checks from ECDC as payable to LMG.

57. On November 2, 2004, LaRoque was re-elected to the North Carolina House of Representatives for North Carolina's Tenth District.

58. On December 23, 2004, LaRoque, as President of and contact person for ECDC, filed an application with the USDA for an eighth IRP loan in the amount of \$750,000 ("IRP Loan Eight"), notwithstanding the fact that ECDC had approximately \$1.4 million in revolved funds on hand. In the application, LaRoque left the box for his annual compensation blank. LaRoque represented that ECDC would continue to operate in accordance with the original ECDC Work Plan and that ECDC does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest." IRP Loan Eight was closed on June 15, 2005, and disbursed during the period from July 28, 2005, through May 11, 2006.

59. On January 21, 2005, the ECDC Board had a meeting at the Kinston Country Club. During this meeting, the Board approved a budget for ECDC 2004-2005 fiscal year which increased LaRoque's compensation to \$136,000. The Board also granted LaRoque's request to confirm a number of loans that he had made without Board approval.

60. In April of 2005, LaRoque purchased a new black 2005 Toyota Avalon for \$37,729 at Massey Motor Company in Kinston, North Carolina. Rather than finance the car purchase, LaRoque was able fully pay the \$37,729 purchase price by undertaking the following series of financial transactions:

- (a) Tuesday, March 29, 2005. ECDC check number 1973, dated March 29, 2005, in the sum of \$12,900, was made payable to LMG. The check, which was deposited into LMG's First South Bank checking account, increased LMG's account balance to \$17,125.08 on March 31, 2005. On this same date LMG wrote checks totaling \$5,614.77, reducing LMG's balance to \$11,510.31;
- (b) Thursday, March 31, 2005. ECDC check number 1974, dated March 31, 2005, in the sum of \$24,100, was made payable to LMG. The memo line on the check contains the following reference: "02/03 - 03/04 Bonus";
- (c) Friday, April 1, 2005. ECDC check number 1978, dated April 1, 2005, in the sum of \$12,900, was made payable to LaRoque. The memo line on this check read "Feb Pay";
- (d) Friday, April 1, 2005. The \$24,100 check payable to LMG and the \$12,900 check payable to LaRoque (which total \$37,000) were deposited directly into LMG's bank account at First South Bank. These deposits increased LMG's account balance to \$48,510.31;

- (e) Saturday, April 2, 2005. Massey Motor Company acknowledges receipt of LMG's check number 1046, in the sum of \$37,728.50, in full payment of a 2005 black Toyota Avalon; and
- (f) The Toyota Avalon was then registered in LMG's name, in order to facilitate LMG's plan to depreciate it as a business expense thereby reducing LMG's gross income.

61. The ECDC Co-Signatory Director resigned in late 2005 due to his new employment by an economic development entity and in order to allow a partnership in which he held an interest to obtain an ECDC loan. The last ECDC compensation check that is co-signed by the ECDC Co-Signatory Director is dated September 7, 2005.¹⁷

62. On December 12, 2005, LaRoque, as Executive Director and President of PDC, loaned \$100,000 to a daycare facility at 9 percent annual interest. This was the first loan made by PDC in its history.

63. On December 15, 2005, LaRoque, as President of and contact person for ECDC, filed an application with the USDA for a ninth IRP loan in the amount of \$750,000 ("IRP Loan Nine") notwithstanding the fact that ECDC had approximately \$2.8 million in revolved funds on hand. In the application, LaRoque left the box for his annual compensation blank. LaRoque also represented that ECDC would continue to operate in accordance with the original

¹⁷On October 5, 2005, LaRoque did not have a co-signer on a \$12,700 ECDC check to LMG. From November of 2005, through at least August of 2011, compensation checks made payable to LaRoque and LMG were all signed by LaRoque and co-signed by either the Susan's Carpet Owner (who would become his wife in 2007) or LaRoque's Brother.

ECDC Work Plan and that ECDC does not "loan to . . . any business or organization in which an officer, director, or member of the intermediary [ECDC] has a substantial interest." On or about July 23, 2006, the \$750,000 IRP Loan Nine was closed. The proceeds from this loan were fully disbursed to ECDC from October 11, 2006, through October 12, 2010.

IV. LaRoque's Operation of ECDC and PDC from January of 2006, through December of 2008.

64. In or about early 2006, the State Senator, who was a Director of PDC, approached LaRoque about whether she could obtain a loan from PDC to fund her purchase of the building in which her business rented space. LaRoque informed her that she could obtain such a loan, but would need to resign from the PDC Board. In response, the State Senator resigned from the PDC Board.

65. On June 6, 2006, PDC held its first Board meeting since April 29, 2004. According to the minutes from the meeting, LaRoque commenced the meeting, which was attended by LaRoque and the former ECDC Co-Signatory Director, as directors, and LMG's clerical worker, and immediately "confirmed that a quorum was present."¹⁸ LaRoque and the former ECDC Co-Signatory Director, confirmed a \$134,000 loan (of which \$33,750 would be funded by an RBEG grant) to the State Senator for the purchase of a building in which her

¹⁸Accordance to PDC's Bylaws, this meeting did not have a sufficient quorum.

company operated. The loan, which charged 5 percent annual interest, was disbursed to the State Senator on or about July 28, 2006.

66. By the summer of 2006, ECDC's Board consisted primarily of LaRoque, LaRoque's Brother, and the Susan's Carpet Owner. From August of 2006, through August of 2010, 10 of the 13 board meetings held by ECDC were attended by just these three directors. Likewise, during this same period, five of the seven meetings held by the PDC Board were attended by just LaRoque, LaRoque's Brother, and the Susan's Carpet Owner.

67. On September 12, 2006, LaRoque lost a special primary election to determine his party's candidate in the November 7, 2006, election for the North Carolina Representative seat for North Carolina District 10.

68. During that same month, LaRoque wrote the following tax free reimbursement checks from LMG's bank account made payable to himself:

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>	<u>Memo Line</u>
1284	9/18/06	\$ 1,331.36	Expense Reimbursement - January
1285	9/18/06	1,129.47	Expense Reimbursement - February
1286	9/18/06	724.23	Expense Reimbursement - March
1287	9/18/06	1,284.93	Expense Reimbursement - April
1288	9/18/06	1,416.70	Expense Reimbursement - May
1289	9/18/06	2,045.11	Expense Reimbursement - June
1290	9/18/06	1,659.87	Expense Reimbursement - July

1291	9/18/06	675.29	Expense Reimbursement - August
1295	9/22/06	234.90	Expense Reimbursement - December 2004
1296	9/22/06	948.65	Expense Reimbursement - January 2005
1297	9/22/06	1,069.26	Expense Reimbursement - February 2005
1298	9/22/06	976.19	Expense Reimbursement - March 2005
1299	9/22/06	983.19	Expense Reimbursement - April 2005
1300	9/22/06	1,296.93	Expense Reimbursement - May 2005
1301	9/22/06	629.41	Expense Reimbursement - June 2005
1302	9/22/06	769.59	Expense Reimbursement - July 2005
1303	9/22/06	1,034.82	Expense Reimbursement - August 2005
1304	9/22/06	825.42	Expense Reimbursement - September 2005
1305	9/22/06	1,111.16	Expense Reimbursement - October 2005
1306	9/22/06	716.83	Expense Reimbursement - November 2005
1307	9/22/06	1,973.50	Expense Reimbursement - December 2005
1310	9/29/06	1,195.74	Expense Reimbursement - September 2006
1311	9/29/06	111.25	Expense Reimbursement - September 2006
TOTAL		\$24,143.80	

69. After depositing the above-listed checks into his personal bank account, LaRoque, wrote a check on that account, in the sum of \$30,000, payable to LMG, and added the following memo line reference: "Paid In Capital." This payment to LMG increased

LaRoque's stock basis in LMG, which was necessary in order to allow him to deduct a higher portion of LMG's yearly losses against his ordinary income.

70. LMG's 2006 tax return reflected an ordinary business loss of \$99,525. On its 2006 tax return, which was signed by LaRoque under penalty of perjury and filed on or about March 15, 2007, LMG depreciated the 2005 Toyota Avalon (listing the percentage of LMG's business use of such vehicle as 100%) and listed gross receipts of only \$43,034 (failing to account for \$34,666 of the payments from ECDC to LMG).

71. Although ECDC's 2005-2006 budget was neither submitted, nor approved, by the ECDC Board, ECDC paid LaRoque \$107,000 in compensation (\$30,000 to LaRoque and \$77,700 to LMG) and \$5,175.19 in reimbursement expenses (\$1,842.26 to LaRoque and \$3,332.93 to LMG) during this period.

72. On January 7, 2007, the State Senator's campaign committee contributed \$2,000 to LaRoque's campaign committee.

73. In February of 2007, the clerical assistant that had worked for LaRoque at LMG resigned to take a position at another company. LaRoque did not fill this position until approximately January of 2009.

74. On February 8, 2007, LaRoque held a Board of Directors meeting for PDC in Kinston. According to the minutes from the meeting, LaRoque commenced the meeting, which was attended by

LaRoque, the former ECDC Co-Signatory Director, and LaRoque's Brother, and immediately "confirmed that a quorum was present." LaRoque informed the Board that the State Senator had resigned from the Board due to "other obligations." At the meeting, the Board approved a \$120,000 to a Billboard Company. This loan, the third in PDC's history, was advanced on February 12, 2007, at an annual rate of interest of 7.25%.

75. On April 18, 2007, LaRoque held a Board of Directors meeting for PDC in Kinston. According to the minutes, it appears that LaRoque adjourned the meeting as the only director present and then immediately "confirmed that a quorum was present." LaRoque then appointed LaRoque's Brother and the Susan's Carpet Owner to the Board.

76. In April of 2007, LaRoque purchased a 2006 white Toyota Tacoma from Massey Motor Company in Kinston, North Carolina, for \$21,958.84. The car, which had only been driven 288 miles, was put into LMG's name and depreciated against LMG's gross income for a number of years. LaRoque was able to fully pay the \$21,958.84 purchase price using an LMG check dated May 11, 2007. On this same date LaRoque deposited a \$20,000 check from his personal account into LMG.

77. On June 4, 2007, the PDC Board, which consisted of LaRoque, the Susan's Carpet Owner, and LaRoque's Brother, met in Kinston and voted to make a \$150,000 loan to a sitting member of

the North Carolina State House of Representatives ("State Representative") to develop a mobile home park on leased land. The loan was disbursed on or about July 25, 2007, at an annual rate of interest of 6 percent.

78. On July 7, 2007, LaRoque and the Susan's Carpet Owner (hereinafter "LaRoque's Wife") were married.

79. Although ECDC's 2006-2007 budget was neither submitted, nor approved, by the ECDC Board, ECDC paid LaRoque \$195,000 in compensation (\$170,000 to LaRoque and \$25,000 to LMG) and \$7,796.87 in reimbursement expenses (\$2,548.31 to LaRoque and \$5,248.56 to LMG) during this period. Every compensation check written to LaRoque and LMG during this period were signed by LaRoque and co-signed by either LaRoque's Brother or LaRoque's Wife.

80. On LMG's 2007 tax return, which was signed under penalty of perjury and filed on or about April 17, 2008, it depreciated both the 2005 Toyota Avalon and the 2006 Toyota Tacoma (listing the percentage of LMG business use of each vehicle as 100%). LMG reported a \$102,913 loss during the 2007 tax year.

81. During the fiscal year from October 1, 2007, through September 30, 2008, ECDC had two Board meetings and PDC had one Board meeting. The Directors at each of these Board meetings consisted of LaRoque, LaRoque's Wife, and LaRoque's Brother.

82. On November 5, 2007, LaRoque and LaRoque's Wife signed an ECDC check, in the sum of \$10,000, payable to LaRoque.

83. At the sole PDC Board meeting in 2007, which occurred on December 14, 2007, the Board voted to make a \$185,000 loan (\$80,250 of which was funded with an RBEG grant) to the construction company that was leasing the land to the State Representative for a mobile home park. The loan to the construction company, which charged an annual rate of interest of 6%, was funded on or about January 4, 2008. This is the last new borrower to which PDC loaned money.

84. ECDC also held a Board meeting on December 14, 2007, which was attended by LaRoque, LaRoque's Wife, and LaRoque's Brother. During the meeting, the Board reviewed a budget which included \$180,000 to be paid to LaRoque. The budget was unanimously passed by LaRoque, LaRoque's Wife, and LaRoque's Brother.

85. On or about January 10, 2008, LaRoque and LaRoque's Wife signed an ECDC check, in the sum of \$50,000, payable to LaRoque.

86. On or about February 19, 2008, a week before the birthday of LaRoque's Wife, LaRoque made a \$9,269.50 charge on his Visa Credit Card in purchase of the following items of jewelry from Vicci Fine Jewelry in The Forum Shops at Caesars Palace in Las Vegas, Nevada: (a) a "D.40 CTW 18K YG" Brown Enamel Faberge Egg at a cost of \$5,104.50; (b) an "18" WG Link" Blue Enamel Faberge Egg at a cost of \$3,170; (c) an "18K YG Link Chain" at a cost of \$920; and (d) a \$75 postage charge.

87. On Friday, April 4, 2008, LaRoque made an \$11,323.65 e-payment on the balance owed on his Visa Credit Card, which included the amount owed for his \$9,269.50 jewelry purchases in Las Vegas. On Monday, April 7, 2008, LaRoque and LaRoque's Brother executed an ECDC check, in the sum of \$40,000, payable to the LMG. This check was deposited into LMG's bank account. On this same date, a \$40,000 LMG check, was executed by LaRoque and deposited into his personal bank account.

88. On May 8, 2008, LaRoque and LaRoque's Wife executed an ECDC check, in the sum of \$25,000, payable to LaRoque.

89. On June 16, 2008, LaRoque extended a \$50,000 ECDC loan to a attorney in Snow Hill ("Snow Hill Attorney") who had previously represented LaRoque in a defamation lawsuit filed against him. The ECDC check to the Snow Hill Attorney was executed by LaRoque and LaRoque's Wife and made payable to the Snow Hill Attorney and his wife. This loan was funded with revolved IRP funds.

90. On July 24, 2008, LaRoque made a \$17,000 ECDC loan to a one-person long distance trucking company located in Oxford, North Carolina, a city outside of ECDC Development Area.

91. On August 15, 2008, ECDC held a Board meeting which was attended by LaRoque, LaRoque's Wife, and LaRoque's Brother. During the meeting, the Board reviewed the budget for ECDC's 2008-2009 tax year which included \$150,000 to be paid to LaRoque. The budget was unanimously passed by LaRoque, LaRoque's Wife, and LaRoque's

Brother. The Board also granted LaRoque's request to confirm his \$17,000 loan to the Oxford truck driver and to approve a new \$15,000 loan to the Oxford truck driver. The Board minutes do not reflect any discussions about making a loan to a person located outside of ECDC's Development Area.

92. At ECDC's Board meeting on August 15, 2008, LaRoque requested that the Board confirm his earlier loan of \$50,000 to the Snow Hill Attorney and approve a new \$100,000 loan. LaRoque then explained that the purpose of the new loan would be to provide the Snow Hill Attorney with some "working capital for expansion and the opening of an additional office in Greenville, NC." The minutes from this meeting reflect no discussion of the fact that the location of the Snow Hill Attorney's new Greenville office was not located in a "rural" area and, therefore, could not be funded with an ECDC loan. On August 26, 2008, LaRoque wrote to the USDA and requested a \$100,000 disbursement from ECDC IRP Loan Nine for a loan to the Snow Hill Attorney and his wife. In the letter, LaRoque stated the loan's purpose as follows: "The is a law firm located . . . [in] Snow Hill, Greene County, NC. Loans funds will be used for working capital." During his communications with the USDA, LaRoque failed to disclose that the funds were going to be used by the Snow Hill Attorney to open an office in a non-rural area. LaRoque also failed to inform the USDA that only about half of the newly disbursed funds would actually be paid to the Snow

Hill Attorney, with the remaining half being used to payoff the \$50,000 revolved funds loan that LaRoque made to the Snow Hill Attorney without Board approval. Based on the information provided to the USDA, it approved a \$100,000 IRP loan disbursement to ECDC to fund a \$100,000 new loan to the Snow Hill Attorney. On September 2, 2008, a \$100,000 in federal funds were electronically transferred to ECDC's bank account at RBC Centura Bank in Kinston, North Carolina, from the United States Department of Treasury in Washington, DC. After receiving the \$100,000 disbursement from the USDA, LaRoque disbursed the funds as follows: (a) ECDC check number 2576, dated September 3, 2008, in the sum of \$48,529.95, payable to "ECDC for . . . [Snow Hill Attorney and his wife]"; and (b) ECDC check number 2577, dated September 3, 2008, in the sum of \$50,000, payable to the Snow Hill Attorney and his wife.

93. On August 28, 2008, LaRoque and LaRoque's Wife signed an ECDC check, in the sum of \$10,000, payable to LaRoque.

94. On October 1, 2008, LaRoque and LaRoque's Wife signed an ECDC check, in the sum of \$25,000, payable to the LMG. The check was deposited into LMG's bank account. On October 20, 2008, LMG made a \$25,000 loan to the "Committee to Elect Stephen LaRoque" which was paid with a check written against LMG's bank account.

95. On October 1, 2008, LaRoque and LaRoque's Wife signed an ECDC check, in the sum of \$25,000, payable to LaRoque. The check was deposited into LaRoque's personal bank account.

96. On November 4, 2008, LaRoque lost in the general election for the North Carolina House seat for North Carolina District 10.

97. On November 19, 2008, LMG made a \$3,000 loan to the "Committee to Elect Stephen LaRoque" which was paid with a check written against LMG's bank account.

V. Form 990 Tax Returns filed by ECDC and PDC for Periods Prior to 2008-09 Fiscal Year.

98. As noted above, because ECDC and PDC operated as Section 501(c)(3) tax exempt entities for purposes of the Internal Revenue Code, they were required to file Form 990 tax forms each year in which they had at least \$25,000 in gross income. The Form 990s, each of which was signed by LaRoque under penalty of perjury, contained disclosures about the non-profit's officers, directors, and key employees, including compensation earned by such persons. The following table summarizes the information disclosed by ECDC regarding LaRoque's compensation on the listed Form 990s:

<u>ECDC Tax Year</u>	<u>Position and Hours Worked</u>	<u>Compensation</u>
2002-03	Executive Director and President 40 hours per week	\$ 124,750
2003-04	Executive Director 40 hours per week	109,300
2004-05	Executive Director 40 hours per week	187,800
2005-06	Executive Director 40 hours per week	107,035
2006-07	Executive Director 50 hours per week	195,000

2007-08	Executive Director 40 hours per week	135,000
---------	---	---------

99. In none of the above-referenced Form 990s did LaRoque list any deferred compensation owed to him by ECDC.

100. The Form 990s filed by PDC for its 2006-2007 and the 2007-2008 fiscal years, each of which was signed by LaRoque under penalties of perjury, represented that LaRoque worked 20 hours per week in fulfilling his positions at PDC during each year. In each Form 990, LaRoque stated that he earned no compensation for his work at PDC. Likewise, LaRoque did not list in the Form 990s any deferred compensation owed to him by PDC.

VI. LaRoque's Theft of Funds from ECDC and PDC during the Period from 2009 through 2012 to Fund his Personal Financial Obligations.

101. On December 9, 2008, LaRoque used his Visa credit card to purchase \$15,168 worth of jewelry from Liljenquist & Beckstead Jewelers, which is located in Tysons Galleria, McLean, Virginia. The items purchased were as follows:

<u>Description of Item</u>	<u>Price</u>
"FABERGE LARGE BLUE ENAMEL AND DIA EGG. EGG OPENS WITH CROWN INSIDE"	\$ 3,798.00
"FABERGE LRG. LT. BLUE ENAMEL EGG"	2,262.00
"SMALL RED ENAMEL FABERGE WITH GOLD CRISSCROSS DESIGN"	678.00

"LRG RED ENAMEL FABERGE EGG WITH GOLD FRAME ON THE OUTSIDE. DIAMONDS GO AROUND THE CENTERSTYLE"	2,472.00
"FABERGE SMALL PALE YELLOW EGG PENDANT WITH CHAIN . . . 18KT YELLOW GOLD"	804.00
"FABERGE SML LIME GREEN EGG WITH BEZEL SET DIA STYLE"	684.00
"FABERGE OPEN SWIRL EGG WITH CHANNEL SET RUBYS AND 4 DIAMONDS"	1,092.00
"FABERGE TRI COLORED ENAMEL LARIAT NECKLACE WITH THREE EGGS. ONE LT. PEACH, CARK PEACH, AND WINE. GOLD CHAIN HAS 4 ROUND PEACH ENAMEL BALLS"	2,748.00
"FABERGE RED ENAMEL EARRING	630.00

102. On December 11, 2008, LaRoque used his Visa credit card to purchase a "LARGE FABERGE YELLOW ENAMEL EGG WITH A DIA SWIRL IN THE CENTER" at a cost of \$1,284 at Liljenquist & Beckstead Jewelers.

103. LaRoque paid the Visa bill relating to the \$16,452 in jewelry purchases from Liljenquist & Beckstead by making an electronic e-payment from his personal bank account, in the sum of \$18,794.03, on Monday, January 5, 2009. In order to fund this e-payment, LaRoque engaged in the following series of transactions on the previous Friday:

- (a) Friday, January 2, 2009. On this date, LaRoque and LaRoque's Wife executed ECDC check number 2605, in the sum of \$50,000, which was made payable to LMG.

The check was deposited into LMG's bank account at RBC Centura; and

- (b) Friday, January 2, 2009. On this date, LaRoque executed LMG check number 1735, in the sum of \$30,000, which was payable to LaRoque. The check was deposited into LaRoque's personal bank account that was used on Monday, January 5, 2009, to fund the e-payment.

104. By January of 2009, LaRoque's Wife and her daughter from a prior marriage ("Step-daughter One") had begun exploring the possibility of purchasing a business named Bladez on Ice, which was located in Greenville, North Carolina. LaRoque's Wife was planning to sell Susan's Carpet and was willing to apply a portion of the profit from such sale to the purchase of Bladez on Ice.

105. On January 2, 2009, LaRoque's Wife sold Susan's Carpet for the following price: (a) \$265,000 to Susan's Carpet; and (b) \$160,000 to LaRoque's Wife (which was allocated \$150,000 to a non-compete agreement and \$10,000 as a consulting fee).

106. Just prior to January 22, 2009, a former ECDC director who had not attended an ECDC Board meeting since April of 2007 ("Former Director"), was verbally contacted and asked to attend an ECDC Board meeting on January 22, 2009, in ECDC's offices. The meeting was attended by LaRoque, LaRoque's Wife, LaRoque's Brother, and the Former Director. After introducing a recently hired LMG employee to the Board, LaRoque appointed LaRoque's Wife, LaRoque's Brother, and the Former Director to the Board. LaRoque then instructed the LMG employee to leave the room and began addressing

a renewal of his ECDC management contract. LaRoque, without providing copies to the Former Director or LaRoque's Brother, described the contract as a continuation of his previous relationship with ECDC. The Board voted unanimously to approve the contract.

107. Following the ECDC Board meeting, the PDC Board, consisting of LaRoque, LaRoque's Wife, and LaRoque's Brother, held a meeting. According to the minutes, LMG's new staff member was again introduced to the Board. After LMG's new staff member was instructed to leave, the PDC Board, for the first time in its existence, reviewed PDC's financial records. The financial records reflect neither compensation paid to, nor owed to, LaRoque. LaRoque then briefly summarized the terms of a management contract with PDC, which was passed "unanimously with Mr. Stephen LaRoque abstaining."

108. On that same date, LaRoque, in his individual capacity, and LaRoque's Wife, as "Chair" of both ECDC and PDC, signed documents entitled "Agreement." Each purported agreement was made retroactive to the very outset of ECDC and PDC's business operations. The agreements, which are virtually identical, provide LaRoque with the following compensation package:

Contractor's compensation shall be paid monthly and based upon the annual rate of Three per cent (3%) of ECDC's [PDC's] assets. Administration fees shall be payable on the first day of the month services is provided. ECDC [PDC] shall pay contractor one half (½)

of all loan fees collected. ECDC shall pay contractor ten per cent (10%) of annual profit payable in the month following the fiscal year end and is effective as of October 1, 1999 [or, in PDC's case, May 3, 2004].

* * * *

Beginning May 1, 1998 [or, in PDC's case, May 3, 2004], and throughout the period of this agreement, Contractor shall be reimbursed for all expenses.

(emphasis added).

109. Although ECDC's records and the recollection of the State Senator from her short tenure as a PDC board member suggest that LaRoque had discussed annual compensation of three percent of administered assets, there is neither a signed contract nor Board minutes confirming this arrangement (much less an agreement to pay LaRoque three percent of gross assets and a percentage of profits and loan fees). As to PDC, its pre-2009 board minutes and its Form 990s show that PDC's Board never agreed to compensate LaRoque for servicing the small number of loans that PDC was able to generate. As to ECDC, nowhere in the pre-1999 ECDC's Board minutes is there a discussion, much less an approval, of any agreement to provide LaRoque with a percentage of profit and loan fees charged to the ultimate borrowers. Likewise, prior to January of 2009, ECDC had never considered basing LaRoque's compensation on three percent of gross assets. In light of LaRoque's practice of stockpiling cash, such an agreement would have significantly increased his pay over

the years.¹⁹ The purported contract executed by LaRoque and LaRoque's Wife on January 22, 2009, contradicts information regarding compensation contained in the ten IRP applications submitted to the USDA by ECDC.

110. The ECDC and PDC Board actions also violate LaRoque's certification to the USDA that ECDC and PDC ". . . will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain." In addition, the purported contracts violate the USDA regulations limiting payment of contractor fees to reasonable amounts approved by the USDA. As noted above, during its years of operation, ECDC provided yearly budgets to the USDA which did not include contractor compensation based on the terms contained in the renewal contract. PDC never provided the USDA with any budget calling for contractor payments to LaRoque.

111. The purported contracts are also contrary to more than ten years of ECDC Board actions pertaining to budget approvals and the audited financial statements submitted by ECDC and PDC to the USDA through the years. The action of LaRoque and LaRoque's Wife

¹⁹The terms of the purported contract executed by LaRoque and LaRoque's Wife on January 22, 2009, would entitle LaRoque to \$30,000 per year compensation for each \$1 million amount that ECDC managed to stockpile. As of February 1, 2009, LaRoque had stockpiled \$3,416,102 in ECDC's bank accounts. Under the purported agreement, ECDC would be obligated to pay LaRoque additional compensation of \$102,483.07 per year simply for having such amount deposited into bank accounts.

is also contrary to the Form 990s for ECDC and PDC which had been signed by LaRoque under penalty of perjury and filed with the IRS through the years.

112. On February 1, 2009, ECDC had revolved funds available in the sum \$3,416,102.55. Notwithstanding this fact, on February 13, 2009, ECDC submitted an application for a tenth IRP loan in the sum of \$750,000 ("IRP Loan Ten").²⁰ The application, which LaRoque signed as President and Intermediary Contact Person, represents that ECDC "will operate the proposed Intermediary Relending Program loan" in accordance with the original ECDC Work Plan and that ECDC does not "loan to . . . any businesses or organization in which an officer, director, or member of the intermediary has a substantial interest."

113. On February 25, 2009, the owners of Bladez on Ice provided a "Letter of Intent to Sell Business Assets" to LaRoque's Wife and Step-daughter One agreeing to sell Bladez on Ice for \$525,000. Bladez on Ice is an ice skating rink which consists of a leasehold interest in the ice rink, equipment necessary to operate an ice skating rink, and the goodwill associated with its history of operation. The terms of the letter required a down payment of \$40,000, with the remaining \$485,000 due at a closing in

²⁰Under the purported contract executed by LaRoque and LaRoque's Wife on January 22, 2009, the receipt of the \$750,000 in proceeds from such a loan would have increased LaRoque's annual compensation by \$22,500.

June of 2009. LaRoque's Wife and Step-daughter One hired the Snow Hill Attorney to negotiate the purchase of Bladez on Ice.

114. On May 6, 2009, the USDA approved ECDC's request for a \$50,000 disbursement against IRP Loan Nine for use in funding a \$50,000 loan to the Snow Hill Attorney. The funds were advanced to ECDC on or about May 6, 2009, and disbursed to the Snow Hill Attorney on August 6, 2009. At the time ECDC received this advance on IRP Loan Nine, it had in excess of \$3.4 million in revolved funds on hand.²¹

115. On May 8, 2009, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$25,000 payable to LaRoque.

116. Sometime prior to June 11, 2009, LaRoque's Wife made a \$40,000 down payment on the purchase of Bladez on Ice. On June 11, 2009, LaRoque's Wife, using the corporate shell of Susan's Carpet, purchased Bladez on Ice. At the closing, LaRoque's Wife paid \$240,000 and executed a promissory note in the sum of \$245,000.

117. On June 19, 2009, LaRoque called meetings of the Boards of ECDC and PDC. The meetings were attended by LaRoque, LaRoque's Wife, and LaRoque's Brother. According to the minutes from each meeting:

Mr. Stephen LaRoque asked the Board to approve a loan to LaRoque Management Group, Inc. (LMG) based on earned income not yet distributed to

²¹Under the terms of his purported January 2009 contract, LaRoque's decision to fund the new \$50,000 loan with an IRP advance, rather than revolved funds, would increase the yearly compensation owed to him by ECDC by \$1,500.

LMG. A brief discussion followed and a motion to approve the loan was made by . . . [LaRoque's Brother] and seconded by . . . [LaRoque's Wife]. The motion passed unanimously.

No mention is made in the minutes about the fact that such action violates two provisions of ECDC's Bylaws, ECDC's Work Plan, USDA regulations, and a representation contained in the IRP Loan Ten application, which was then awaiting USDA approval. There is also no mention of the fact that each of the Directors who voted on the action had a conflict of interest that should have prevented them from participating in the vote,²² nor the fact that the intended loan was being made to fund an investment in an ice skating rink located in an area which did not qualify for loans under USDA regulations and the ECDC Work Plan.

118. On June 26, 2009, LaRoque and LaRoque's Wife, in their capacities as President and Chairman of ECDC, executed an ECDC check in the sum of \$150,000 payable to "LaRoque Management Group." The following words appear in the memo space of the ECDC check: "Loan to Contractor." After depositing the \$150,000 check into LMG's account, LaRoque, in his capacity as sole-shareholder of LMG, executed an LMG check in the sum of \$141,500 payable to "Bladez On Ice." The following words appear in the memo space of the LMG check: "Purchase Ownership Interest in Business." A Promissory

²²At the time of the vote, LaRoque was the sole owner of LMG, LaRoque's Brother had a business relationship with LMG, and the loan to LMG was intended to be used to invest in an ice skating rink owned by LaRoque's Wife.

Note in the sum of \$150,000, bearing the date of June 26, 2009, was executed by LaRoque, as President of LMG, with ECDC as the lender. The purported loan of funds from ECDC to LMG, a company wholly-owned by LaRoque, violated two different ECDC Bylaw provisions. LaRoque also failed to disclose the existence of this purported loan in ECDC's Form 990 for such period or in connection with IRP Loan Ten, which was closed in October of 2009. The purported loan also violated portions of USDA regulations and the ECDC Work Plan.

119. Neither LMG, nor LaRoque, were required to execute any documents securing this purported indebtedness. Under the terms of the promissory note, ECDC agreed to allow LMG to allegedly borrow such funds at an interest rate of zero. According to a review of ECDC's audited financial statements, during its history it had never loaned money to a borrower for zero percent interest.

120. On or about July 13, 2009, a \$45,000 payment was made on the \$245,000 promissory executed by Susan's Carpet in connection with the purchase of Bladez on Ice.

121. On or about July 23, 2009, LaRoque's Wife incorporated JESE, Inc., d/b/a Bladez on Ice, and transferred ownership of Bladez on Ice to JESE. Although the name "JESE" is taken from Step-daughter One's initials, she is not listed as an owner of JESE. LMG, who made what is described on the \$141,500 check as an investment in Bladez on Ice, also failed to receive an ownership interest. Instead, the owners of JESE are listed as LaRoque (based

on the money paid in by LMG), LaRoque's Wife, and a neighbor of LaRoque's Wife who invested \$40,000 cash in Bladez on Ice. The neighbor, who is in the gaming industry, did not obtain any type of written receipt for his \$40,000 cash investment, but is reflected as an eight percent owner on JESE, Inc.'s tax return. LaRoque and LaRoque's Wife are each listed as 46% owners.

122. On July 31, 2009, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$25,000 payable to LaRoque.

123. On August 28, 2009, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$25,000 payable to LaRoque.

124. On October 28, 2009, ECDC and the USDA closed IRP Loan Ten without disclosing the existence of the agreement signed by LaRoque and LaRoque's Wife on January 22, 2009, or the purported \$150,000 loan from ECDC to LMG.

125. During ECDC's 2008-2009 fiscal year, it paid LaRoque \$317,800 in compensation (\$90,000 to LaRoque and \$227,800 to LMG) and \$19,761.47 in reimbursement expenses (all of which were paid to LMG). The budget that had been approved by ECDC's Board for the 2008-09 fiscal year contemplated payment of \$150,000 to LaRoque. During this period, ECDC made less than ten new loans, including the loans to LMG and the Snow Hill Attorney.

126. The Form 990 filed by ECDC for the 2008-2009 tax year, which was executed by LaRoque under penalty of perjury, represents that LaRoque worked 45 hours per week in fulfilling his position at

ECDC and received \$167,500 in compensation from ECDC. This disclosure fails to account for the \$150,000 paid to LMG on June 26, 2009. In response to two questions relating to whether ECDC has any outstanding loans to officers and directors, or persons relating to them, ECDC answered "no." In response to a question regarding whether ECDC had paid or accrued any compensation to an officer or director based on revenues or net earnings, ECDC answered "no." In response to the portion of the Form 990 requiring ECDC to list any deferred compensation owed to LaRoque, ECDC reported no such compensation owed.

127. The Form 990 filed by PDC for the 2008-2009 tax year, which was executed by LaRoque as President of PDC, represents that LaRoque worked 20 hours per week in fulfilling his duties as President of PDC. In response to the portions of the Form 990 regarding compensation owed by PDC to LaRoque, PDC lists no compensation owed.

128. On LMG's tax return for the 2009 calendar tax year, which was signed by LaRoque under penalty of perjury and filed on or about March 15, 2010, LMG depreciated both the 2005 Toyota Avalon and the 2006 Toyota Tacoma (listing the percentage of LMG business use of each vehicle as 100%). LMG reported a loss of \$41,143 for this year.

129. On the joint tax return filed by LaRoque and LaRoque's Wife for the 2009 calendar tax year, they reported taxable income,

after deductions, of \$149,154. This amount fails to properly include the \$150,000 payment from ECDC to LMG for use in funding LaRoque's personal investment in Bladez on Ice.

130. During the fiscal year October 1, 2009, through September 30, 2010, PDC had no Board meetings and ECDC had three board meetings. The directors at each of the three ECDC meetings were limited to LaRoque, LaRoque's Wife, and LaRoque's Brother.

131. On January 6, 2010, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$50,000 payable to LaRoque.

132. In the months following the purchase of Bladez on Ice by Susan's Carpet, a dispute arose regarding the condition of some of the assets included in the purchase price. As a result, the Snow Hill Attorney entered into negotiations with the seller in an effort to obtain an agreed reduction in the balance due on the promissory note executed by Susan's Carpet. Ultimately, the promissory note was assigned to the owner of the building in which Bladez on Ice operates, who agreed to accept \$66,000 in full payment of the remaining amount owed on the note.

133. On January 29, 2010, LaRoque and LaRoque's Wife, in their capacities as President and Chairman of ECDC, executed an ECDC check in the sum of \$50,000 payable to "LaRoque Management Group." The following words appear in the memo space of the ECDC check: "Loan Proceeds Earnings." On February 4, 2010, LaRoque, in his capacity as sole-shareholder of LMG, executed an LMG check in the

sum of \$66,000 in payment of promissory note owed by Susan's Carpet in connection with the purchase of Bladez on Ice.

134. The purported \$50,000 loan from ECDC to LMG, a corporation wholly-owned by LaRoque, would have violated two provisions of ECDC's Bylaws, ECDC's Work Plan, USDA regulations, and each of the ten IRP loan applications.

135. On January 29, 2010, LaRoque, in his capacity as President of ECDC, marked the \$150,000 LMG promissory note paid in full and then, in his capacity as President of LMG, executed a new promissory note in favor of ECDC in the sum of \$200,000. Under the terms of the new promissory note, ECDC agreed to allow LMG to borrow such funds at an interest rate of zero. Other than the \$150,000 LMG promissory note executed on June 26, 2009, ECDC had never reported making a zero percent interest.

136. In March of 2010, a step daughter of LaRoque's Wife from her first marriage ("Step-daughter Two") was in need of a place for her family to live. On March 5, 2010, LaRoque and LaRoque's Wife, in their capacities as President and Chairman of ECDC, executed an ECDC check in the sum of \$50,000 payable to "LaRoque Management Group." The following words appear in the memo space of the ECDC check: "PDC - Loan Against Earnings - Current."²³ ECDC did not require LMG to execute a promissory note in connection with this payment. The purported \$50,000 loan from ECDC to LMG, a

²³On this same date, \$50,000 in funds were transferred from PDC's "IRP Account" to ECDC's "IRP Account."

corporation wholly-owned by LaRoque, would have violated two provisions of ECDC's Bylaws, ECDC's Work Plan, and USDA regulations, and the ten IRP loan applications submitted to the USDA.

137. After executing the \$50,000 check to LMG, LaRoque deposited the funds into LMG's bank account and then used the money to cover a check to the Snow Hill Attorney in the sum of \$89,482.22. The \$89,482.22 check was used by the Snow Hill Attorney to close the purchase of a house for LaRoque to rent to Step-daughter Two. The house, which was purchased at a foreclosure sale, was titled in the name of LaRoque and LaRoque's Wife.

138. On April 1, 2010, ECDC made another loan to the Snow Hill Attorney, in the sum of \$100,000. The ECDC loan was funded through an ECDC check executed by LaRoque and made payable to the Snow Hill Attorney's law firm. The proceeds used to fund the check were taken from revolved funds. Notwithstanding the fact that the loan had been fully funded with revolved funds, LaRoque submitted a request to the USDA for an IRP advance of \$100,000 to be loaned to the Snow Hill Attorney.²⁴

139. In April of 2010, LaRoque engaged in email communications with investigators from the North Carolina Board of Elections ("NC-

²⁴Included in the disbursement request was a "No Conflict of Interest" form executed LaRoque, the Snow Hill Attorney, and the Snow Hill Attorney's wife, stating that ECDC and its officers (and family) have "no legal or financial interest or influence in the ultimate recipient" and that the Snow Hill Attorney's firm has "no legal or financial interest or influence in" ECDC.

BOE") in connection to an investigation into the \$28,000 in loans that LMG had made to LaRoque's Campaign Committee. On April 13, 2010, LaRoque submitted responses to a number of questions posed by the NC-BOE investigator. Included in the e-mail was the following:

9. Does LMG receive any funds from the non-profit organizations [ECDC and PDC]?

I have a management contract with the two non-profit organizations to manage both of them in all aspects with the primary responsibility including Administration, Marketing, Loan Packaging and Loan Servicing. LMG performs loan underwriting for another non-profit organization on an as needed basis for a fee.

Although not included in LaRoque's response to the NC-BOE, as of this date, LMG had received \$250,000 in payments from ECDC which LaRoque claims to have been loans to LMG.

140. On April 14, 2010, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$20,000 payable to the LMG.

141. On or about April 22, 2010, the Snow Hill Attorney contributed \$2,500 to LaRoque's campaign committee.

142. By May of 2010, it had become clear that the 1974 Zamboni ice resurfacer purchased by Susan's Carpet when it bought Bladex on Ice needed to be replaced. Consequently, on May 7, 2010, LaRoque and LaRoque's Wife, in their capacities as President and Chairman of ECDC, executed an ECDC check in the sum of \$50,000 payable to "LMG." The following words appear in the memo space of the ECDC

check: "Loan Proceeds - PDC."²⁵ ECDC did not require LMG to execute a promissory note in connection with the purported \$50,000 loan. The purported \$50,000 loan from ECDC to LMG, a corporation wholly-owned by LaRoque, also violates two provisions of ECDC's Bylaws, ECDC's Work Plan, USDA regulations, and each of the ten IRP loan applications.

143. On May 7, 2010, LaRoque executed an LMG check in the sum of \$4,500, payable to the L.S.K. Enterprises, Inc., for Bladez on Ice's rental of an ice resurfacer and an LMG check in the sum of \$20,000, payable to L.S.K. Enterprises, as down payment on the purchase a 1997 Olympia Ice Resurfacer that would be ready for delivery in August. On August 10, 2010, LaRoque executed an LMG check in the sum of \$21,000 in payment of the balance owed on the purchase of the Olympia Ice Resurfacer.

144. On May 7, 2010, LaRoque, in his capacity as President of ECDC, marked the \$200,000 LMG promissory note that had been created on January 29, 2010, paid in full, and, in his capacity as President of LMG, executed a new promissory note in favor of ECDC in the sum of \$200,000, which extended the date of repayment to May 1, 2011, keeping the annual interest rate at zero percent.

145. On or about August 7, 2010, LaRoque made \$3,114 worth of charges on two Visa Credit Card in purchase of the following items of jewelry from Diamonds Direct Crabtree in Raleigh: (a) a "14KWG

²⁵Because PDC did not have funds sufficient to fund this purported loan to LMG, it was unable to reimburse ECDC for the payment.

Dia Earrings 0.32TW"; and (b) a "14W 2.35 Ct Black Dia VS2." On August 11, 2010, LaRoque and LaRoque's Wife executed an ECDC check in the sum of \$12,000 payable to LaRoque. The check was deposited into LaRoque's personal account on the same day. On August 12, 2010, LaRoque paid one of his Visa credit debts by making a \$2,998.45 e-payment from his personal checking account.

146. On October 8, 2010, a USDA representative sent the following email to LaRoque:

The advance of \$37,500 for the balance of . . . [IRP Loan Nine] will be in a paper check dated 10/12/10. Apparently an ACH/EFT was not set up for your company. I have attached the ACH form that you will need to take to your bank for completion. Please fax back to me today as soon as possible so I can set the EFT up in Finance and order the \$62,500 from [IRP Loan Ten]. These two amounts will total the \$100,000 that you request and . . . [USDA field representative] reviewed and agreed to." The \$37,500 check will automatically come to our office, I will forward it on to you.

147. On October 14, 2010, the \$62,500 drawn on IRP Loan Ten was electronically transmitted from the United States Department of Treasury, to ECDC bank account at RBC Bank in Kinston, North Carolina. By letter dated October 22, 2010, a check in the amount of \$37,500, in payment of the final draw on IRP Loan Nine, was mailed from the USDA's office in Raleigh, North Carolina, to LaRoque's home address and ultimately deposited into ECDC's bank account on October 25, 2010. Because these funds were not needed

to fund the \$100,000 loan to the Snow Hill Attorney, they were simply added to ECDC's stockpile of cash.²⁶

148. In the fall of 2010, LaRoque ran for the North Carolina House seat for North Carolina District 10. During the months leading up to the election, LaRoque's opponent circulated campaign fliers which questioned some of the practices engaged in by LaRoque in operating ECDC and PDC. LaRoque's opponent also alleged that LaRoque financed LMG with federally-funded loans. In response to these allegations, LaRoque filed a defamation lawsuit against his opponent ("Defamation Lawsuit"). The Snow Hill Attorney represented LaRoque in the Defamation Lawsuit.

149. On November 2, 2010, LaRoque was elected as state representative for North Carolina District 10. LaRoque's Defamation Lawsuit against his opponent continued following the election.

150. During ECDC's 2009-2010 fiscal year, it paid LaRoque \$291,225 in compensation (\$105,000 to LaRoque and \$186,225 to LMG (including three \$50,000 payments which purport to be loans)) and \$16,478.67 in reimbursement expenses (all of which were paid to LMG) during this period. ECDC made loans to less than ten

²⁶Under the purported management contract executed by LaRoque and LaRoque's Wife on January 22, 2009, LaRoque would have been entitled to additional \$3,000 per year due to the \$100,000 increase in ECDC's stockpile of cash.

borrowers²⁷ during this period (including LMG and the Snow Hill Attorney).

151. ECDC's Form 990 for the 2009-2010 tax year, was executed by LaRoque under penalty of perjury. In the Form 990, LaRoque represented that he worked 45 hours per week in fulfilling his position at ECDC and received \$105,000 in compensation from ECDC. This is the total amount of ECDC compensation checks made payable to LaRoque, but includes neither the \$35,000 in ECDC compensation checks paid to LMG, nor the \$150,000 of additional ECDC checks that LaRoque claimed to be a loan secured by deferred compensation owed to him by ECDC through the years. In response to questions inquiring as to whether the non-profit had any outstanding loans to officers and directors, or persons relating to them, ECDC answered "no."

152. The Form 990 filed by PDC for the 2009-2010 tax year, which was executed by LaRoque under penalty of perjury, represents that LaRoque worked 20 hours per week in fulfilling his duties as President of PDC. In response to the portions of the Form 990 regarding compensation owed by PDC to LaRoque, PDC lists no compensation owed.

153. In October through December of 2010, ECDC paid LaRoque three compensation checks totaling \$24,000.

²⁷Although the ECDC Board approved or confirmed loans to six borrowers, it appears that ECDC made loans to at least two additional borrowers.

154. On December 16, 2010, ECDC held a Board meeting during which a new board member was added. This was the first ECDC Board meeting having a director other than LaRoque, LaRoque's Wife, and LaRoque's Brother, since April of 2009. At the meeting, the Board approved the 2010-2011 budget, which proposed a payment of \$145,000 to LaRoque.

155. According to the minutes, LaRoque then reviewed a subpoena recently received by ECDC for documents relating to LaRoque's Defamation Suit and recommended that, due to a concern over borrower confidentiality, ECDC challenge the subpoena. The Board unanimously voted to challenge the subpoena. LaRoque hired Snow Hill Attorney to represent ECDC. ECDC would ultimately pay the Snow Hill Attorney \$58,046.75,²⁸ in connection with the challenge to the subpoena, an amount far in excess of what LaRoque paid him in connection with the entire Defamation Lawsuit.

156. After concluding the ECDC Board meeting, LaRoque called a meeting of the PDC Board, its first meeting since June of 2009, and added the new ECDC director as a member of the PDC Board. This was the first PDC Board meeting having a director other than LaRoque, LaRoque's Wife, and LaRoque's Brother, since February of 2007. The PDC Board, for the first time in its existence, was

²⁸Included in this amount is a fine of \$17,250 for ECDC's refusal to comply with Court Order compelling ECDC to comply with the document subpoena in the Defamation Case.

shown a budget proposing payment for "contracted services." The amount proposed was \$24,000 per year.

157. On January 12, 2011, the Snow Hill Attorney received another ECDC loan in the sum of \$30,000. This loan was funded with revolved funds and provided by an ECDC check executed by LaRoque and made payable to the Snow Hill Attorney and his wife.

158. On February 25, 2011, ECDC paid the Snow Hill Attorney \$12,426.50 in attorney fees relating to LaRoque's Defamation Lawsuit. The billing statement pertaining to these fees includes legal work relating to subpoenas that had been served on LMG in the LaRoque's Defamation Suit.

159. On April 14, 2011, LaRoque filed his 2011 Statement of Economic Interest with the North Carolina State Ethics Commission, covering the 2010 calendar year. In response to the question requiring the disclosure of any sources of income of over \$5,000 in 2010, LaRoque listed the following three sources of income: (a) LaRoque Management Group; (b) Stephen LaRoque Consulting; and (c) Rentals. Despite his failure to list ECDC in his disclosure form, during the 2010 calendar year ECDC paid \$105,000 directly to LaRoque and \$220,225 to LMG.

160. On April 26, 2011, the Snow Hill Attorney received another ECDC loan in the sum of \$21,000. This loan was funded with revolved funds and provided by an ECDC check executed by LaRoque and made payable to the Snow Hill Attorney and his wife.

161. On May 25, 2011, ECDC paid the Snow Hill Attorney \$8,925.50 in attorney fees relating to LaRoque's Defamation Lawsuit. The billing statement pertaining to these fees includes legal work relating to a "FOIA request to IRS for . . ." records pertaining to a tax exempt Internet publication ("Internet Publication") that was beginning to investigate LaRoque's operation of ECDC and PDC.

162. On or about June 18, 2011, less than a month before his wedding anniversary, LaRoque made an \$8,100 charge on his Visa credit card to purchase the following items of jewelry at Diamonds Direct Crabtree in Raleigh: (i) a "3.21 Yellow Sapphire & . . . Diamond Ring"; (ii) a "1.34 Black & White Diamond Ring; and (iii) a "16" Gold Chain."

163. On July 11, 2011, an accountant completed ECDC's audit for the fiscal year of October 1, 2008, through September 30, 2009. In the audit, the \$150,000 payment to LMG, which LaRoque had informed the auditor was a short term loan that he would pay back upon receiving an inheritance, is not listed in the accounts receivable category. Had it been listed in that category, the audit would have included the fact that it was a zero percent interest loan.²⁹ Instead, the \$150,000 purportedly owed by LMG to ECDC is listed in a separate category labeled as "Other." In addition, there is no entry for deferred compensation owed to

²⁹As noted above, ECDC had never reported a zero percent loan in its audited financial statement.

LaRoque which was purportedly serving as collateral for the purported \$150,000 loan. Finally, the "Combined Statement of Activities" breakdown does not include the \$150,000 payment in the "contracted services" entry.

164. By June of 2011, the Internet Publication began making inquiries about the manner in which LaRoque operated ECDC and PDC and submitted an e-mail to LaRoque containing a number of questions, including the following question regarding LaRoque's salary from the non-profits:

How is your salary determined? Who approves it? And, at what stage does your board of directors have input? Do you see that pay as coming from public funds?

165. On August 1, 2011, LaRoque and his wife executed an ECDC check payable to LaRoque in the sum of \$25,000. This check was deposited into his personal checking account.

166. On August 3, 2011, after LaRoque refused to respond to the Internet Publication's written questions, the Internet Publication published an Internet article which was critical of LaRoque's operation of ECDC and PDC. In the article, the former ECDC Co-Signatory Director is quoted as stating that one reason for he left ECDC's board was because LaRoque was making loans prior to coming to the Board for approval. LaRoque responded to the negative article by making a brief statement to a local newspaper and announcing his intent to have a press conference on August 16, 2011, to respond to article.

167. On August 12, 2011, LaRoque made a \$10,484.11 e-payment from his personal bank account in payment of the balance owed on his Chase Credit Card, including the charges made at Diamond Direct.

168. On August 15, 2011, LaRoque called an ECDC Board Meeting which was attended by LaRoque, LaRoque's Wife, LaRoque's Brother and three new board members. Each of the new Board members were long standing friends and political supporters of LaRoque. One of the new board members, a Kinston CPA, had received payments over the years for various accounting and/or tax preparation services performed for LaRoque, LaRoque's Wife, Susan's Carpet, LMG, ECDC, and PDC. The second new director was a political supporter of LaRoque. The final new director has a daughter that works for LaRoque as a legislative assistant. The board member that had been appointed at December 16, 2010, board meeting was not present at this meeting.

169. After appointing the new board members, LaRoque requested the newly constituted Board to reaffirm the agreement that LaRoque and LaRoque's Wife had executed on January 22, 2009. After LaRoque explained the parameters of the contract, the minutes indicate that LaRoque, LaRoque's Wife, and LaRoque's Brother recused themselves from the vote of whether to reaffirm the contract. The three new Board members then unanimously reaffirmed

the 2009 contract. The minutes do not reflect any discussion about the \$300,000 in purported loans that were owed to ECDC by LMG.

170. LaRoque next addressed the status of the loan made to a partnership in which the former ECDC Co-Signatory Director holds an interest. The Board voted to foreclose of the loan. Finally, the Board reviewed a powerpoint presentation for use in a press conference that LaRoque had scheduled for the next day.

171. After the ECDC Board meeting, LaRoque called a meeting of the PDC Board adding the same new members as he had added to the ECDC Board. The new PDC Board unanimously affirmed LaRoque's January 22, 2009, management contract, with LaRoque, LaRoque's Wife, and LaRoque's Brother rescuing themselves from the vote.

172. On the next day, August 16, 2011, LaRoque held a press conference during which he made a powerpoint presentation. During the presentation, LaRoque stated that "Board members approve all loans [made by ECDC and PDC] and approved the [his] contract for services." LaRoque then displayed a portion of the February 16, 1999, Board minutes stating that LaRoque's contract is approved and the Board will conduct yearly evaluations. LaRoque did not disclose that the contract referred to in the 1999 minutes paid him \$18,000 per year or that the Board minutes do not reflect that a yearly evaluation of LaRoque was ever conducted by the Board. LaRoque also failed to disclose that his contract from January of 2009 was made effective retroactively more than a decade and

significantly increased his income during such period. LaRoque, notwithstanding his previously professed concern over customer confidentiality, openly discussed the former ECDC Co-Signatory Director's delinquent loan with ECDC. Finally, LaRoque challenged any criticisms regarding the loans that ECDC had made to the Snow Hill Attorney. The press conference was attended by the three new directors that had been added to the ECDC Board the previous day.

173. On the same day as the press conference, LaRoque signed an ECDC check, in the sum of \$5,968.50, made payable to the Snow Hill Attorney relating to ECDC failure to comply with a court order to comply with the subpoena in LaRoque's Defamation Lawsuit.

174. On September 8, 2011, Federal Grand Jury subpoenas were served on LaRoque in his individual capacity and as a representative of ECDC, PDC, and LMG.

175. After being served with Federal Grand Jury subpoenas, LaRoque began raising money for use in having LMG pay back some of its loans from ECDC. On September 12, 2011, LaRoque wrote a \$50,000 to LMG, which states as follows on the memo line: "A/P Officer." On this same date, a \$50,000 payment was made from LMG to ECDC, with the words "Loan Repayment" written in the memo line of the check.

176. On September 28, 2011, LaRoque made the following two deposits into his personal checking account: (a) a \$45,000 transfer from a money market account; and (b) a \$107,489.96 check from

Pershing relating to a personal investment account. On this same day, LaRoque deposited a \$150,000 check from his personal account into LMG's bank account. The memo line on the check contains the following: "A/P Officer." Finally, on this same date, LaRoque executed an LMG check, in the sum of \$150,000, payable to ECDC, with the LMG check referencing "Loan Repayment."

177. In October of 2011, LaRoque paid himself back most of the \$150,000 with the following two checks" to LMG: (a) an ECDC check, in the sum of \$139,170.42, dated October 7, 2011; (b) an ECDC check, in the sum of \$10,298.18, dated October 31, 2011.

178. On or about October 7, 2011, LaRoque amended his 2009 income tax return to include \$150,000 of additional income.

179. On October 7, 2011, ECDC paid the Snow Hill Attorney \$13,476.25 in attorney fees relating to LaRoque's Defamation Lawsuit.

180. On November 4, 2011, ECDC paid the Snow Hill Attorney \$17,250 in payment of court ordered contempt fines relating to ECDC's failure to comply with discovery obligations. This payment was part of a settlement resolving the Defamation Lawsuit. The Snow Hill Attorney received a total of \$78,216.20 in payments relating to the Defamation Lawsuit (\$58,046.75 from ECDC and \$20,169.45 from LaRoque).

181. The allegations set forth in the foregoing Introduction are hereby incorporated by reference into each count of this Indictment and realleged therein.

COUNTS ONE through FOUR

**[Theft Concerning Programs Receiving Federal Funds;
18 U.S.C. §§ 666(a) (1) (A)]**

From in or about January of 2009, through the date of this Indictment, within the Eastern District of North Carolina and elsewhere, the Defendant, STEPHEN A. LaROQUE, being an agent of an organization, hereinafter listed, which received, during the periods described below, benefits in excess of \$10,000 under Federal programs involving grants, contracts, subsidies, loans, guarantees, and other forms of Federal assistance, from the United States Department of Agriculture, Rural Development, did embezzle, steal, obtain by fraud, intentionally misapply, and otherwise without authority knowingly convert to the use of any person other than the rightful owner, property described below valued at \$5,000 or more that was owned by and under the care, custody, and control of such organization, in violation of Title 18, United States Code, Section 666(a) (1) (A). The allegations made in this paragraph are repeated and re-alleged in each of the following COUNTS ONE through FOUR of this Indictment, as though fully set forth therein:

<u>Count</u>	<u>Organization</u>	<u>Property</u>	<u>Federal Program Benefits</u>
1	ECDC	ECDC check number 2634, dated June 26, 2009, written on ECDC's bank account at RBC Centura Bank and made payable to "LaRoque Management Group" in the amount of \$150,000	ECDC received within one year of June 26, 2009, benefits in excess of \$10,000, in the form of IRP loan disbursements from the USDA's Rural Development
2	ECDC	ECDC check number 2681, dated January 29, 2010, written on ECDC's bank account at RBC Bank and made payable to "LaRoque Management Group" in the amount of \$50,000	ECDC received within one year of January 29, 2010, benefits in excess of \$10,000, in the form of IRP loan disbursements from the USDA's Rural Development
3	ECDC	ECDC check number 2691, dated March 5, 2010, written on ECDC's bank account at RBC Bank and made payable to "LMG" in the amount of \$50,000	ECDC received within one year of March 5, 2009, benefits in excess of \$10,000, in the form of IRP loan disbursements from the USDA's Rural Development
4	ECDC	ECDC check number 2702, dated May 7, 2010, written on ECDC's bank account at RBC Bank and made payable to "LMG" in the amount of \$50,000	ECDC received within one year of May 7, 2010, benefits in excess of \$10,000, in the form of IRP loan disbursements from the USDA's Rural Development

Each entry in the above table constituting a separate violation of Title 18, United States Code, Section 666(a)(1)(A).

COUNTS FIVE through EIGHT

[Monetary transactions in criminally derived property;
18 U.S.C. § 1957]

On or about the dates hereinafter set forth, within the Eastern District of North Carolina and elsewhere, Defendant, STEPHEN A. LaROQUE, did knowingly engage, and attempt to engage, in monetary transactions, as that term is defined in Title 18, United States Code, Section 1957(f)(1), in criminally derived property, as that term is defined in Title 18, United States Code, Section 1957(f)(2), of a value greater than \$10,000 and which were derived from specified unlawful activity, namely, violations of Title 18, United State Code, Section 666(a)(1)(A). The allegations made in this paragraph are repeated and re-alleged in each of the following COUNTS FIVE through EIGHT of this Indictment, as though fully set forth therein:

<u>Count</u>	<u>On or About</u>	<u>Financial transaction</u>
5	6/26/2009	\$141,500 check from LaRoque Management Group to Bladez on Ice to "purchase ownership interest in business"
6	2/4/2010	\$66,000 check from LaRoque Management Group to the holder of a promissory note executed by Susan's Carpet in connection with the purchase of Bladez on Ice
7	3/5/2010	\$89,482.22 check from LaRoque Management Group to the Snow Hill Attorney to pay for the purchase of a rental house by LaRoque and LaRoque's Wife

8	5/7/2010	\$20,000 check from LaRoque Management Group to L.S.K. Enterprise, Inc., in partial payment of an ice re-surfacer for Bladez on Ice
---	----------	---

Each entry in the above table constituting a separate violation of Title 18, United States Code, Section 1957.

FORFEITURE NOTICE

Defendant, STEPHEN A. LaROQUE, is hereby given notice of the provisions of Title 18, United States Code, Section 981 (a) (1) (C), as made applicable herein by Title 28, United States Code, Section 2461(c), and Title 18, United States Code, Section 982(a) (7), that all his interest in all property specified herein is subject to forfeiture. As a result of the foregoing offenses of the Indictment, LaRoque shall forfeit to the United States any and all property constituting, or derived from, any proceeds the said Defendant obtained directly or indirectly as a result of the said offense.

If any of the above described forfeitable property, as a result of any act or omission of LaRoque,

- (1) cannot be located upon the exercise of due diligence;
- (2) has been transferred or sold to, or deposited with, a third person;
- (3) has been placed beyond the jurisdiction of the court;
- (4) has been substantially diminished in value; or

(5) has been commingled with other property which cannot be subdivided without difficulty;

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


A TRUE BILL

FOREPERSON

Date

7/17/12

THOMAS G. WALKER
United States Attorney



BY: DENNIS M. DUFFEY
Assistant United States Attorney
Criminal Division

REDACTED VERSION
Pursuant to the E-Government Act and the federal rules, the unredacted version of this document has been filed under seal.