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SIX PRINCIPALS OF FORMER AEGIS COMPANY CONVICTED OF $60 MILLION TAX FRAUD CONSPIRACY FOLLOWING THREE-MONTH FEDERAL TRIAL

CHICAGO – A federal jury today convicted six defendants of a nationwide $60 million tax fraud conspiracy for participating in a nearly decade-long scheme to market and sell sham domestic and foreign trusts through The Aegis Company, now defunct and formerly based in suburban Palos Hills, to some 650 wealthy taxpayer clients throughout the United States. The defendants essentially diverted income from businesses into sham trusts for clients, hiding hundreds of millions of dollars in income for those clients and resulting in a $60 million tax loss to the United States, making the case one of the largest of its kind, according to Nathan J. Hochman, Assistant Attorney General for the Justice Department's Tax Division; Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois; and Alvin Patton, Special Agent-in-Charge of the IRS Criminal Investigation Division in Chicago.

The jury began deliberating last Wednesday following an 11-week trial before U.S. District Judge Charles R. Norgle in Chicago. The defendants were indicted in 2004, following a lengthy undercover investigation by IRS agents, code-named "*Operation Trust Me,*" and the seizure of roughly 1.5 million documents, computer files and related materials. Two other defendants in this case and two others in separate cases in Chicago involving the so-called "abusive trust" scheme, pleaded guilty. Nationwide, the Chicago-based investigation has resulted in convictions of more than 30 defendants, with charges still pending against approximately 30 other defendants around the country, including in Florida, Illinois, New York, Ohio and West Virginia.

All six defendants were found guilty today of one count of tax fraud conspiracy – specifically, conspiracy to defraud the United States by impeding the IRS in the collection of tax revenue and conspiracy to aid and assist the preparation and filing of false tax returns on behalf of Aegis clients. All six defendants were also found guilty of additional charges, while two of the six were also acquitted on some counts. Sentencings were scheduled for August and September. The defendants are:

> **Michael A. Vallone**, 48, of Orland Park, one of the founders of Aegis, which marketed and sold trust packages throughout the country through a network of promoters, sub-promoters, managers, attorneys and accountants. Vallone was the executive director of Aegis and a principal in the company;
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> **Edward B. Bartoli**, 78, of Clearwater, Fla., a former attorney, who was also one of the founders of Aegis, the legal director, and a principal in the company;
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> **Robert W. Hopper**, 62, of Gadsden, Ala., also one of the founders of Aegis, the managing director, and a principal in the company;
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> **Timothy Shawn Dunn**, 48, of Chesterton, Ind., a certified financial planner, who was a promoter and manager of Aegis trusts, and the managing Director of the Aegis Management Company, which he created with Vallone, Bartoli, and Hopper;
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> **William S. Cover**, 72, of Naperville, also a promoter and manager of Aegis trusts, and the president of Sigma Resource Management, Inc., which provided management services to purchasers of Aegis trusts; and
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> **Michael T. Dowd**, 34, of Glenview, also a promoter and manager of Aegis trusts, and he provided management services to purchasers of Aegis trusts through Aegis and Sigma Resource Management, Inc.

Vallone and Dunn were taken into custody following today's verdict while the other four defendants remain free on bond.

Two other defendants in this case, **David E. Parker**, 55, of Williamsville, N.Y., an attorney who was the legal director of the Aegis Management Company, and **John C. Stambulis**, 71, of Palos Heights, an attorney and a trust counsel of Aegis, both pleaded guilty and testified for the Government at trial. They are awaiting sentencing.

An allegation seeking forfeiture of several million dollars in illegal proceeds remains pending against Vallone, Bartoli and Cover.

"All Americans have an obligation to pay taxes when they earn income. The defendants in this case engaged in a massive effort to help high-income earners evade their fair share of taxes. They have now been brought to justice. The IRS is to be commended for its excellent work in bringing this case to a successful conclusion," Mr. Fitzgerald said.

Mr. Patton said: "Today's verdict sends a message: taxpayers should be wary of anyone claiming to be an expert on how to hide income from the IRS. The Criminal Investigation Division has made the investigation of promoters and clients using abuse trust schemes one of its highest tax compliance priorities."

Evidence at trial showed that between July 1994 and December 2003, the defendants organized, promoted and sold domestic and foreign/offshore trusts, primarily to self-employed individuals, for fees ranging between $10,000 and $75,000 for a package of one or more Aegis trusts with the purpose and effect of defrauding the government. The abusive trusts attempted to fraudulently conceal trust purchasers' true assets and income from the IRS and to illegally reduce or eliminate their income tax liability. The IRS first cautioned taxpayers in April 1997 that such trust arrangements were illegal. The trusts, in fact, provided no tax shelter and had no effect on transferring assets or reducing or eliminating the clients' income tax liabilities.

The evidence further showed that the defendants' scheme diverted profits from businesses to a sham trust system and transferred funds either to a bogus charitable trust or to bank accounts in tax haven countries, such as Belize and Antigua. The defendants then caused the filing of false tax returns of clients, which claimed false deductions and omitted substantial income.

All six defendants were also convicted of tax fraud regarding their own individual tax returns for the years 1997 through 2000, resulting in a tax loss of more than $1 million.

The government is being represented by Assistant U.S. Attorneys Stephen L. Heinze and Barry Rand Elden, and DOJ Tax Division trial attorney Thomas W. Flynn.

Each count of tax fraud conspiracy, tax evasion, mail fraud and wire fraud carries a maximum penalty of 5 years in prison and a $250,000 fine, except Vallone, Bartoli and Cover are each facing a maximum of 20 years in prison on one of the mail fraud counts. Each count of filing a false tax return, or aiding and assisting the preparation and filing of a false tax return, carries a maximum penalty of 3 years in prison and a $250,000 fine. In addition, the defendants must pay the costs of prosecution and they remain liable for any taxes, penalties and interest owed. As an alternative maximum fine on the fraud counts, the Court may order a fine totaling twice the gross loss to any victim or twice the gain to the defendant, whichever is greater. Restitution is mandatory. The Court, however, will determine the appropriate sentence to be imposed under the advisory United States Sentencing Guidelines.

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