

U.S. Department of Justice

*United States Attorney
Eastern District of Virginia*

*Paul J. McNulty
United States Attorney*

*Fountain Plaza Three, Suite 300
721 Lakefront Commons
Newport News, VA 23606*

*757/591-4000
FAX 757/591-0866*

NEWS RELEASE

For Immediate Release
Wednesday, March 31, 2004
Newport News, Virginia

For Further Information Contact:
Deanna Warren 757-441-6331

Paul J. McNulty, United States Attorney for the Eastern District of Virginia, announced that William E. Vaughn, age 73, a Newport News resident and owner of Philly's Sub and Pub in Newport News, pled guilty today in United States District Court in Norfolk, to filing false tax returns. Vaughn faces a maximum prison term of 9 years, a fine of \$750,000, cost of prosecution and full restitution when sentenced on July 19, 2004, by United States District Judge Raymond A. Jackson.

During the taxable years of 1997, 1998 and 1999, Vaughn diverted cash receipts from his business Philly's Sub & Pub and intentionally failed to report the income from these skimmed receipts on his 1997 and 1998 individual tax returns and on his 1999 corporate tax return. During that time period Vaughn failed to report approximately \$602,759.00 of business receipts on his tax returns. In addition, he skimmed receipts from his business by not depositing all of the sales received by the business, cashed employee payroll checks and including them in his business receipts, and provided his tax return preparer false figures to report on his returns and failed to provide the source documents needed to calculate his correct taxable income.

The investigation arose as a result of a search warrant executed by the Virginia Department of Alcohol and Beverage Control who investigated Vaughn for under-reporting his sales to the Commonwealth of Virginia. In the search, state investigators seized numerous books and records from Vaughn's residence substantiating unreported receipts of business income, including a double set of books and records that Vaughn used to divert income from his business and falsify his tax returns.

As part of the plea agreement, Vaughn has agreed to make restitution to the United States in the amount of \$182,221.00, which represents the tax due and owed to the government as a result of the under-reported gross receipts.

The investigation was conducted by the Criminal Investigation Division of the Internal Revenue Service and the Virginia Department of Alcohol Beverage Control. Assistant United States Attorneys Howard J. Zlotnick prosecuted the case for the United States.

###