



PRESS RELEASE

FOR IMMEDIATE RELEASE
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PHOENIX MAN PLEADS TO FILING FALSE RETURNS

PHOENIX, ARIZONA - The United States Attorney's Office for the District of Arizona announced today that JOHN STEPHEN HOLMES, of Phoenix, pleaded guilty to an information charging him with 2 counts of Fraud and False Statements in violation of Title 26 United States Code, Section 7206(1).

According to the February 25, 2003 information, HOLMES willfully made and subscribed to two Employer's Quarterly Federal Tax Returns, Forms 941, for the third quarter of the calendar years 1996 and 1997 on behalf of Interwest Personnel Services, Inc. In those returns HOLMES reported total wages and tips, plus other compensation paid of \$315,556.22 and 1,008,764.19 for the 1996 and 1997 years respectively. HOLMES also reported total taxes of \$75, 896.07 in 1996 and total taxes of \$244,301.39 in 1997, whereas, HOLMES well knew, the corporation had paid more wages, tips and other compensation and that the tax liability was greater than as represented on the returns for those years.

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The plea agreement alleges HOLMES opened an employee leasing firm in late 1995, Interwest Personnel Services, Inc. (IPS), in Phoenix, Arizona, with Lori O'Keefe. HOLMES was president of IPS from its formation until June 1998. IPS had numerous clients throughout Arizona and New Mexico who would turn over their employees to IPS, which would then lease the employees back to the client, and maintain personnel and payroll functions with respect to the employees. At the end of each pay period, IPS client companies would report the number of hours worked by each leased employee. IPS used this and other information to compute gross wages and payroll deductions for each leased employee, and so advise the client company. The IPS client company would then issue one check to IPS covering the gross wages of all employees leased by the client company during the pay period. IPS then issued payroll checks to the employees, and handled the payments for withholdings and employee benefits. On a quarterly basis IPS filed one IRS Form 941 accounting for and paying over the withheld portions of the employees' wages as well as the employer's portion of the FICA taxes for all leased employees of all its client companies for that quarter. Reports were filed with the Arizona Department of Economic Security (Unemployment Tax and Wage Reports) and the New Mexico Department of Labor (Employers Quarterly Wage and Contribution Report) to reflect to the portion of gross wages, withholdings, and employer's portions for IPS employees allocable to those states.

On or about October 22, 1996, HOLMES prepared, signed, and filed on behalf of IPS an IRS Form 941 for the third quarter of 1996, which reflected total wages, tips, and

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other compensation of \$315,556.22 for 166 employees. The form contained a written declaration that it was being signed subject to the penalties of perjury. HOLMES stated he knew the information on the Form 941 was false, because that same day he had filed a report with the Arizona Department of Economic Security which reflected gross wages paid by IPS to Arizona employees during that period of \$644,898.64, and the New Mexico Department of Labor showing gross wages paid by IPS to New Mexico employees during that period of \$222,276.93, for a total of \$867,175.57.

On or about November 3, 1997, HOLMES indicated he prepared, signed, and filed on behalf of IPS an IRS Form 941 for the third quarter of 1997, which reflected total wages, tips, and other compensation of \$1,008,764.19 for 764 employees. The form contained a written declaration that it was being signed subject to the penalties of perjury. HOLMES said knew the information on the Form 941 was false, because the computer records of IPS showed that IPS employees had been paid gross wages of \$4,321,569.60 during that same period.

Maximum penalties on Fraud and False Statements range from fines of \$250,000.00 to imprisonment of three years or both. Because HOLMES has pled guilty to multiple counts, he faces a maximum statutory fine of up to \$500,000.00 and a maximum statutory imprisonment of up to 6 years or both.

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HOLMES also agreed to file true and accurate personal and corporate federal income tax returns with the Internal Revenue Service for the calendar years 1996, 1997, 1998 and 1999.

HOLMES is scheduled to be sentenced on May 12, 2003.

This case was investigated by special agents of the Phoenix Field Office of IRS Criminal Investigation. Prosecution of this case is being handled by Daniel Drake, Assistant United States Attorney, U.S. Attorney's Office, District of Arizona, Phoenix.

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