



FOR IMMEDIATE RELEASE

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**THREE SACRAMENTANS SENTENCED TO LENGTHY PRISON SENTENCES IN  
TAX FRAUD, INVESTMENT FRAUD AND MONEY LAUNDERING SCHEME**

**Sentences include restitution of \$1,738,520 and criminal forfeiture of \$1,000,000**

SACRAMENTO--United States Attorney McGregor W. Scott and Victor S.O. Song, IRS Special Agent in Charge for Northern California, announced today that HERBERT ARTHUR BATES, age 70, of Sacramento, DAVID LARRY SMITH, age 58, of Auburn, CA, and CHRISTOPHER R. BATES, age 44, also of Sacramento, were sentenced to lengthy prison sentences as a result of their convictions after an eight week jury trial earlier in the year. All three defendants were convicted of conspiracy to defraud the United States by impairing and impeding the Internal Revenue Service in the assessment and collection of income taxes, conspiracy to engage in mail and wire fraud, and conspiracy to engage in money laundering. HERBERT BATES and DAVID SMITH also were convicted of additional charges.

HERBERT A. BATES was sentenced this morning to imprisonment for 136 months, restitution of \$1,738,520, a criminal forfeiture of \$1,000,000, a special assessment of \$1,900, and a term of supervised release of 36 months. In addition to the three conspiracy counts, HERBERT BATES also was convicted of 21 counts of aiding and assisting the filing of false federal income tax returns.

DAVID LARRY SMITH previously had been sentenced to imprisonment for 151 months, restitution of \$1,738,520, a criminal forfeiture of \$1,000,000, a special assessment of \$6,850, and a term of supervised release of 36 months. In addition to the three conspiracy counts listed above, SMITH was convicted of 21 counts of aiding and assisting taxpayers to file false tax returns, 26 counts of mail fraud, 7 counts of wire fraud, and 51 counts of money laundering. At the time of his sentencing, SMITH read a lengthy statement in which he refused to acknowledge the jurisdiction of the federal courts over his person or property, the legitimacy of the Internal Revenue Code or Internal Revenue Service, and his obligation to file federal income tax returns or pay federal income taxes.

CHRISTOPHER BATES was sentenced today to imprisonment for 63 months, restitution of \$1,738,520, a criminal forfeiture of \$1,000,000, a special assessment of \$300 and a term of

supervised release of 36 months as a result of his convictions of the three conspiracy charges.

According to Assistant United States Attorneys Robert M. Twiss and Douglas Sprague, who prosecuted the case, the evidence presented at trial proved that the defendants sold a form of trust, which they called an Unincorporated Business Organization (“UBO”), to approximately 249 investors. The defendants charged between \$3,000 and \$7,500 for the creation of these UBO’s. DAVID LARRY SMITH and HERBERT BATES advised clients that they could transfer all of their income and assets to the UBO, and after transferring their income and assets, the clients no longer had to file individual income tax returns nor pay federal income taxes.

DAVID LARRY SMITH and HERBERT BATES advised clients that they could “deduct” virtually all payments by the UBO from the revenues which it received as a result of the transfers of income and assets by the clients. HERBERT BATES and DAVID SMITH told clients that they could deduct mortgage payments, rent, food, automobile expenses, and even haircuts from the revenue received by the UBO. HERBERT BATES and DAVID SMITH advised clients that so long as the UBO did not have more than a nominal amount of money in its bank account as of December 31st, the UBO also did not have to file a tax return nor pay any federal income taxes.

DAVID SMITH told clients that they could ensure that the UBO didn’t have more than a nominal balance in its bank account on December 31st by making either periodic or year ending “distributions” to the defendants, who operated in Sacramento under the names of the Guardian Group, the Joinder Group, Peer Financial Group, Aloha Leasing, the Keyus Group, International Management Services, PL Services, and Oscar 281B. The defendants also operated under the names of Le Caraibi Conessione Internazionale (“LCCI”) and the Andres Corporation, both of which were incorporated in the Cayman Islands.

DAVID SMITH told clients that they would return the “distributions” to the clients after the beginning of the new tax year in a form which gave the appearance of being from a non-taxable source. Among the ways in which defendants offered to return the money were by making a “loan” to the client’s UBO from a foreign bank or other foreign entity.

Another way in which SMITH offered to return the distributions was to provide the client with a credit card issued by a bank in the Cayman Islands. The clients could purchase goods and services with the card, and the bills would be paid by the Cayman Islands bank with money from the distribution. Accordingly, there would be no paper trail back to the UBO or the client here in the United States. In return for providing this service, the defendants charged the clients a fee of 10 percent to 11 percent.

The evidence presented at trial established that defendant SMITH used a number of “lulling letters” sent to clients to cause them to falsely believe that their investments were safe, were appreciating in value, and would be available when they wanted the money returned. Instead of each client having a segregated account in which only his or her money was being held, however, the jury found that all clients funds held to support the credit card return option were in one account, and all holders of credit cards were making purchases against the one commingled account. Most clients lost most of the money which they thought they had on deposit. Some investors received small monthly payments of \$150 to assist in creating the false sense of

security.

The evidence presented at trial proved how HERBERT BATES, DAVID SMITH and Lonnie Schmidt went to the Cayman Islands and met with a Cayman Islands banker to open bank accounts there and form Cayman corporations for use in the schemes to defraud. The evidence presented at trial established that DAVID SMITH and CHRISTOPHER BATES used these accounts to wire transfer client and investor money between Sacramento, an account at Credit Suisse Bank on the Isle of Guernsey in the Channel Islands of the United Kingdom, and accounts at Guardian Bank and Trust, Cayman Islands, in Georgetown, Grand Cayman in furtherance of the scheme to defraud.

This case is the product of an extensive investigation by the Criminal Investigation Division of the Internal Revenue Service.

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