



Department of Justice

FOR IMMEDIATE RELEASE
FRIDAY, FEBRUARY 27, 2009
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CRM
(202) 514-2007
TDD (202) 514-1888

INTERNATIONAL CRIMINAL FIGURE PLEADS GUILTY TO \$138 MILLION FUEL TAX SCHEME AFTER NEARLY 13 YEARS AS A FUGITIVE

WASHINGTON – After nearly 13 years as a fugitive, a former New Jersey resident has been returned to the United States, and pleaded guilty today to conspiring to committing one of the nation’s largest known motor fuel excise tax schemes, Acting Assistant Attorney General Rita M. Glavin of the Criminal Division announced.

Aaron Misulovin a/k/a Albert Friedman, a/k/a Valery Vibornov, pleaded guilty before U.S. District Judge Joseph E. Irenas in Camden, N.J., to one count of conspiracy, three counts of wire fraud, three counts of money laundering and three counts of tax evasion. According to the terms of the plea agreement accepted today by Judge Irenas, Misulovin will be sentenced to five years in prison, and could face a fine of up to \$2.5 million and restitution. Sentencing is scheduled for June 19, 2009.

On Aug. 3, 1995, an indictment was returned by a federal grand jury in New Jersey, charging Misulovin and 24 other individuals, 15 of whom were émigrés from Eastern Europe, with conspiring to defraud the United States and the state of New Jersey of approximately \$138 million in motor fuel excise taxes, and to commit the substantive offenses of wire fraud, money laundering and tax evasion. Misulovin was born in Riga, Latvia, and was naturalized as a U.S. citizen.

According to the indictment, Misulovin and co-defendants Igor Erlikh and Demetrios Karamanos, operated Kings Motor Oils (Kings), a wholesale fuel distributorship with offices in Edison, N.J. From 1989 through 1994, Kings purchased hundreds of millions of gallons of tax-free home heating oil, but through an elaborate scheme sold it as tax-paid diesel fuel to PetroPlus, a fuel wholesaler located in Deptford, N.J., which was owned and operated by co-defendant Daniel Enright. PetroPlus then sold the fuel to unknowing customers as diesel fuel for highway use, and charged and collected the applicable federal and state taxes. Under U.S. and New Jersey law, the co-conspirators incurred the tax liability for the sale of the fuel. However, instead of paying the IRS and state revenue authorities as required, the amount collected for the taxes were distributed among Enright, Misulovin, Erlikh, Karamanos and other conspirators in the scheme.

According to court documents, Kings and PetroPlus insulated themselves by inserting a series of shell companies, nominee companies and other sham entities (known collectively as

“middle companies”) between them in the distribution chain to give the appearance that these companies actually bought and sold the fuel. In reality, these companies never took title or possession of the fuel. According to court documents, the sole purpose of these middle companies was the generation of false and fraudulent invoices and other paperwork to disguise the true transactions between Kings and PetroPlus. One of the middle companies in each transaction would be positioned as the “burn” company – the entity that appeared on paper to bear the tax liability and that would disappear in the event of an investigation. However, the scheme was designed so that on the face of the paperwork, it always appeared that Kings and PetroPlus were relieved of any tax liability. In the early-1990s, this scheme was commonly known as a “daisy chain” scheme, and often involved organized crime groups. The “daisy chain” made it difficult for the IRS and state revenue authorities to identify those responsible to pay the federal and state taxes, and to trace the movement of the illicit proceeds. The illicit proceeds were then laundered through various bank accounts throughout the United States and overseas.

Court documents show that the sophistication and scale of this illegal operation required the participation of a number of Eastern European émigrés responsible for the creation of many of the middle companies. According to court documents, the conspirators used false identification to incorporate companies, open bank accounts, and establish storefront offices used to facilitate the scheme.

On June 19, 1998, following a nine-and-a-half-month jury trial before Judge Irenas in U.S. District Court for the District of New Jersey, Enright and Karamanos were convicted for their role in the conspiracy and related charges. Also convicted at trial were co-defendants Richard Pedroni and Mary Ingram, both wholesale motor fuels distributors in New Jersey. Two additional defendants were acquitted. Seventeen co-defendants pleaded guilty prior to trial. Enright was sentenced to 16 years in prison and ordered to pay restitution of \$1 million.

At the trial of Misulovin’s co-defendants in 1997 and 1998, testimony revealed that that Misulovin and Erlikh recruited many of their friends and associates to set up the middle companies. One government witness, who had been charged as a co-conspirator and pleaded guilty, testified that he considered Misulovin his, “boss in crime.” In addition, the witness revealed that Misulovin and others instructed this witness and members of his crew to form many of the middle companies using false identification. The false identification documents and corporate records of these middle companies were securely stored in a “safe house” in Brooklyn, N.Y., which Misulovin visited. Witness testimony further showed that when government agents grew suspicious about a particular middle company, Misulovin ordered that all relevant documents be destroyed. Evidence was also presented that Misulovin and Erlikh traveled to Europe during the course of the scheme to open bank accounts to be used in laundering the illegal proceeds. The evidence admitted at trial proved that, throughout the course of the scheme, Misulovin and his co-conspirators caused \$596,255,927 to be wired through the middle companies. The scheme resulted in the United States being defrauded of \$132,376,800. In addition, the state of New Jersey was defrauded of \$11,892,297.

Misulovin and Erlikh evaded arrest on the charges by fleeing the United States in 1995. They were both considered fugitives by U.S. law enforcement, and became the subjects of an international search through notices posted by Interpol. In 1999, Erlikh was returned to the

United States by Ukrainian authorities. Erlikh pleaded guilty, and was sentenced to nine years in prison and ordered to pay \$1 million in restitution.

In April 2004, Israeli police arrested Misulovin, in connection with their investigation of a major international money laundering operation involving an underground bank in Israel. At the time of Misulovin's arrest, the Israeli police froze three accounts tied to Misulovin, and seized forged and fraudulent travel documents used by Misulovin to conceal his identity. The Israeli police also seized an illegal Glock-17 firearm and ammunition from Misulovin.

U.S. and Israeli law enforcement authorities cooperated extensively throughout the duration of the Israeli investigation and prosecution of Misulovin. During this investigation, it was revealed that a portion of the funds Misulovin had laundered through the underground bank in Israel had been originally generated by his "daisy-chain" scheme in the United States. Ultimately, in July 2007, Misulovin pleaded guilty before the Tel Aviv-Jaffa Magistrate's Court to the Israeli charges involving the use of false and forged documents, illegal possession of a firearm and money laundering. Misulovin was sentenced by the Israeli court to serve two years in prison, which he began to serve in Israel in March 2008.

Misulovin entered into a plea agreement with the United States in January 2008. As part of the agreement, Misulovin agreed to waive the pending extradition, and volunteered to participate in the International Prisoner Transfer Program. The program was formally established in 1977 when Congress passed enabling legislation and the United States entered into its first transfer treaty with Mexico. In 1985, the United States also acceded to the multilateral transfer convention, the Council of Europe Convention on the Transfer of Sentenced Persons (the COE Convention). Israel is also a signatory to the COE Convention. This allowed the United States and Israel to return Misulovin, who was sentenced and imprisoned in Israel, to the United States to serve the time remaining on his Israeli sentence. Misulovin's case is the first time that a U.S. citizen was transferred from Israel under the COE Convention.

The case was investigated by the FBI's Newark Division; the Internal Revenue Service-Criminal Investigation Division; the U.S. Department of Transportation's Office of Inspector General; and the New Jersey Division of Taxation.

The prosecution of the case has been led by Deputy Chief Thomas P. Ott of the Criminal Division's Organized Crime and Racketeering Section. The prosecution has received assistance from other federal and foreign authorities, including: the Tax Division's Northern Criminal Enforcement Section; the U.S. Attorney's Office for the District of New Jersey; the Criminal Division's Office of Enforcement Operations, International Prisoner Transfer Unit; the Criminal Division's Office of International Affairs; the Bureau of Prisons; the Israel Ministry of Justice; and the Israel Police, Unit for Serious and International Crime.

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