



U. S. Department of Justice

United States Attorney  
Northern District of Illinois

Patrick J. Fitzgerald  
United States Attorney

Federal Building  
219 South Dearborn Street, Fifth Floor  
Chicago, Illinois 60604  
(312) 353-5300

FOR IMMEDIATE RELEASE  
THURSDAY APRIL 8, 2004

PRESS CONTACTS:  
Randall Samborn, AUSA/PIO (312)353-5318  
Kerry Hannigan, IRS-CID (312)566-4503

**AEGIS TRUST PRINCIPALS AND OTHERS INDICTED IN \$68 MILLION TAX FRAUD CONSPIRACY FOLLOWING NATIONWIDE UNDERCOVER INVESTIGATION**

CHICAGO – Internal Revenue Service agents today began arresting seven defendants, including an attorney and tax return preparers, in Illinois, Indiana, New York and Alabama who, along with an eighth defendant in South Carolina, were indicted in Chicago on federal tax fraud charges. Six of the defendants allegedly participated in a nearly decade-long conspiracy to market and sell sham domestic and foreign trusts through The Aegis Company, based in suburban Palos Hills, to some 650 wealthy taxpayer clients throughout the United States to hide hundreds of millions of dollars in income, resulting in a tax loss to the United States of at least \$68 million, making the case one of the largest of its kind.

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, a federal grand jury in Chicago today returned a 51-count indictment against six of the defendants. Indicted separately in connection with the so-called “abusive trust” scheme were two Chicago area certified public accountants who were being arrested today, and another accountant/tax preparer who was charged last month. Nationwide, the Chicago-based investigation has resulted in six convictions

in central Illinois and Tampa, Fla., and pending charges against another defendant in Buffalo, N.Y. Additional charges are expected, Treasury and Justice Department officials said.

The charges were announced by IRS Commissioner Mark W. Everson; Eileen J. O'Connor, Assistant Attorney General for the Tax Division of the Justice Department; Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois; and James W. Martin, Special Agent-in-Charge of the IRS Criminal Investigation Division in Chicago.

Today's main indictment charges all six defendants with 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 returns on behalf of others. The defendants are identified in the indictment, with additional charges, as follows:

**Michael A. Vallone**, 44, 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. He was also charged with 24 counts of aiding and assisting the filing of false tax returns, 3 counts of personal income tax evasion, 7 counts of mail fraud and two counts of wire fraud;

**Edward B. Bartoli**, 74, of Little River, S. Car., a former attorney, who was also one of the founders of Aegis, the legal director, and a principal in the company. He was also charged with 24 counts of aiding and assisting the filing of false tax returns, 4 counts of personal income tax evasion, 7 counts of mail fraud and two counts of wire fraud;

**Robert W. Hopper**, 58, of Gadsden, Ala., also one of the founders of Aegis, the managing director, and a principal in the company. He was also charged with 19 counts of aiding and assisting the filing of false tax returns, 4 counts of personal income tax evasion, 2 counts of mail fraud and 1 count of wire fraud;

**Timothy Shawn Dunn**, 44, 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. He was also charged with 11 counts of aiding and assisting the filing of false tax returns, 1

count of personal income tax evasion, 2 counts of filing false tax returns, 7 counts of mail fraud and 2 counts of wire fraud;

**William S. Cover**, 67, 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. He was also charged with 13 counts of aiding and assisting the filing of false tax returns, 3 counts of filing false tax returns, 7 counts of mail fraud and 2 counts of wire fraud; and

**David E. Parker**, 51, of Williamsville, N.Y., an attorney who was the legal director of the Aegis Management Company, through which he assisted in the promotion, sale, and management and defense of Aegis trust systems. He was also charged with 2 counts of mail fraud and 1 count of wire fraud.

The indictment also seeks forfeiture of \$4,125,000 from Vallone, Bartoli, Dunn and Cover.

In addition, it seeks forfeiture of Vallone's residence; Dunn's residence and two other properties in northwest Indiana, as well as three Lincoln limousines and a Lotus automobile from Dunn; and Cover's residence.

Arrest warrants were issued for each of these defendants except Bartoli, who will arraigned at a later date.

Arrest warrants were also issued for **Laura M. Baxter**, 38, of Monee, a certified public accountant who operated Baxter Accounting in Frankfort, and **Donald J. Todd**, 67, of South Holland, also a certified public accountant who operated Donald J. Todd, CPA, in Calumet City. They were charged today in separate indictments alleging that they aided and assisted the preparation and filing of false tax returns by Aegis trust clients. Another tax preparer defendant, **Robert J. Clausing**, 53, of Lansing, was indicted last month on similar charges.

The defendants being arrested were expected to appear initially in Federal Court in various locations, including Chicago.

According to the Vallone indictment, 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 use of 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, according to the indictment.

“The government will not tolerate schemes by wealthy people to funnel millions of dollars offshore to illegally escape taxes,” said IRS Commissioner Everson. “All Americans who pay their taxes should be assured that when they pay honestly and accurately, we will hold accountable those who do not.”

Assistant Attorney General O'Connor said: “A tax scheme designed to conceal the truth from the IRS isn't worth a cent of what you pay for it. People who promote or participate in tax fraud should prepare to face civil penalties, criminal prosecution, or both.”

Mr. Fitzgerald said: “All Americans have an obligation to pay taxes when they earn income. The notion that persons with training in the professions -- attorneys and accountants -- would engage in massive efforts to help high-income earners to not pay their fair share of taxes, to the tune of \$68 million, is offensive.”

### **Domestic Trusts**

Regarding domestic trusts – known as “common law business organizations,” “business trusts,” and “CBOs” – the Vallone indictment alleges that the defendants and their associates conducted seminars and distributed Aegis promotional materials to recruit clients. After selling trusts and trust management services to these clients, they assisted in hiding clients' income in

various trusts and in transferring the clients' businesses, homes, and other assets into trusts, or to bank accounts corresponding to trusts. They further counseled their clients in making it appear on trust tax returns that the clients had passed their business income through a series of trusts which ultimately paid little or no taxes. Many clients allegedly were given falsely notarized trust documents, and in some cases, clients were given trust documents that were backdated, enabling them to benefit from the purported tax advantages before the date that the trusts were actually purchased from Aegis.

The defendants allegedly designed the trusts by naming Bartoli and Parker or another Aegis attorney as nominal trustees. At virtually the same time, or even before, a client transferred assets and/or income to a trust, the Aegis attorney resigned and appointed the client as the new trustee, effectively giving the client management and control of the assets in the trust and the trust's bank accounts, as well as the full use and benefit of the income that was assigned to the trust.

As part of the conspiracy, the defendants allegedly helped their clients claim false deductions on the trusts' federal tax returns. These deductions included such ordinary living expenses as household utility expenses, repairs and lawn maintenance costs for the clients' personal residences, which had been designated the "world headquarters" of the trusts. Other allegedly false deductions included the cost of college tuition for the clients' children, under the guise that the children would become directors of the trusts in the future. The defendants also helped clients claim false charitable deductions on trust returns, purportedly for money given to legitimate charities. Such false deductions included the costs of vacations taken by Aegis clients to places such as Hawaii, under the guise that, during their vacations, the clients were looking for legitimate charities to which to donate money. In reality, the charitable trusts established by defendants for their clients were simply

additional entities under the control and management of the clients, which served as vehicles for the clients to invest or spend their untaxed income, according to the indictment.

### **Foreign Trusts**

The indictment alleges that the defendants aided some of their most wealthy clients in participating in a program they marketed as an offshore trust system. Assisted by a contact in Belize, this trust system, in fact, was an elaborate scheme for concealing clients' income from the IRS through the use of multiple domestic and foreign bank accounts, domestic and foreign trusts, and international business companies ("IBCs"). The defendants sometimes received additional fees for the clients' use of these trusts system -- approximately 3 percent of any funds sent out of the United States by the clients and then repatriated through a phony "demand note" process.

According to the indictment, the offshore trust system involved a series of sham transactions, through which clients' income was purportedly transferred through foreign trusts and then returned to the clients. Often, the transfer of income did not actually take place, but was made to appear to have occurred through a series of trust tax returns showing distributions of income from trust to trust. These purported income distributions ended at a foreign trust or IBC, the bank accounts of which were secretly controlled by the Aegis clients. The defendants further advised their clients that untaxed income should first be transferred to trust bank accounts in the United States controlled by the clients and then wire transferred from those accounts to offshore bank accounts in Antigua in the names of the foreign trusts secretly controlled by the clients, and subsequently transferred again by each client to a second offshore bank account in Antigua in the name of an IBC that they also secretly controlled. Clients were then provided with credit cards linked to the IBC bank accounts and were instructed by the defendants that they could use the credit cards to make purchases or to

receive cash advances through automatic teller machines in the United States without any record of these transactions clearing in the United States. The indictment further alleges that the defendants told clients they could also repatriate their untaxed income through purported “loans” or “gifts” from their IBCs, assuring them that the IRS would not be able to link the clients to the control or management of the IBCs or IBC bank accounts.

### **Aegis Audit Arsenal**

The indictment further alleges as part of the conspiracy that the defendants advised their clients on how to manage their Aegis trust systems to conceal income from the IRS. Some of the defendants assisted clients in preparing personal, business, and trust tax returns that falsely concealed such income, and they referred clients to particular tax return preparers who the defendants knew would perpetrate and conceal the scheme. The defendants also allegedly assisted clients in obstructing IRS audits and in thwarting IRS inquiries into the Aegis trust scheme through the use of what they called the “Aegis Audit Arsenal.” They advised clients to withhold information from IRS revenue agents, to respond to IRS inquiries or civil summonses for financial records with obstructive letters and questionnaires that they had drafted and given to clients, and to resist IRS civil summonses by filing meritless motions, according to the indictment.

It alleges that the defendants created a law firm in Washington, D.C., called Parker & Associates, of which Vallone, Hopper, Dunn and Parker were the principal partners. Parker & Associates allegedly was established to represent Aegis clients during IRS audits and examinations, to further implement the Aegis audit arsenal strategies, and to obtain additional fees from Aegis clients. The defendants also allegedly filed frivolous lawsuits against the IRS and individual IRS revenue agents and special agents.

Finally, the indictment alleges that the defendants concealed their own income from the sale of and management of the fraudulent Aegis trust systems, by placing their assets in domestic and foreign trusts they created, by diverting their income into those trust bank accounts, and by using those bank accounts to pay personal living expenses. They further concealed their income from the IRS by failing to file federal income tax returns or by failing to report their true income to the IRS, the charges allege.

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

If convicted, 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. 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, defendants convicted of tax offenses must pay the costs of prosecution and 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, would determine the appropriate sentence to be imposed under the United States Sentencing Guidelines.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the United States has the burden of proving guilt beyond a reasonable doubt.

###