

UNITED STATES ATTORNEY'S OFFICE
Western District of Washington



PRESS ROOM

June 25, 2004

**BELLINGHAM CORPORATIONS
SENTENCED FOR TAX FRAUD;
TO PAY \$36.5 MILLION IN
BACK TAXES, INTEREST, PENALTIES AND FINES**

Two Bellingham corporations, ALPHA TECHNOLOGIES, INC., and G.B. ENTERPRISES, INC., were sentenced today for tax fraud offenses. Pursuant to the terms of the written Plea Agreements, which accompanied the guilty pleas, Chief United States District Judge John C. Coughenour sentenced G.B. Enterprises, Inc. to pay \$35.5 million in back taxes, interest, and penalties and fines to the IRS. In addition, Alpha Technologies, Inc. and G.B. Enterprises, Inc., each were fined \$500,000 per corporation. GB Enterprises was placed on three years of probation and Alpha Technologies, Inc. was placed on probation for one year with special conditions aimed at insuring that neither corporation commit further tax fraud.

G.B. Enterprises, Inc., and Alpha Technologies, Inc., are both Washington corporations with their principal places of business in Bellingham. Alpha Technologies, Inc., and a group of related "Alpha" corporate entities worldwide, which are controlled by Fred Kaiser, a resident of Cyprus and the Bahamas, manage product lines that include uninterruptible power supplies and related products for the cable television and cellular telephone industries. G.B. Enterprises, Inc., which is wholly owned by Grace Borsari, a resident of Bellingham, manufactures "Alpha" branded products.

According to court records, G.B. Enterprises, Inc., filed a fraudulent corporate income tax return for the calendar year 1996, and Alpha Technologies, Inc. aided and assisted in the preparation and presentation of this fraudulent return. Corporate officers for each corporation admitted on behalf of the corporate defendants that:

a. Defendants Alpha Technologies, Inc. (ATI) and G.B. Enterprises, Inc. (GBE) are Washington corporations, with their principal places of business in Bellingham, Washington. Fred Kaiser controls ATI and a group of related "Alpha" corporate entities worldwide. The Alpha corporate entities manage product lines that includes uninterruptible power supplies and related products for the cable television and cellular telephone industries. Grace L. Borsari is the sole shareholder of GBE, which manufactures "Alpha" branded products. Mr. Kaiser and Ms. Borsari are close business associates.

b. In 1996, GBE paid an eight percent "sales commission" on most product sales to ATI, the entity

primarily responsible for administration and sales. ATI was responsible for the maintenance of a regional sales network principally comprised of independent sales representatives. ATI paid these independent sales representatives a smaller sales commission, amounting to approximately one-half of gross sales commissions.

c. The balance of the sales commissions paid by GBE to ATI was recorded on ATI's books in a commissions clearing account. From time to time during 1996, at the direction of Mr. Kaiser, ATI wire transferred amounts from the commissions clearing account either to Alpha Technologies GRC, Ltd., a Cayman Islands corporation, or to Alphatec. Ltd., a Cypriot corporation.

d. GBE reported the entire amount of its sales commissions paid into the ATI commissions clearing account as an ordinary and necessary business expense for which GBE claimed a deduction. However, in truth, GBE and ATI knew that GBE was only entitled to deduct that portion of the sales commissions that was actually paid to independent sales representatives and could not deduct that portion of the sales commissions that was transferred off-shore to Alpha Technologies, GRC, Ltd., and Alphatec, Ltd. These residual commissions were not bona fide ordinary and necessary business expenses because there were no services rendered to GBE or ATI and consequently, there was no justification for the deduction of these residual commissions by GBE.

e. For 1996, GBE reported on its federal tax return sales commissions of \$9,577,418. In truth, \$5,031,490 was improperly included in the claimed deduction. This failure to accurately report only the legitimate business expense relating to commission results in an additional tax due and owing for 1996 of \$1,721,869. For the eight year period beginning in 1994 and continuing through 2001, GBE exaggerated its true sales commissions by \$56,879,852, thereby resulting in an additional tax liability in excess of \$19,564,000, exclusive of civil penalties and interest.

In sentencing these companies, U.S. District Judge John C. Coughenour expressed regret that the person most culpable for these crimes is not facing indictment. The Judge acknowledged that person "is not in this country and is not extraditable." Coughenour lauded the government for "not taking the easy way out and indicting those employees who were simply following orders from one higher up."

These sentences bring to a close an extensive investigation which was conducted by IRS Special Agent Anne Rueter, Criminal Investigations Division, and IRS Revenue Agent Erv Otis, Field Operations, Natural Resources. These criminal convictions are a testament to the commitment, dedication, expertise, and hard work of these IRS agents.

Steven J. Pasholk, Special Agent-in-Charge of the Seattle Field Office, Criminal Investigations, Internal Revenue Service said "The IRS expects the same level of honesty from corporate citizens as we do

from individuals. This investigation makes clear the commitment of IRS Criminal Investigation to combat corporate tax fraud. By this prosecution and sentencing, the average taxpayer can be assured that tax fairness applies to all citizens."

For further information, please contact Public Information Officer Emily Langlie at (206) 553-4110.