



United States Attorney District of New Jersey

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September 2, 2010

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FOUNDER AND PRESIDENT OF ALLIED HEALTH CARE SERVICES, INC. ARRESTED, CHARGED WITH \$87 MILLION FRAUD

Millions in Loans Based on Phony Medical Equipment Lease Agreements

NEWARK, N.J. – The founder and president of Allied Health Care Services, Inc. (“Allied”) – an Orange, New Jersey, durable medical equipment corporation – was charged in a criminal Complaint unsealed today with fraudulently obtaining more than \$87 million from banks based on phony lease agreements, United States Attorney Paul J. Fishman announced.

Charles K. Schwartz, 56, of Sparta, New Jersey, was arrested this morning by special agents of the FBI at Allied’s offices in Orange. The defendant is scheduled to appear this afternoon before United States Magistrate Judge Madeline Cox Arleo in Newark federal court.

According to the Complaint filed in this case:

From at least 2002 through July 2010, Schwartz obtained more than \$87 million in loans through Allied by telling banks that the money would be used to lease valuable medical equipment. In reality, the purported medical equipment supplier did not provide Schwartz and Allied with any equipment during that time. Instead, Schwartz and the “supplier” created phony invoices which appeared to reflect legitimate transactions.

As part of the scheme, Schwartz approached various financial institutions and informed them that Allied needed to lease particular medical equipment. Using the phony invoices from the “supplier,” Schwartz convinced the financial institutions to enter into leasing arrangements. Pursuant to these arrangements, the financial institutions purchased the medical equipment – which they immediately leased to Schwartz and Allied – and sent payment for the medical equipment to the purported supplier. The “supplier” then sent the money received from the financial institutions (minus his 3-5 percent payment) to an entity created by Schwartz to facilitate the fraud.

Schwartz used the money, among other things, to repay earlier bank loans that were a part of the scheme. By August 2010, several financial institutions from which Schwartz had obtained loans filed lawsuits against Schwartz and Allied – claiming he owed them at least \$20 million.

Schwartz and the medical equipment “supplier” undertook efforts throughout the scheme to evade questioning from bank examiners who sought at various times to inspect the non-existent medical equipment, which technically belonged to the financial institutions. At one

point during an August 2010 conversation between Schwartz and the purported supplier, Schwartz commented that the financial institutions had fallen “hook, line and sinker” for the false explanation they had given to bank examiners who asked why the purported supplier used his home address on certain invoices.

U.S. Attorney Fishman stated: “Schwartz allegedly tried to capitalize on the public’s real need for lifesaving medical equipment by convincing financial institutions to lend him money for equipment that didn’t actually exist. This case is yet another example of our Office’s commitment to investigating and prosecuting health care and financial institution fraud.”

“The financial losses in this case are staggering,” said Michael B. Ward, Special Agent in Charge of the FBI’s Newark Division. “Based upon the amount and extent of alleged fraud with which Schwartz is accused, it appears he was determined to steal as much money as he could, as fast as he could. I commend the special agents and prosecutors who worked so diligently to bring this matter to justice.”

The criminal Complaint charges Schwartz with one count of mail fraud. If convicted, he faces a maximum potential penalty of 20 years in prison and a fine of \$250,000, or twice the gross gain or loss from the offense.

U.S. Attorney Fishman credited special agents of the FBI, under the direction of Special Agent in Charge Michael B. Ward, for the investigation. He added that the investigation is continuing.

The government is represented by Assistant U.S. Attorneys Jacob T. Elberg and Joseph Mack of the U.S. Attorney’s Office Health Care and Government Fraud Unit in Newark.

The charge and allegations contained in the Complaint are merely accusations, and the defendant is considered innocent unless and until proven guilty.

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Defense counsel: Dennis Leonard, Esq., Stanhope, N.J.