



United States Department of Justice

United States Attorney Scott N. Schools
Northern District of California

11th Floor, Federal Building
450 Golden Gate Avenue, Box 36055
San Francisco, California 94102
(415) 436-7200
FAX: (415) 436-7234

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WWW.USDOJ.GOV/USAO/CAN

CONTACT: Natalya LaBauve
(415) 436-7055
Natalya.LaBauve@usdoj.gov

FORMER SAN MARTIN COUPLE PLEAD GUILTY TO FILING FALSE TAX RETURN

Offshore Corporations Used To Conceal Income

SAN JOSE – United States Attorney Scott N. Schools announced that Michael Watts and Jan Watts each pleaded guilty Monday, May 21, 2007 to one count of filing a false tax return. This guilty plea is the result of an investigation by the Internal Revenue Service Criminal Investigation.

Michael Watts, 60 and Jan Watts, 54, formerly of San Martin, were indicted by a federal Grand Jury on September 29, 2004. They were charged with one count of income tax evasion in violation of Title 26 U.S.C. § 7201. On May 15, 2007, a superseding information was filed charging the Watts with one count of filing a false tax return in violation of Title 26 U.S.C. § 7206(1).

Under the plea agreement, the Watts pled guilty to the charges in the superseding information.

According to the plea agreements, in 1994, Mr. Watts, performed consulting work under the name of a sole proprietorship, Melbourne Enterprises. During this period of time, Mrs. Watts handled tax matters for herself and her husband. With Mr. Watts' knowledge, she established an offshore corporation on the Isle of Nevis in the West Indies under the name Fundamental Technologies, Inc. The Watts agreed that Mr. Watts' consulting fees would be paid to Melbourne Enterprises. Mrs. Watts admitted that she willfully failed to report any income from Melbourne Enterprises on their 1994 tax return, when in fact she knew that she had received \$92,494.13 in income for services provided by Mr. Watts. In addition, she did not report any of the income which Mr. Watts earned through Fundamental Technologies in 1994, though she knew that they had received payments to the Fundamental Technology account in Nevis in the amount of \$90,000.

As a result of the omission of income, neither Mr. Watts nor Mrs. Watts paid any tax in 1994; to the contrary, they received a refund of their withholdings, and also received an earned income credit. The unreported income for 1994 resulted in additional tax due of \$54,183. The Watts have agreed to pay \$1,000,000 for taxes owed for 1994 and other amounts owed to the IRS.

The sentencing of Mr. and Mrs. Watts is scheduled for August 27, 2007 before Judge Ronald M. Whyte in San Jose. The maximum statutory penalty for each count in violation of Title 26 U.S.C. § 7206(1) is three years in prison and a fine of \$250,000, plus restitution. However, any sentence following conviction would be imposed by the court after consideration of the U.S. Sentencing Guidelines and the federal statute governing the imposition of a sentence, 18 U.S.C. § 3553.

Jeff Nedrow is the Assistant U.S. Attorney who is prosecuting the case with the assistance of Susan Kreider. The prosecution is the result of a lengthy investigation by the Internal Revenue Service Criminal Investigation.

Further Information:

Case #:CR 04-20178 RMW

A copy of this press release may be found on the U.S. Attorney's Office's website at www.usdoj.gov/usao/can.

Electronic court filings and further procedural and docket information are available at <https://ecf.cand.uscourts.gov/cgi-bin/login.pl>.

Judges' calendars with schedules for upcoming court hearings can be viewed on the court's website at www.cand.uscourts.gov.

All press inquiries to the U.S. Attorney's Office should be directed to Natalya LaBauve at (415) 436-7055 or by email at Natalya.LaBauve@usdoj.gov.

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