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LOS ALTOS MAN PLEADS GUILTY TO TAX FRAUD

Diverted Over Two Million Dollars Of His Company's Funds For Personal Use

SAN JOSE - United States Attorney Scott N. Schools announced that Inn-Chung Chen, a/k/a Daniel Chen, pleaded guilty today to conspiracy to defraud the United States and filing a false tax return. This guilty plea is the result of an investigation by the Internal Revenue Service Criminal Investigation.

Mr. Chen, 54, of Los Altos, was indicted by a federal Grand Jury on December 8, 2005. He was charged with one count of conspiracy to defraud the United States, in violation of 18 U.S.C. § 371, and two counts of willfully subscribing to a false tax return, in violation 26 U.S.C. § 7206(1). Under the plea agreement, Mr. Chen pled guilty to one count of conspiracy and one count of willfully filing a false tax return.

In pleading guilty, Mr. Chen admitted to the following:

From in or about January 1997 until August 2000, Mr. Chen was the president of Top Line Electronics, a contract electronics manufacturer located in San Jose, California. He, along with Thien Sieng Khauv, who was vice-president, controlled Top Line's finances.

Beginning on or about May 2, 1997 and continuing until on or about December 21, 1999, Mr. Chen entered into an agreement with Thien Sieng Khauv, Bryan Lam, and Kevin Lam to divert corporate funds from Top Line into nominee accounts in order to avoid paying taxes and for their own financial gain. Mr. Chen directed overpayments to three subcontracting companies: Twin Electronics, Hi Fi Electronics, and Sage Electronics. These subcontracting companies were owned and operated by Bryan Lam and Kevin Lam. The Lams' arranged for the overpayments to be deposited into nominee accounts that were established and controlled by Mr. Chen and Mr. Khauv. Mr. Chen then transferred the money out of the nominee accounts under his control into other bank accounts, or withdrew cash, or used the funds to purchase shares of stock in Top Line Electronics for himself and his relatives.

In furtherance of the conspiracy, on May 2, 1997, Mr. Chen wrote a check from Top Line Electronic's bank account to Twin Electronics in the amount of \$43,965.75.

Days later, on May 7, 1997, Bryan Lam, who was president of Twin Electronics, wrote a check from Twin Electronic's bank account to a nominee account in the name of Fu-Lai Wang in the amount of \$43,965.75. Mr. Chen controlled the Fu-Lai Wang account and used the funds for his own benefit. The amount of the overpayments was approximately \$2,117,661.00, resulting in a tax loss of \$905,343.00. Mr. Chen benefitted from the scheme by receiving approximately \$1,270,596.00.

In addition, Mr. Chen failed to disclose the income from the overpayments on his personal tax return.

Specifically, on April 11, 2000, he filed a materially false U.S. Individual Income Tax Return for the 1999 tax year with the Internal Revenue Service. He filed the tax return jointly with his wife. In the return, Mr. Chen declared under penalty of perjury that he had an adjusted gross income of \$1,008,609.00, resulting in a joint taxable income of \$905,449.00. However, he knew at the time he signed the return that he had a joint taxable income of approximately \$1,234,059.00, which included income from the overpayment scheme described above.

Thien Sieng Khauv, Bryan Lam, and Kevin Lam have also been indicted for conspiracy to defraud the United States and willfully subscribing to a false tax return. Bench warrants have been issued for their arrest.

Mr. Chen made his initial appearance in the case on January 5, 2006 and was released on bond. The sentencing of Mr. Chen is scheduled for August 13, 2007 before Judge Ronald M. Whyte in San Jose. The maximum statutory penalty for conspiracy to defraud the United States, in violation of 18 U.S.C. § 371, is five years imprisonment, \$250,000 fine, three years of supervised release and \$100 special assessment. The maximum statutory penalty for willfully subscribing to a false tax return, in violation of 26 U.S.C. § 7206(1), is three years imprisonment, \$100,000 fine, three years supervised release, \$100 special assessment, and the costs of prosecution. 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.

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

Further Information:

Case #: 05-00218 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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