



*United States Attorney  
Southern District of New York*

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**ATTORNEY PLEADS GUILTY TO CRIMINAL TAX  
FRAUD RELATED TO TAX SHELTERS**

MICHAEL J. GARCIA, United States Attorney for the Southern District of New York, announced that PETER CINQUEGRANI, an attorney, pleaded guilty earlier today to a three-count Information charging him with conspiracy to commit tax fraud, aiding and abetting tax evasion, and aiding in the submission of false and fraudulent documents to the Internal Revenue Service ("IRS"). According to the Information filed in Manhattan federal court and statements made during CINQUEGRANI's guilty plea:

CINQUEGRANI was an attorney employed by Arnold & Porter, a law firm with offices around the United States and abroad ("A&P"), from 1986 through 1993, and again from 1997 through April 2007. CINQUEGRANI, who was employed as an attorney with the IRS in the interim, returned to A&P as a special counsel in 1997, and became a partner in January 2002.

In early 1998, the international accounting firm, Ernst & Young ("E&Y") formed a group within its National Tax practice that was devoted to designing, marketing and implementing high-fee tax strategies for individual clients. The group initially called itself the "VIPER Group" (an acronym for "Value Ideas Produce Extraordinary Results"), but changed its name to the "Strategic Individual Solutions Group," or "SISG," in early 2000 (the "VIPER/SISG group"). The tax strategies designed, marketed and implemented by the VIPER/SISG group included tax shelters that could be used by high-net-worth clients to eliminate, reduce or defer taxes on significant income or gains. The group's members worked together with financial institutions, law firms and other entities.

Among the fraudulent tax shelters marketed to clients of E&Y was a shelter called "Personal Investment Corporation," or "PICO." During 2000 and 2001, E&Y sold and assisted in implementing approximately 96 PICO transactions for approximately 150 wealthy individuals. E&Y clients who implemented a PICO tax

shelter during 2000, and many of the clients who implemented PICO during 2001, were offered a "more likely than not" legal opinion from A&P. The fees for those letters typically ranged between \$50,000 and \$100,000, depending on the size of the client's PICO transaction. CINQUEGRANI was primarily responsible for drafting the legal opinions issued by A&P to E&Y's PICO clients.

Appearing this morning before United States Magistrate Judge KEVIN NATHANIEL FOX, CINQUEGRANI acknowledged that he and others deliberately concealed information from the IRS in an effort to deceive the IRS about the nature of the shelter and the circumstances under which PICO was marketed and sold to clients. CINQUEGRANI admitted that he assisted in the submission of false and fraudulent documentation to the IRS in connection with the PICO shelters. CINQUEGRANI acknowledged that over a period of several years, he and others, including individuals at E&Y, participated in developing the PICO shelter and creating a legal opinion that would be used to support it. CINQUEGRANI admitted he and his co-conspirators knew that the IRS would not allow PICO's tax benefit if the IRS was told that PICO was designed primarily to allow the client to avoid paying taxes and otherwise did not have economic substance. CINQUEGRANI acknowledged that he and others developed a false story to explain to the IRS why the client had entered into the PICO and performed certain steps of the pre-planned transaction. According to CINQUEGRANI, the false story he and his co-conspirators came up with included that the client formed the PICO to use as its principal investment vehicle for asset protection and estate planning purposes, and that the client had joined with individuals affiliated with Bricolage Capital, an investment advisory firm involved in developing and marketing PICO, to "try out" foreign currency trading and limit the client's losses while becoming familiar with the trading strategy. CINQUEGRANI explained that this story was not true. In reality, the Bricolage-affiliated individuals, with whom the clients had no previous connection, were there to soak up certain gains resulting from the transaction so the losses could be used by the client to achieve the desired tax result. CINQUEGRANI acknowledged that this false story was incorporated into the legal opinions provided to the clients in order to persuade the IRS that the transaction was not primarily tax motivated and so that the client could avoid the imposition of penalties in the event they were audited. CINQUEGRANI admitted there were other statements in the legal opinions that were also false, including that the PICO entities had not structured their transactions to achieve a particular tax result. The fact that the PICO was primarily tax motivated was intentionally omitted from the opinions, as was the fact that A&P had helped develop PICO.

CINQUEGRANI admitted that after consulting with his co-conspirators, he drafted a phony consulting contract between E&Y and an affiliate of Bricolage Capital to deceive the IRS about

the nature of E&Y's fees for selling the PICO shelters. CINQUEGRANI stated that E&Y's fee for the PICO transaction was calculated as a percentage of the tax loss the client wished to generate, but E&Y's engagement letter with each client reflected a much smaller flat fee amount in order to conceal that the true fee was a percentage of the targeted tax loss. CINQUEGRANI admitted that together with individuals at E&Y and Bricolage, he helped arrange for the large balance of E&Y's true tax shelter fee to be paid by the client to a Bricolage affiliate, and then for the affiliate to pay E&Y. According to CINQUEGRANI, the phony consulting contract stated that E&Y was being paid for performing services for the Bricolage affiliate, which was not true.

CINQUEGRANI acknowledged that he was aware that the legal opinions he drafted, and other documents that falsely described the reasons why individuals participated in PICO and falsely understated E&Y's fees for the PICO transactions, were submitted to the IRS. In pleading guilty today, CINQUEGRANI also admitted lying to the IRS under oath in 2003, when he was asked about PICO.

CINQUEGRANI, 48, who resides in Baltimore, Maryland, faces a maximum sentence of five years in prison on the conspiracy charge, five years in prison on the tax evasion charge, and three years in prison on the charge of aiding in the submission of false and fraudulent documents. On each count, the maximum fine is the greatest of \$250,000 or twice the gross gain or gross loss from the offense. Restitution to the IRS can be imposed on all the charges, and the court can also impose the costs of prosecution on Counts Two and Three. As part of his plea agreement with the Government, CINQUEGRANI agreed not to be involved in organizing, marketing, promoting or selling tax shelters or tax-advantaged transactions designed to avoid or evade taxes, and not to be involved in tax return preparation.

A sentencing date of December 11, 2008 was set before United States District Judge COLLEEN McMAHON.

The IRS announced today that it reached a settlement with Arnold & Porter LLP, which paid a civil tax shelter promoter penalty. The IRS said the settlement relates to Arnold & Porter's failure in 2000, 2001, and 2002 to comply with the tax shelter registration requirements and its participation in the organization of listed transactions, including PICO.

Mr. GARCIA thanked the Criminal Investigation Division of the New York Office of the IRS for their efforts in this case.

Assistant United States Attorneys LAUREN GOLDBERG and MARSHALL CAMP and Special Assistant United States Attorney JOHN SULLIVAN are in charge of the prosecution.