

due and owing. All U.S. taxpayers were required to file a Form 1040 if their total income in a given year was above a certain threshold.

3. A Form 1120S, U.S. Income Tax Return for an S Corporation (“Form 1120S”), was an IRS form used to report the income, gains, losses, deductions, and credits of an S Corporation. All S Corporations were required to annually file a Form 1120S. No tax payment was made with an 1120S, but rather the income or loss “flows through” to the shareholders of the S Corporation.

4. A Substitute for Return (“SFR”) was generated by the IRS when informational documents, such as Forms W-2 and Schedules K-1, had been filed for a taxpayer with the IRS, but no tax return had been filed by that taxpayer, and was used by the IRS to make an assessment of taxes.

5. A loss carryover was a portion of certain losses incurred by a taxpayer in one tax year that the federal tax laws and regulations allowed a taxpayer to apply to offset certain income in one or more future tax years.

INTERNET PHARMACY ORGANIZATION

6. Company A was an internet pharmacy organization.

7. Individuals seeking to purchase prescription drugs over the internet could access websites owned and operated by Company A’s paid affiliates, and place an order for the drugs.

8. Company A paid individual physicians to write prescriptions for individuals to purchase their prescription drugs through Company A’s affiliated websites (“participating physician”). In most cases, the participating physician wrote prescriptions for individuals who they did not examine, and whom they never met.

9. Company A paid participating physicians a fee for each prescription the participating physician authorized. These payments were usually made weekly by Company A via electronic wire from bank accounts in Hong Kong under the control of Company A.

THE DEFENDANT

10. Defendant ELIAS KARKALAS was a medical doctor. From at least 2005 through 2011 he resided in Phoenixville, Pennsylvania, in the Eastern District of Pennsylvania.

11. In 2005, defendant ELIAS KARKALAS became a participating physician with Company A. As a participating physician, defendant KARKALAS was able to access a website under the control of Company A. Through the use of this website, the defendant was able to log in and review prescriptions available for his authorization.

12. Each prescription available for review had a questionnaire filled out by the individual requesting the prescription. The defendant could review the questionnaires or, in the alternative, he could simply hit an “authorize all” button.

13. During the 2005 through 2011 tax years, the defendant authorized more than 750,000 prescriptions through Company A and other internet pharmacies. During the 2005 through 2010 tax years, the defendant received wire payments based on the number of prescriptions issued that totaled over approximately \$2.5 million. The payments for authorizing these prescriptions were income to the defendant (“prescription drug income”).

14. Beginning in or before 1994, the defendant solely owned and operated a medical practice, in King of Prussia, Pennsylvania, Upper Merion Family Practice PC (“UMFP”). The defendant elected to file UMFP’s tax returns as a Subchapter S Corporation.

15. Beginning in or before 2005, the defendant had a substantial loss carryover from UMFP that allowed him to offset some of his income.

16. In or about 2005, the defendant became a participating physician with Company A. When he signed up, the defendant directed Company A to deposit his prescription drug income into his personal bank account, account ending in 3969 (“Account xxx3969”). The defendant did not inform his accountant or bookkeeper of this income.

17. In or before 2005, the defendant had not filed Forms 1040 for tax years 2001, 2002, 2003, and 2004. In or before 2006, the IRS notified the defendant that it had prepared an SFR for his delinquent 2001 Form 1040, and explained that it would make an assessment of taxes due and owing based on this SFR. On or about June 23, 2006, the IRS issued a levy against the defendant’s personal bank account, Account xxx3969, for \$55,873.23. This amount represented the assessed tax due and owing, plus interest and penalties, as determined by the IRS, for tax year 2001. Immediately thereafter, the defendant filed his delinquent Forms 1040 for tax years 2001, 2002, 2003, and 2004.

18. On or about July 17, 2006, the accountant assisted in the preparation of a Form 1120S for UMFP for the tax year 2005 based on the information provided by the defendant. This Form 1120S was false in that it did not include any of the prescription drug income the defendant earned in 2005. The defendant received this prepared return from his accountant and never filed it with the IRS.

19. On or about October 4, 2006, the accountant prepared and electronically filed a Form 1040 for the tax year 2005 for the defendant based on the information the defendant provided. The defendant caused this false return to be filed, and failed to pay the outstanding taxes due and owing to the IRS.

20. In or about 2006 the defendant earned approximately \$109,000 in prescription drug income. The defendant falsely told his accountant that he had earned only \$70,000 in prescription drug income in 2006. The defendant maintained business records that more accurately reflected his income, but did not disclose such records to his accountant. In or about March, 2007 the defendant instructed Company A to deposit his prescription drug income into UMFP's business bank account, account ending in 6139 ("Account xxx6139").

21. On or about April 4, 2007, based upon information forwarded by the defendant, the accountant prepared a Form 1120S for UMFP for the tax year 2006 that reported \$70,000 of the prescription drug income the defendant earned in 2006. Upon receiving the completed return, the defendant did not timely file this return with the IRS.

22. In or about 2007, the accountant requested the defendant provide information needed to prepare his 2006 Form 1040. The defendant did not provide the accountant with his financial information in 2007, and so the accountant was unable to timely prepare the defendant's 2006 Form 1040.

23. In or about 2007 the defendant hired a new bookkeeper to assist with the maintenance of his business records. The defendant did not inform the new bookkeeper that he was maintaining his own records of his prescription drug income. The defendant provided the new bookkeeper with bank statements from Account xxx6139, but did not disclose that he had received prescription drug income in Account xxx3969, or provide the new bookkeeper with those account records

24. In tax year 2007 the defendant earned more than \$260,000 in prescription drug income. Based on the information provided by the defendant, the records maintained by the new bookkeeper only recorded \$238,907.50 of this prescription drug income.

25. In or about 2008 the accountant requested the defendant provide information needed to prepare his 2007 Form 1040. The defendant did not provide the accountant with his financial information, and so the accountant was unable to timely prepare the defendant's 2007 Form 1040.

26. On or about June 17, 2008, the IRS issued a letter notifying the defendant that a tax lien had been filed for the outstanding tax due and owing for the 2005 tax year.

27. In or about 2009 the accountant asked the defendant for information needed to prepare his 2008 Form 1040. The defendant did not provide the accountant with his financial information, and so the accountant was unable to timely prepare the defendant's 2008 Form 1040.

28. On or about January 30, 2009, the accountant prepared a delinquent Form 1120S for UMFP for the tax year 2007 based on the information provided by the defendant. The Form 1120S reported only \$238,907.50 of prescription drug income based on the records prepared by the new bookkeeper. The defendant filed this false return on or about February 11, 2009.

29. On or about January 21, 2010, the accountant prepared a delinquent Form 1120S for UMFP for the tax year 2008 based on the information provided to him by the defendant. The accountant forwarded the completed return to the defendant, but he never filed it with the IRS.

30. On or about September 7, 2010, the accountant prepared and electronically filed a Form 1120S for UMFP for tax year 2009 based on the information the defendant provided.

31. In or about 2010, the accountant asked the defendant for information needed to prepare his 2009 Form 1040. The defendant did not provide the accountant with his financial information, and so the accountant was unable to timely prepare his 2009 Form 1040.

32. In or about December of 2010, the IRS issued a levy against the defendant for \$13,271.29. This amount represented the outstanding tax due and owing as reported on his 2005 Form 1040, plus interest and penalties.

33. Immediately thereafter, in or about January of 2011, the defendant asked the accountant to prepare his delinquent Forms 1040 for tax years 2006, 2007, and 2008. The defendant did not provide accurate records to the accountant to rely upon to prepare those returns. Because he had misled the accountant and both bookkeepers about the true amount of his prescription drug income in 2005, 2006, and 2007, the defendant fraudulently caused loss carryovers to be overstated in each of the years 2005, 2006, 2007, and 2008 and taxes due and owing to be understated in 2008.

34. On or about February 28, 2011, the defendant received the prepared returns, with instructions to file all three returns "AS SOON AS POSSIBLE." The defendant never told the accountant that these returns were false, in that they did not accurately reflect the prescription drug income he earned in 2005, 2006, and 2007.

35. In or about February of 2011, the defendant filed only the false 2006 Form 1040. The 2006 return was the only return of the three prepared by the accountant that did not on its face report a tax due and owing to the IRS. Stated another way, the unfiled 2007 and 2008 returns reported an outstanding tax due and owing, and were not filed by the defendant.

36. On or about February 15, 2011, the IRS notified the defendant that it had prepared an SFR for his delinquent 2007 Form 1040, and explained that it would make an assessment of taxes due and owing based on this SFR.

37. On or about March 7, 2011, the IRS notified the defendant that it had prepared an SFR for his delinquent 2006 Form 1040, and explained that it would make an assessment of taxes due and owing based on this SFR.

38. In or about May of 2011, the defendant filed his delinquent false 2007 and false 2008 Forms 1040.

39. On or about June 7, 2011, the IRS notified the defendant that it had prepared an SFR for his delinquent 2009 Form 1040, and explained that it would make an assessment of taxes due and owing based on this SFR

40. In or about September of 2011, the accountant, at the request of the defendant, prepared the defendant's delinquent 2009 Form 1040. This return reported total income of \$571,716, and total tax due and owing of \$171,840. The accountant instructed the defendant to file it "AS SOON AS POSSIBLE," and to pay the outstanding taxes due in the amount of \$173,546. The defendant did not file the 2009 Form 1040, and told the accountant he was not going to file this return because he could not afford to pay the taxes due and owing.

41. In or about October of 2011, the accountant prepared the defendant's delinquent 2010 Form 1040. This return reported total income of \$847,741, and total tax due and owing of \$249,233. The accountant instructed the defendant to file it "AS SOON AS POSSIBLE," and to pay the outstanding taxes due in the amount of \$253,739. The defendant did not file the 2010 Form 1040, and told the accountant he was not going to file this return because he could not afford to pay the taxes due and owing.

42. On or about April 19, 2012, the defendant purchased and paid for a 2011 Aston Martin for approximately \$119,000.

43. In or about July of 2012, the defendant was informed that he was under criminal investigation.

44. In or about January of 2013, the defendant filed his delinquent 2009 and 2010 Forms 1040, and UMFP's delinquent false 2006 Form 1120S. Although these returns reported taxes due and owing, no payment was provided with these returns.

45. Beginning in or before January 2005, and continuing until in or after January 2013, the IRS regularly engaged in correspondence with the defendant, notifying him of his unfiled returns and outstanding taxes due. In addition to this correspondence, during the same time period the IRS notified the defendant that it had prepared four SFRs on delinquent returns, and it also filed liens and levied his bank accounts twice. For the tax years 2005 through 2010, the defendant was required by law to file six Forms 1120S for UMFP, six Forms 1040 for his own personal tax liability, and pay any taxes due. Despite being repeatedly notified by the IRS of these duties, in this eight year period the defendant filed six false returns, of which five were late-filed, late-filed two other returns, failed to file two tax returns, and never once timely paid any taxes due for tax years 2005 through 2010.

46. From on or about January 1, 2005, and continuing thereafter up to and including January, 2013, at Phoenix, in the Eastern District of Pennsylvania, defendant

ELIAS KARKALAS

corruptly endeavored to obstruct and impede the due administration of the internal revenue laws by engaging in the following conduct:

- a. on or about August 29, 2005, causing Company A to deposit his prescription drug income into his personal bank account, Account xxx3969;
- b. on or about June 23, 2006, calling the IRS and attempting to have them return the proceeds of a levy by claiming that his son just died in Iraq;
- c. on or about July 17, 2006, causing to be prepared a false Form 1120S for UMFP for tax year 2005;
- d. on or about October 4, 2006, filing a false Form 1040 for tax year 2005;
- e. on or about March 2007, causing Company A to change the account to which it wired his prescription drug income from his personal bank account, Account xxx3969, to UMFP's business bank account, Account xxx6139, and not telling his bookkeeper or accountant;
- f. on or about February 11, 2009, filing a delinquent false Form 1120S for UMFP for tax year 2007;
- g. on or about February 27, 2011, filing a delinquent false Form 1040 for tax year 2006;
- h. on or about May 10, 2011, filing a delinquent false Form 1040 for tax year 2008;
- i. on or about May 11, 2011, filing a delinquent false Form 1040 for tax year 2007;
- j. on or about April 19, 2012, despite knowing he owed a significant debt to the IRS, purchasing a 2011 Aston Martin for approximately \$119,000;
- k. on or about January 10, 2013, filing delinquent false Forms 1120S for UMFP for tax years 2006 and 2007;

- l. from in or before 2005 until in or after 2010, maintaining two sets of business records, one of his business and another of his prescription drug income, which he did not disclose the existence of to the accountant or bookkeepers; and
- m. from on or before 2005 until in or after 2011, repeatedly providing false information to his accountant and bookkeepers.

All in violation of Title 26, United States Code, Section 7212(a).

COUNT TWO

(Filing False U.S. Individual Income Tax Return)

THE GRAND JURY FURTHER CHARGES THAT:

47. Paragraphs One through five and Ten through forty-five of Count One are incorporated here.

48. On or about May 10, 2011, at Phoenixville, in the Eastern District of Pennsylvania and elsewhere, defendant,

ELIAS KARKALAS

willfully made and subscribed a U.S. Individual Income Tax Return, Form 1040, for the tax year 2008, which was verified by a written declaration that it was made under the penalties of perjury and which the defendant did not believe to be true and correct as to every material matter. That U.S. Individual Income Tax Return, Form 1040, for the tax year 2008, which was filed with the Internal Revenue Service, reported \$191,527 on Line 17, income from rental real estate, royalties, partnerships, S corporations, trusts, etc., and \$258,940 on Line 22, total income, whereas the defendant then and there knew, the amounts reported on Line 17 and Line 22 were substantially less than the true amount earned during the tax year 2008.

In violation of Title 26, United States Code, Section 7206(1).

COUNT THREE

(Filing False U.S. Income Tax Return for S Corporation)

THE GRAND JURY FURTHER CHARGES THAT:

49. Paragraphs One through Five and Ten through forty-five of Count One are incorporated here.

50. On or about January 10, 2013, at Phoenix, in the Eastern District of Pennsylvania and elsewhere, defendant,

ELIAS KARKALAS

willfully made and subscribed a U.S. Income Tax Return for an S Corporation, Form 1120S, for Upper Merion Family Practice, for the tax year 2006, which was verified by a written declaration that it was made under the penalties of perjury, filed with the IRS, and which the defendant did not believe to be true and correct as to every material matter. That U.S. Income Tax Return for an S Corporation, Form 1120S, for the tax year 2006, which was filed with the Internal Revenue Service, reported \$488,860 on Line 1a, gross receipts or sales, and \$488,860 on Line 6, total income, whereas the defendant then and there knew, the true amounts reportable on Line 1a and Line 6 were substantially in excess of the amounts reported.

In violation of Title 26, United States Code, Section 7206(1).

COUNT FOUR

(Filing False U.S. Income Tax Return for S Corporation)

THE GRAND JURY FURTHER CHARGES THAT:

51. Paragraphs One through Five and Ten through Forty-Five of Count One are incorporated here.

52. On or about February 11, 2009, at Phoenixville, in the Eastern District of Pennsylvania and elsewhere, defendant,

ELIAS KARKALAS

willfully made and subscribed a U.S. Income Tax Return for an S Corporation, Form 1120S, for Upper Merion Family Practice, for the tax year 2007, which was verified by a written declaration that it was made under the penalties of perjury, filed with the IRS, and which the defendant did not believe to be true and correct as to every material matter. That U.S. Income Tax Return for an S Corporation, Form 1120S, for the tax year 2007, which was filed with the Internal Revenue Service, reported \$796,904 on Line 1a, gross receipts or sales, and \$796,904 on Line 6, total income, whereas the defendant then and there knew, the amounts reportable on Line 1a and Line 6 were substantially in excess of the amounts reported.

In violation of Title 26, United States Code, Section 7206(1).

COUNTS FIVE AND SIX

(Failure to Timely File U.S. Individual Income Tax Returns)

THE GRAND JURY FURTHER CHARGES THAT:

53. Paragraphs One through Five and Ten through Forty-Five of Count One are incorporated here.

54. On or about the dates listed in the chart below, at Phoenixville, in the Eastern District of Pennsylvania and elsewhere, defendant,

ELIAS KARKALAS

received gross income as identified in the chart below, in excess of the respective minimum filing threshold: By reason of such gross income, he was required by law, following the close of the tax year specified in the chart below, and on or before the required filing date specified in the chart below, extended by election for tax year 2009, to make an income tax return to the Internal Revenue Service, stating specifically the items of his gross income and any deductions and credits to which he was entitled. Well knowing all of the foregoing, the defendant willfully failed, on or about the required filing dates identified in the chart below to timely make an income tax return.

COUNT	TAX YEAR	GROSS INCOME	MINIMUM FILING THRESHHOLD	REQUIRED FILING DATE
5	2009	\$571,716	\$9,350	October 15, 2010
6	2010	\$847,741	\$9,350	April 15, 2011

In violation of Title 26, United States Code, Section 7203.

COUNT SEVEN

(Failing To File U.S. Income Tax Return for an S Corporation)

THE GRAND JURY FURTHER CHARGES THAT:

55. Paragraphs One through Five and Ten through Forty-Five of Count One are incorporated here.

56. On or about September 15, 2009, at Phoenixville, in the Eastern District of Pennsylvania and elsewhere, defendant,

ELIAS KARKALAS

was required by law, after the close of calendar year 2008 and on or before September 15, 2009, to make a U.S. Income Tax Return for an S Corporation, for and on behalf of the corporation, Upper Merion Family Practice, to the Internal Revenue Service Center, at Cincinnati, Ohio, or to the person assigned to receive returns at the local office of the Internal Revenue Service at Cincinnati, Ohio, or to another Internal Revenue Service office permitted by the Commissioner of Internal Revenue, stating specifically the items of the corporation's gross income and the deductions and credits allowed by law. Well knowing all of the foregoing, the defendant willfully failed to make an income tax return at the time required by law.

In violation of Title 26, United States Code, Section 7203.

A TRUE BILL:

**_____
GRAND JURY FOREPERSON**

**_____
ZANE DAVID MEMEGER
UNITED STATES ATTORNEY**