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Contact: Susan House
214-744-3700

Texans Cleared in $300 Million Tax Fraud Case in Virgin Islands

DALLAS/ST. CROIX --- After almost two months of trial in the U.S. Virgin Islands, a federal jury has acquitted two Texas businessmen of conspiracy, attempted tax evasion and fraud charges, effectively bringing to a close what is believed to be the largest such case ever tried in the U.S. Virgin Islands.

Jurors returned not guilty verdicts on all counts for James W. Ferguson III, a certified public accountant from Amarillo, Texas, and physician Peter G. Fagan of DeLeon, Texas, along with two other individuals.

“We’re very pleased that a federal jury saw clear evidence that there was no effort on the part of the defendants to commit fraud,” says Dallas attorney Charles M. Meadows, Jr. of Meadows, Collier, Reed, Cousins & Blau, who represented Ferguson during the trial with firm partner Josh O. Ungerman. “This was obviously a complex and lengthy case to try against the formidable resources of the federal government.”

Ferguson, Fagan, two other men and five companies originally were indicted in federal court in East St. Louis, Mo., in July of 2007 on 21 counts. The case was transferred to the U.S. Virgin Islands because most of the alleged violations occurred there. The defendants were then re-indicted on 35 counts, which included allegations of local law violations.

"The government put on 39 witnesses, including five government agents and three undercover agents, so they were certainly pulling out all the stops in prosecuting this case," says Ungerman. "Mr. Ferguson and the other defendants prevailed against long odds, and this verdict is a victory for justice and perseverance."

The defendants were accused of funneling more than $300 million through a management consulting business called Kapok Management between 1999 and 2002. The original indictment accused Kapok of fraudulently using a Virgin Islands economic development program designed to promote local economic development and employment through the use of tax credits.

Prosecutors alleged that the fees paid to Kapok were simply kicked back to the partners minus a 5 percent fee, and that the defendants also were allowed to cycle money in and out of the Kapok account multiple times to maximize the tax credit.

The indictment accused Ferguson and Fagan of setting up the scheme with the support of auto dealer James Auffenberg Jr. of St. Louis, Mo., and J. David Jackson, an accountant based in St. Croix. Both Auffenberg and Jackson also were found not guilty by the jury.

More information about the the law firm of Meadows, Collier, Reed, Cousins & Blau, L.L.P. can be found at http://meadowscollier.com/.