News from Attorney General Robert Abrams

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ABRAMS ANNOUNCES CRIMINAL PROSECUTIONS IN
$13-MILLION 'TAX SHELTER' FRAUD

Attorney General Robert Abrams announced today the indictment by a Manhattan grand jury of five individuals and three corporations charged with engaging in a massive scheme to sell fraudulent tax shelters. Three individuals named in the indictment have been arrested.

He said the case was the largest tax shelter scheme ever prosecuted by a state government.

In addition, Royce Griffin, Colorado State Securities Commissioner and president of the North American Association of Securities Administrators -- the international organization of state and provincial securities regulators -- announced a series of civil actions filed in seven states to halt sales of similar fraudulent investments. A State Supreme Court order halting sales of four fraudulent tax shelters, including the investments covered by the indictment announced today, was obtained by the Attorney General in New York in April, 1984.

Mr. Abrams said the scheme involved the leasing to investors for a 20-year period of an energy-saving device, called the "Energy Brain," that the promoters claimed could be rented to industrial and commercial customers. The commercial clients who rented the devices would pay rental fees based on the energy savings realized. Investors made an advance payment of $10,000, representing the first year leasing fee to Saxon Energy Corporation, and a separate $500 service fee to ALH Energy Management Corporation, which was supposed to find appropriate commercial customers for the devices, handle the installation, and collect rental fees. Investors were told no further cash investment would be required.

Financial planners, accountants and others were recruited by the promoters to sell the securities, receiving commissions of as much as 40 percent from Saxon Energy. They allegedly told investors that their future lease payments would be paid by rental fees they would receive from the companies that rented the device through ALH.

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Nearly 700 individuals nationwide purchased the investments, paying approximately $13 million to Saxon Energy Corporation.

Victims in 1982 were allegedly promised that a $10,500 investment would entitle them to tax credits of $16,000 and a business deduction of $10,500.

Mr. Abrams said the alleged tax benefit was based on valuation of the so-called Energy Brain at $80,000. The indictment alleges that the fraudulent valuation was based on inflated "appraisals" and other falsified figures.

Charged in the indictment are the following individuals:

--Sheldon Barr, 50, a lawyer with officed at 370 7th Avenue, New York City, and a resident of 863 Hayes Street, Baldwin, New York. He surrendered this morning to the Attorney General's office and was scheduled for arraignment in Manhattan Supreme Court before Justice Carol Berkman.

--Kamal M. Fereg, 36, formerly a resident of 416 Woodlawn Avenue, Jersey City, who was arrested in New Jersey yesterday (Monday).

--Leonard I. Freedman, 55, who was apprehended in Herzliya, Israel, by Israeli authorities on Thursday, May 15, and is being held for extradition to the United States.

--Frank Leja, 40, of Grandy, Massachusetts.

--Charles L. Taylor, 60, of South Eastern, Pennsylvania.

The following corporations were also indicted:

--ALH Energy Management Corportion, formerly of 488 7th Avenue, New York City, and later of 2700 Kennedy Boulevard, Jersey City, New Jersey.

--Enersonics, Inc., of 370 7th Avenue, New York City. Enersonics was represented to be the manufacturer of the device.

--Saxon Energy Corporation, of 21 East 40th Street, New York City. Saxon Energy Corporation was allegedly the principal corporation involved in the scheme.

Each individual and corporate defendant was charged with 122 counts of grand larceny, a Class D felony, one count of engaging in a scheme to defraud, a Class E felony, and one count of conspiracy, a Class A misdemeanor.

If convicted, the individual defendants could be fined on each felony count up to $5,000 or double the amount illegally gained. Each corporation could be fined up to $10,000 on each count, or double the amount illegally gained. In addition, the individual defendants could be

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sentenced up four years in prison for engaging in a scheme to defraud, and up to seven years on each count of grand larceny. Conspiracy is punishable by up to one year in jail.

The matter was handled for the Attorney General by Assistant Attorneys General Mark A. Tepper and Rebecca Mullane, under the supervision of Orestes ~~J. Mihaly~~, Chief of the Bureau of Investor Protection and Securities.

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