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Former Employee of Bernard L. Madoff Investment Securities LLC Pleads Guilty to Tax Fraud and Making False Statements in Manhattan Federal Court

U.S. Attorney's Office
June 05, 2012

Southern District of New York
(212) 637-2600

Preet Bharara, the United States Attorney for the Southern District of New York, Janice K. Fedarczyk, the Assistant Director in Charge of the New York Field Office of the Federal Bureau of Investigation (FBI); Victor W. Lessoff, the Acting Special Agent in Charge of the New York Field Office of the Internal Revenue Service, Criminal Investigation Division (IRS- CID); Robert L. Panella Special Agent in Charge for the New York Regional Office of the U.S. Department of Labor's Office of Inspector General, Office of Labor Racketeering and Fraud Investigations (DOL-OIG); and Jonathan Kay, the Director for the New York Regional Office of the U.S. Department of Labor, Employee Benefits Security Administration (DOL-EBSA), announced that Craig Kugel, a former employee of Bernard L. Madoff Investment Securities LLC (BLMIS), pled guilty today to a five-count superseding information charging him with one count of conspiracy, as well as substantive counts of making false statements in relation to documents required by the Employee Retirement Income Security Act (ERISA) and subscribing to false U.S. individual income tax returns. Kugel pled guilty in Manhattan federal court before United States District Judge Laura Taylor Swain. In addition to his guilty plea, Kugel has also agreed to cooperate with the government in its ongoing investigation of the fraud that occurred at BLMIS.

According to the superseding information to which Kugel pled and other court filings:

Kugel was employed at BLMIS and Primex Trading N.A. LLC ("Primex"), its affiliated entity, from 2001 through December 11, 2008. Kugel's responsibilities included budget forecasting for BLMIS's Market Making and Proprietary Trading operations, overseeing the company's health care plan, and reviewing and maintaining its internal employee records and related documents.

Kugel was aware that there were individuals on BLMIS's payroll who did not work for the firm but who nevertheless received salaries and benefits, and he created and maintained false BLMIS employee records on their behalf. Specifically, Kugel was responsible for submitting an Annual Return ("Form 5500") concerning BLMIS's employee benefit plan to the United States Department of Labor (DOL). Form 5500 required Kugel to identify accurately the number of employees at the firm, but instead, he included a number of employees who, in fact, did not work there.

During his tenure at BLMIS, Kugel also charged more than \$200,000 in personal expenses, including luxury clothes, jewelry, and vacations for himself and his family, to a corporate American Express card but did not report it as income on his tax returns.

Kugel, 38, faces a statutory maximum sentence of 19 years in prison. The breakdown of the maximum sentences for each of the charged offenses is set forth in the attached chart. Kugel is also subject to mandatory restitution and criminal forfeiture and faces criminal fines up to twice the gross gain or loss derived from the offense. Pursuant to the cooperation agreement entered into with the government, Kugel will forfeit at least \$2.3 million. This forfeiture will be used to compensate victims of the fraud, consistent with applicable Department of Justice regulations.

Judge Swain set a sentencing date for Kugel of December 13, 2012 at 2:00 p.m.

Mr. Bharara praised the investigative work of the FBI, the IRS, and the DOL. He also thanked the Justice Department's Labor-Management Racketeering Unit of the Organized Crime and Gang Section of the Criminal Division and the U.S. Securities and Exchange Commission.

These cases were brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which Mr. Bharara serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch and, with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who

perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover

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perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

The case is being handled by the Office’s Securities and Commodities Fraud Task Force. Assistant United States Attorneys Lisa A. Baroni, Julian J. Moore, Arlo Devlin-Brown, Barbara A. Ward, and Matthew L. Schwartz are in charge of the prosecution.

Count	Charge	Maximum Penalties
One	Conspiracy to (1) obstruct or impede the lawful government functions of the Internal Revenue Service and to (2) falsify statements in relation to documents required by ERISA	Five years in prison; three years of supervised release; fine of the greatest of \$250,000 or twice the gross gain or loss; mandatory \$100 special assessment; restitution; and criminal forfeiture.
Two	Making False Statements in Relation to Documents Required by ERISA	Five years in prison; three years of supervised release; fine of the greatest of \$250,000 or twice the gross gain or loss; mandatory \$100 special assessment; and restitution.
Three	Subscribing to a false U.S. individual income tax return	Three years in prison; three years of supervised release; fine of the greatest of \$250,000 or twice the gross gain or loss; mandatory \$100 special assessment; and restitution.
Four	Subscribing to a false U.S. individual income tax return	Three years in prison; three years of supervised release; fine of the greatest of \$250,000 or twice the gross gain or loss; mandatory \$100 special assessment; and restitution.
Five	Subscribing to a false U.S. individual income tax return	Three years in prison; three years of supervised release; fine of the greatest of \$250,000 or twice the gross gain or loss; mandatory \$100 special assessment; and restitution.

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