

# Ex-Auto Chemical CEO Sentenced in Stock Scheme

JENNIFER PELTZ, Associated Press

NEW YORK (AP) — An Ohio lawyer convicted of helping to drive an automotive-chemical company to bankruptcy and loot it of millions of dollars in a stock manipulation scheme was sentenced Friday to seven to 21 years in a New York prison.

A judge called the episode "a case of greed" that belied the attorney's claims that he was misled and betrayed by the company's former CEO.

The lawyer, James Margulies, called his involvement with Industrial Enterprises of America Inc. the worst choice of his life, portrayed himself as the inexperienced dupe of a sophisticated businessman and told the judge he had a daughter with special needs who needed him at home.

"My actions were well-intended at the time. By the time I recognized the potential harm of these actions, it was too late to do anything about them," Margulies said, speaking quickly but steadily. "I'm a corporate attorney. I was never trained to deal with or expect that my client would lie to me."

That client, former Industrial Enterprises CEO John D. Mazzuto, has pleaded guilty to plundering the company he built. But state Supreme Court Justice Gregory Carro said Mazzuto's crimes didn't negate Margulies' role in a scheme that netted him \$7 million to bankroll private jet travel, expensive homes and other plums.

"I constantly hear that he was the architect, but you were certainly the engineer, the builder, who put together the mechanism," the judge said. "Without you, this crime would have never taken place."

The Cleveland lawyer took on New York-based Industrial Enterprises as a client in 2004, excited to be representing a publicly traded company for the first time, he said. Briefly traded on the Nasdaq exchange, the stock now trades for pennies a share on the over-the-counter market.

The company was the creation of Mazzuto, a former bank director and Yale University baseball benefactor who started acquiring a series of car chemical companies in 2002. Industrial Enterprises' subsidiaries made antifreeze, windshield wiper fluid and other chemicals at plants in Pennsylvania and elsewhere.

In 2005, Mazzuto said he planned to retire and wanted to groom Margulies as his successor, Margulies said.

"He was persuasive. He was Yale-educated. He was Wall Street-trained," said

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Margulies, who eventually became the company's finance chief and, briefly, its CEO. "I accepted the challenge. It was the absolute worst decision of my life."

According to prosecutors, Mazzuto and Margulies issued millions of shares of a type of stock that can legally be given only to employees as part of a benefit plan, but the two funneled the shares instead to themselves, relatives and associates. Then the stock was sold and the money channeled back to Mazzuto and Margulies.

They improperly recorded much of the money as revenue, which boosted the company's balance sheet, inflated its stock price and lured investors, prosecutors said. Margulies issued most of the illegal shares, and he tried to cover up the scam with sham transactions and phony consulting agreements for the stock recipients, prosecutors said.

"Every single day, he knew what he was doing was illegal and wrong and in complete violation of his ethical and professional duties as an attorney," Manhattan Assistant District Attorney Garrett Lynch said Friday.

Ultimately, the company collapsed. Investors — including an Ohio teachers' pension fund and the Methodist Church — lost more than \$100 million, according to prosecutors.

Mazzuto and Margulies, meanwhile, gained millions, prosecutors said.

Margulies used his ill-gotten money to buy \$1 million-plus homes, a \$350,000 diamond ring for his wife, a \$500,000 vacation club membership and other luxuries, prosecutors said.

"This is basically a case of greed," the judge said after Margulies pleaded that a prison term would devastate his children. "Your children didn't need to live in a house that was decorated like a museum. ... They needed a father's love, not all that material stuff."

Margulies also was ordered to pay \$7 million in restitution, though the judge stayed the sentence until a possible Sept. 26 hearing on restitution issues. Margulies has been jailed since his conviction and remains behind bars.

Mazzuto garnered more than \$15 million from the stock scheme and used it on a \$3 million house in Southampton, N.Y., and a \$2.5 million home in Palm Beach Gardens, Fla., prosecutors said.

He also endowed a baseball coaching post and underwrote a practice field for Yale, his alma mater. Prosecutors said he gave the university \$1.5 million in Industrial Enterprises stock. The university has said it cooperated with the investigation.

Mazzuto, 62, pleaded guilty in January to grand larceny and other charges. His plea deal called for a sentence of up to 7 1/2 years in prison, but a subsequent drunken driving arrest in Florida could complicate his sentencing. He has a Sept. 20 court date.

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The company filed for bankruptcy in 2009; it remains in business. The new management has filed court papers seeking to get money back from more than 100 people and entities it says got stock or otherwise were involved in the scheme.

"We're looking to reorganize and come out of bankruptcy," attorney Tom Curran said.

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