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MANHATTAN U.S. ATTORNEY CHARGES FINANCIAL ADVISOR KENNETH STARR WITH $30 MILLION FRAUD

PREET BHARARA, the United States Attorney for the Southern District of New York, CYRUS R. VANCE, JR., the District Attorney of New York County, and PATRICIA J. HAYNES, the Special Agent in Charge of the New York Field Office, Criminal Investigation Division, Internal Revenue Service ("IRS"), announced the arrest this morning of financial advisor KENNETH STARR on allegations of wire fraud, fraud by an investment advisor, and money laundering. ANDREW STEIN, the former President of the New York City Council, also surrendered to authorities this morning on related charges that he made false statements in an IRS filing and made false statements to federal officers concerning a shell company that STARR created and used as a vehicle for his alleged fraud schemes. Both STARR and STEIN are expected to appear in Manhattan federal court later today.

According to the Complaint unsealed today in Manhattan federal court:

Overview Of STARR's Criminal Schemes

KENNETH STARR, through his firm STARR & CO., is in the business of managing the assets of, and providing financial planning and investment advice to, high net-worth and celebrity clients. Among other things, STARR pays bills for his clients, assists them with tax filings, and recommends investments to them. In some cases, STARR assumed total control over his clients' financial lives by collecting their earnings, investing their savings, and paying their bills.

STARR defrauded many of his clients through at least two types of schemes. First, on some occasions, STARR solicited money from his clients to invest in what he purported to be sure deals, and then diverted all or some of the investment monies to himself and to risky investments in which he, his wife, and/or his close associates held undisclosed financial interests. STARR's close associates included, among others, his son; ANDREW STEIN; a former national official of a major political party; and a partner at a prominent national law firm ("Associate-4").

Second, where STARR exercised direct control over the personal bank accounts of his clients, STARR used that control to make unauthorized transfers of funds to himself and/or his closest associates. And when STARR's clients made demands for payments that STARR could not meet, he transferred funds from one client to another client in conduct that was characteristic of a "Ponzi" scheme. The Complaint alleges that STARR has engaged in at least $30 million of fraudulent activity against his clients.

STARR's Misappropriation Of Funds

On a number of occasions, STARR misappropriated the funds of his clients or engaged in unauthorized transfers of their monies. STARR defrauded one client, a former hedge-fund manager and well-known philanthropist, by transferring approximately $2.2 million of her money to Associate-4, of which only $500,000 had been authorized by the client.

STARR defrauded another client -- an actress with whom he had a long-standing and close relationship -- by transferring $1 million of her money to Associate-4. When the bank informed the actress of the transfer, the actress became concerned and she and her lawyers demanded to know why the money had been transferred. In response, STARR gave shifting and inconsistent explanations for the transfer. Ultimately, STARR transferred $1 million back into the actress's account -- but he did so not by returning the money originally taken out of the actress's account, but rather by taking $1 million from the account of other clients: a former executive of a talent agency and his wife.

In or about April 2010, STARR also used his clients' funds to buy himself a 5-bedroom, 6.5 bathroom luxury condominium, worth at least $7.5 million. STARR funneled the money through an attorney escrow account maintained by Associate-

4. Approximately $5.75 million of the money STARR used to buy the new luxury condominium came from the personal or business accounts of a nearly 100-year old heiress. According to the lawyer for the heiress, no authorization was given for any such transfer of funds.

Nearly $14 Million In Other Investment Fraud

Over the course of 2008 and 2009, STARR is also alleged to have defrauded a jeweler and his wife of nearly $14 million. As set forth in the Complaint, STARR promised to invest the jeweler's money in sure deals. In fact, STARR did not invest the monies as promised, but either: (1) loaned or diverted the money to himself and his close associates, including ANDREW STEIN; or (2) invested the money in projects in which his wife, his son, or his close associates (including ANDREW STEIN) had an undisclosed financial interest -- projects that were, on the whole, riskier than the “sure deals” STARR had promised.

As set forth in the Complaint, when the jeweler's wife became concerned that she was not receiving any return on the investments made by her and her husband, STARR repeatedly promised her that she would soon receive large payments. Those large payments never materialized, however, and STARR made a series of shifting and far-fetched explanations as to why the jeweler's wife had not received any money. Unbeknownst to STARR, the jeweler's wife recorded many of the conversations she had with STARR.

Overview Of STEIN's Tax Schemes

As set forth in the Complaint, beginning with at least the 2003 tax year, ANDREW STEIN, a former President of the New York City Council, repeatedly failed to claim all of his income to the IRS and failed to pay well over $1 million of taxes that he owed to the IRS. The IRS undertook various collection efforts starting in at least 2004. As the pace of the IRS efforts intensified, STEIN took steps to shield his income and expenditures from scrutiny. These efforts included the creation of the shell corporation called Wind River LLC, which STARR helped STEIN create; the rapid movement of monies between multiple bank accounts; and the use of third parties' credit cards in order to pay his own personal expenses. Furthermore, as set forth below, STEIN made a number of false statements to the IRS, including false statements about his control over Wind River LLC, the shell corporation that STARR helped STEIN create.

STEIN's False Statements

STEIN is first charged with making false statements on a form he submitted to the IRS in April 2008 in connection with his efforts to receive IRS approval of a plan to pay off his tax debts. In the form, STEIN made a number of material false statements. Among other things, in response to questions that called for such information, STEIN failed to disclose the existence of Wind River LLC and his use of Wind River LLC bank accounts -- which STEIN used to deposit and then withdraw approximately $1.6 million in order to cover what appear to be STEIN's personal expenses. STEIN also failed to disclose the fact that he was using the credit cards of third parties in order to pay for hundreds of thousands of dollars of personal expenses, including travel, hotel stays, and restaurants. Finally, in response to a question that required STEIN to list all rental or real property, STEIN listed only his personal residence in New York, New York. In fact, both before and after STEIN signed the 2008 Form 433-A, he made at least $150,000 in payments for an additional luxury rental property in Bridgehampton, New York. According to the Complaint, STEIN used proceeds of the investment fraud perpetrated by STARR to make these payments to rent the Bridgehampton property.

STEIN is also charged with making false statements to federal officers who attempted to interview him. In November 2009, after a special agent with the IRS advised STEIN that a grand jury was investigating him, Wind River LLC, and individuals whose credit cards STEIN had used, STEIN falsely denied knowing Wind River LLC or the individuals whose credit cards he had used. When the special agent tried to serve STEIN with a grand jury subpoena issued to Wind River LLC, STEIN falsely denied being an officer of Wind River LLC and refused to accept service of the grand jury subpoena, even though STEIN had repeatedly indicated on documents that he was a manager or member of Wind River LLC and he had used Wind River LLC primarily for his personal benefit.

* * *

A chart setting forth the charges contained in the Complaint against STARR and STEIN and the maximum potential penalties for each offense is attached.

STARR, 66, of New York, New York, was arrested at his home in Manhattan this morning. STEIN, 65, of New York, New York, surrendered to federal authorities this morning. Both defendants will be presented before a United States Magistrate Judge in Manhattan later today.

PREET BHARARA, the U.S. Attorney stated: "Today's charges against Kenneth Starr seem to confirm what has become all too apparent lately -- anyone can be a victim of financial fraud. Whether you are an ordinary citizen or a savvy businessman or a sophisticated celebrity, you can be victimized. The vast majority of financial advisors are honest and honorable. But even one bad apple can destroy the life savings of hundreds of unsuspecting people. No matter how smart you think you are, you should always carefully check on your investments and even more carefully vet your financial advisors. Trust, but verify. If a deal sounds too good to be true, it probably is, and if someone is pretending to have the Midas touch, he's probably just selling you fool's gold."

CYRUS VANCE, JR., the District Attorney of New York County stated: "The public expects law enforcement agencies with overlapping jurisdictions and investigations to cooperate to protect the public, and that is precisely what has occurred in this important case. I thank my staff, and our partners in the U.S. Attorney's Office, the Securities and Exchange Commission and the Internal Revenue Service for their assistance and cooperation in the investigation."

PATRICIA J. HAYNES, IRS Special Agent-in-Charge, stated: "Today's legal action sends a signal to those would-be investment fraudsters that they are not above the law. The advice that I would like to give to potential investors is to trust your professional financial advisor, but verify their actions and do not give up complete control over your finances. A reputable financial advisor will educate you and disclose how and where your money is being invested."

Mr. BHARARA praised the investigative work of the New York County District Attorney's Office, the IRS, and the United States Securities and Exchange Commission. Mr. BHARARA added that the investigation is very much ongoing.

Assistant United States Attorneys WILLIAM J. HARRINGTON and MICHAEL BOSWORTH, of the U.S. Attorney's Office for the Southern District of New York, and Assistant District Attorneys MICHAEL KITSIS and HOPE KORENSTEIN, of the New York County District Attorney's Office, are in charge of the prosecution.

If you believe you were a victim of these crimes, including a victim entitled to restitution, and you wish to provide information to law enforcement and/or receive notice of future developments in the case or additional information, please contact Wendy Olsen-Clancy, the Victim Witness Coordinator at the

United States Attorney's Office for the Southern District of New York, at (866) 874-8900, or Wendy.Olsen@usdoj.gov. For additional information, go to: http://www.usdoj.gov/usao/nys/victimwitness.html on the Internet.

The charges and allegations contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

10-171 ###

<u>United States v. Kenneth Starr, et al.</u>, 10 Mag. 1135

Ct	Charge	Defendant	Maximum Penalties
1	Wire Fraud	KENNETH STARR	Maximum term of 20 years; $250,000 or twice the gross gain or loss
2	Investment Advisor Fraud	KENNETH STARR	Maximum term of 5 years; $10,000 or twice the gross gain or loss
3	Money Laundering	KENNETH STARR	Maximum term of 20 years; $500,000 or twice the amount of property involved in the transaction
4	False Statements in an IRS Filing	ANDREW STEIN	Maximum term of 3 years; $100,000
5	False Statements to a Federal Officer	ANDREW STEIN	Maximum term of 5 years; $250,000 or twice the gross gain or loss