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**FORMER KPMG PARTNER PLEADS GUILTY IN SCHEME TO
DEFRAUD IRS, SAIPAN TAXING AUTHORITIES,
AND COMPANY LOCATED IN SAIPAN**

PREET BHARARA, United States Attorney for the Southern District of New York, and PATRICIA J. HAYNES, Special Agent-in-Charge of the New York Field Office of the Internal Revenue Service ("IRS"), Criminal Investigation Division, announced that former KPMG partner ROBERT PFAFF pleaded guilty today to participating in a conspiracy to defraud the IRS by concealing from the IRS and the Saipan taxing authorities millions of dollars of fee income received from tax shelter transactions. PFAFF also admitted his participation in a conspiracy to defraud a company located in Saipan of the right to the honest services of its employees by sharing tax shelter fee income with officers of that company who in turn failed to disclose those secret payments to the Saipan company's Board of Directors.

According to the Court records and statements made during PFAFF's guilty plea proceeding:

Between 1993 and 2002 PFAFF and his co-conspirators arranged for various entities and individuals -- including co-conspirators in the Philippines and Norway, and senior officers of the Saipan company, known as the United Micronesia Development Association ("UMDA") -- to participate with United States and Saipan taxpayers in certain tax shelter transactions. The tax shelter transactions, including those involving UMDA as a corporate taxpayer, generated millions of dollars of fee income, which was divided between PFAFF and the other designers, marketers, and implementers of the tax shelter transactions. Between 1993 and 2000, PFAFF received more than \$3,750,000 in fee income from those tax shelter transactions, and thereafter used the fee income for various personal purposes, including:

- to purchase his principal residence in Englewood, Colorado, and a weekend home in Breckenridge, Colorado;
- to purchase his mother's home in Wisconsin;
- to purchase various automobiles, including a Porsche for himself, a Mercedes Benz for his sister, and a Subaru for his wife;
- to purchase various interests in mutual funds;
- to fund various trusts for his children;
- to make gifts to family members;
- to pay initiation fees at his country club;
- to renovate and landscape his Colorado home;
- to pay dentist bills; and
- to purchase a Steinway piano and Hawaiian artwork.

PFAFF and his co-conspirators employed various fraudulent means in order to conceal the receipt of tax shelter fee income from the IRS and the Saipan taxing authorities and in order to allow the Saipan co-conspirators to defraud UMDA and its shareholders of their intangible right to the honest services of its officers and employees. PFAFF and his co-conspirators' efforts to conceal the tax shelter fee income included sending millions of dollars of tax shelter fee income from bank accounts in the United States and Saipan to bank accounts in Manila, Philippines (the "Philippines bank accounts") -- accounts that were nominally controlled by the Philippines co-conspirator and others. PFAFF and his co-conspirators controlled the accounts and paid the Philippines co-conspirator to disburse the tax shelter fee income from the Philippines bank accounts in accordance with their instructions. PFAFF and his co-conspirators also created false and fictitious documentation to make it appear that the fee income PFAFF received from the Philippines co-conspirator was part of a series of loans rather than income to PFAFF -- which income he failed to report as required on his income tax returns. PFAFF also provided false testimony to the IRS regarding his receipt of fee income stemming from the tax shelter transactions. Further, PFAFF and his co-conspirators caused the payment of the tax shelter fees to PFAFF to be concealed from KPMG, in violation of KPMG's partnership bylaws and/or rules and procedures, and

caused the payment of the tax shelter fees to the Saipan co-conspirators to be concealed from UMDA.

Mr. BHARARA also announced today that, through a parallel civil forfeiture case, the United States forfeited funds in the amount of \$1,837,605. According to the forfeiture complaint, those funds -- representing a portion of the proceeds of the scheme involving PFAFF's fraud on the IRS, the Saipan tax authorities, and UMDA -- were transferred by PFAFF during the conspiracy to a co-conspirator located in the Philippines, who turned over the funds following the filing of the forfeiture complaint.

Three co-conspirators -- CHANDLER S. MOISEN, MICHAEL GRANDINETTI, AND DOMENICK DEGIORGIO -- have previously pleaded guilty in connection with the conspiracy to which PFAFF pleaded guilty. They are all awaiting sentencing.

PFAFF, 59, who is currently serving a 97-month sentence as a result of his conviction at trial in United States v. Stein, is to be sentenced by United States District Judge RICHARD BERMAN on November 16, 2009, at 12:30 p.m.

Mr. BHARARA praised the investigative work of the IRS.

Assistant United States Attorneys STANLEY J. OKULA, DANIEL LEVY, and SHARON FRASE are in charge of the prosecution.

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