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CHICAGO BUSINESSMAN PLEADS GUILTY TO TAX FRAUD CHARGES IN CONNECTION WITH TAX SHELTER TRANSACTIONS

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York and PATRICIA J. HAYNES, the Special Agent-in-Charge of the New York Office of the Internal Revenue Service, Criminal Investigation Division ("IRS-CID") announced that Chicago businessman DOUGLAS STEGER pleaded guilty today in Manhattan federal court to tax fraud conspiracy charges stemming from his agreement with a Chicago-based banker and tax shelter promoter to fraudulently obtain referral fees relating to tax shelter transactions. STEGER thereafter failed to accurately report those fees to the IRS and pay the taxes due. According to the felony Information charging STEGER and statements made during the guilty plea proceeding:

In 2001, STEGER was introduced to a Chicago-based banker (hereinafter "Individual A"), who was an attorney and certified public accountant. Between 1999 and early 2002, Individual A, was employed by a national bank (hereinafter "Bank A") in its "Innovative Strategies Group" ("ISG") in Chicago. From 2002 until approximately 2004, Individual A was the head of a consulting firm, also based in Chicago, the primary business of which was the promotion of tax shelter strategies.

Members of Bank A's ISG were engaged in the design, marketing, and implementation of tax shelter transactions, including a transaction known as "Hedge Option Monetization of

Economic Remainder" or "HOMER." In 2001, Individual A — together with other members of ISG, attorneys at the Jenkens & Gilchrist law firm (hereinafter "J&G"), and a foreign bank with United States headquarters in New York (hereinafter "Bank B") — implemented 36 HOMER tax shelter transactions for high net worth clients of Bank A and J&G.

As part of the their efforts to design, market, and implement HOMER transactions, members of Bank A's ISG and J&G agreed to pay referral fees to third parties who referred a client or clients that ultimately entered into a HOMER transaction. Generally, the referral fees were paid after the third-party referral sources sent invoices to J&G, leading J&G to pay the fees to the third parties based on the amounts stated in the invoices. When a referral fee was paid in connection with a particular HOMER transaction to a third party purportedly referring a client to Bank A, it served to reduce the total fee that Bank A would otherwise be paid in that transaction. Pursuant to Bank A's code of conduct for employees and the duty of honest services owed by ISG members to Bank A, ISG members were not permitted to personally receive or accept referral or third-party fees, either directly or indirectly, in connection with the sale and implementation of the HOMER tax shelter transactions or any other ISG transaction.

STEGER, together with and at the direction of Individual A, prepared and submitted, and caused to be prepared and submitted, to J&G invoices that falsely and fraudulently represented that third party referral services had been provided in connection with certain of Bank A's HOMER transaction; in fact, no genuine referral services had been provided. After receiving referral fee income as a result of the submission of the bogus invoices, STEGER and others shared the ill-gotten fees with Individual A. Thereafter, rather than reporting to the IRS their receipt of the aforementioned fee income, STEGER, Individual A, and others conspired to defraud the Internal Revenue Service by failing accurately to report and pay taxes on the receipt of these funds.

In particular, in or about December 2001, Individual A contacted STEGER and suggested that STEGER prepare and submit to J&G two false and fraudulent invoices, seeking payment from J&G for referral fees on two unrelated HOMER clients ("Client A" and "Client B," respectively) for whom referral fees would not otherwise have been paid by Bank A. Despite the fact that he did not refer either Client A or Client B to Bank A and was not otherwise entitled to referral fees in connection with those clients, STEGER agreed to send the fraudulent invoices.

Accordingly, pursuant to instructions provided by Individual A and unbeknownst to the two HOMER clients, STEGER prepared two invoices — in the respective amounts of $50,000, and $31,500 — that falsely and fraudulently represented that STEGER was entitled to referral fees in connection with Client A and Client B's HOMER tax shelter transactions, and sent the invoices to J&G's offices in Chicago. STEGER thereby caused J&G to pay the invoices with two wire transfers, in the respective amounts of $50,000 and $31,500, to STEGER's AmCap bank account, which STEGER thereafter transferred to Individual A via a cashier's check in the amount of $81,500.

In early 2002, STEGER was enlisted by Individual A to arrange and receive a transfer of $920,000 in proceeds from a second set of bogus referral fee invoices that had previously been submitted to J&G by another associate of Individual A (hereinafter "Individual B") for the purported referral of two HOMER clients, Clients C and D, to Bank A. Towards that end, Individual A caused STEGER to hire an attorney to contact Individual B to arrange the transfer of the $920,000 to STEGER's AmCap bank account at North Shore Community Bank, Wilmette, Illinois, which transfer occurred on or about January 15, 2002. In fact, neither STEGER, Individual A, nor Individual B was entitled to any referral fees for Client C or Client D. Thereafter, in or about early 2002, on the instructions of Individual A, STEGER disbursed the majority of the $920,000 in proceeds to Individual A, and to others at Individual A's direction, in a manner designed to conceal Individual A's receipt of taxable income.

In October 2003, Individual A filed with the IRS a false U.S. Individual Income Tax Return, Form 1040, for the tax year 2002, which tax return failed to report as income his portion of the ill-gotten referral fee proceeds, amounting to more than $700,000, and which understated his true taxes due and owing by (i) failing to report the taxes due on the bogus fee referral income, and(ii) deducting phony losses created through the use of a fraudulent tax shelter transaction to offset reported income. Additionally, in February 2004, STEGER, on the instructions and with the assistance of Individual A, filed a joint U.S. Individual Income Tax Return, Form 1040, for the tax year 2002, on which STEGER falsely and fraudulently over-reported his income by including, as his income, the full amount of the $920,000 in proceeds received from Individual B, notwithstanding the fact that Individual A ultimately received over $700,000 of those proceeds. Further, on the instructions of and with the assistance of Individual A, STEGER employed a tax shelter transaction on his 2002 individual tax return to create false and fraudulent losses to offset the $920,000 in fraudulently-obtained referral fee income. In addition, Individual A instructed STEGER to make false and fraudulent statements about the receipt of the referral fees if asked about them.

STEGER, 53, of Wheeling, Illinois, pleaded guilty today to one count of conspiring to defraud the IRS and one count of signing and filing with the IRS a false and fraudulent income tax return. The tax fraud conspiracy charge carries a maximum penalty of 5 years in prison, and the false income tax return charge carries a maximum penalty of 3 years in prison. Both counts also carry a potential fine of the greater of $250,000 or twice the gross pecuniary gain or loss from the offense, and costs of prosecution. STEGER is to be sentenced before United States District Judge VICTOR MARRERO on a date to be determined.

Mr. GARCIA praised the investigative work of IRS-CID.

This case is being prosecuted by Assistant United States Attorney STANLEY OKULA, and Special Assistant United States Attorney NANETTE L. DAVIS, a trial attorney from the United States Department of Justice Tax Division.

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