



*United States Attorney
Southern District of New York*



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**MANHATTAN U.S. ATTORNEY INDICTS FINANCIAL ADVISER
KENNETH STARR ON TWENTY-THREE COUNTS OF WIRE FRAUD,
SECURITIES FRAUD, INVESTMENT ADVISER FRAUD,
AND MONEY LAUNDERING**

Indictment Alleges \$59 Million Of 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 CHARLES R. PINE, the Special Agent in Charge of the New York Field Office, Criminal Investigation Division, Internal Revenue Service ("IRS"), announced the filing of an indictment today charging financial adviser KENNETH STARR with 20 counts of wire fraud, as well as one count each of securities fraud, fraud by an investment adviser, and money laundering.

STARR, 66, was previously arrested at his home in Manhattan on May 27, 2010. He remains detained and is expected to appear tomorrow in Manhattan federal court to be arraigned on the Indictment.

According to the Indictment returned today and the Complaint previously unsealed in Manhattan federal court:

Overview Of Starr's Criminal Schemes

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 used the authority with which his clients' entrusted him to defraud or attempt to defraud at least 11 victims of approximately \$59 million. He defrauded his clients in two ways. First, STARR used his authority over the personal bank accounts of his clients to steal client monies for his own use. He concealed the true nature of these transfers from his clients by passing the money through bank accounts belonging to attorneys and a shell corporation. Second, 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, illiquid investments in which he, his wife, and/or his close associates often held undisclosed financial interests.

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.

Misappropriation Of Funds

STARR misappropriated at least \$28 million of client money that he had been entrusted to safeguard. He did this by transferring clients' funds into accounts he controlled, often passing it through other accounts to mask its ultimate use. This included:

Starr & Co.: In 2009 and 2010, STARR repeatedly diverted client funds to his company Starr & Co., often passing the money through attorney trust accounts to disguise the misappropriation from his clients. STARR then used the funds, totaling at least \$2.5 million, to pay Starr & Co. operating expenses and to make payments to himself and his wife.

Client Settlements: STARR agreed to pay an elderly client \$4 million after the client raised complaints about STARR's investment decisions on his behalf. In January 2010, to

pay the client, STARR diverted funds belonging to three other clients without their knowledge or authorization.

Purchase of a Luxury Apartment: Between January and April 2010, STARR also used funds belonging to approximately 5 clients 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. 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. None of the clients authorized STARR to use their funds for this purpose.

Payments to STARR and His Family: On multiple occasions in 2009, STARR diverted client monies totaling at least \$1 million to an account held by Marose LLC. The clients had no knowledge of these transfers and never approved them. STARR then transferred the funds to himself, his family, and Starr & Co.

Over \$29 Million In Securities and Investment Fraud

STARR is also alleged to have engaged in securities fraud and fraud as an investment adviser since at least 2005, defrauding clients of over \$29 Million. As set forth in the Indictment, STARR promised to invest his clients' money in sure deals and persuaded them that their investments were secure and doing well. In fact, STARR did not invest the monies as promised, but, to the detriment of his clients, ignored his clients' wishes and violated his own promises.

For example, STARR urged one of his clients, an elderly playwright and screenwriter, to invest in a movie production company. The client refused. STARR nonetheless transferred over \$300,000 of the client's money to the production company. When the client later learned of the transfer, he and his representatives asked for paperwork supporting the transaction. STARR provided a copy of an agreement purportedly signed by the client providing him with, among other things, a share of the company's earnings in exchange for his investment. Believing the signature to be a forgery, the client and his representatives asked for an original agreement. When they intercepted the original agreement from the movie production company, they learned that the original was unsigned.

In another example, STARR assumed control over the monies of an elderly actress. In meetings with the client, he always insisted that everything was fine and going well. After the client left STARR over concerns about the quality of his

work, she learned that STARR had invested certain retirement monies in risky investments that had lost much of their value. The client was unaware of these investments, which included the purchase of shares in a publicly traded restaurant chain.

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The case has been assigned to United States District Judge SHIRA A. SCHEINDLIN.

STARR is charged with 20 counts of wire fraud, which carries a maximum sentence of 20 years in prison on each count; one count of securities fraud, which carries a maximum sentence of 20 years in prison; one count of investment adviser fraud, which carries a maximum sentence of five years in prison; and one count of money laundering, which carries a maximum sentence of 20 years in prison.

The case against co-defendant ANDREW STEIN, who is charged with making false statements, is pending on a criminal Complaint filed in Manhattan federal court.

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 ongoing.

SDNY U.S. Attorney PREET BHARARA stated: "In the less than two weeks since Kenneth Starr's arrest, this investigation has maintained its velocity. The scope of alleged fraud has doubled and is now up to \$59 million, and counting. Also, asset recovery efforts have included the appointment of a receiver to protect victims' money. Fraud is fraud -- whether its alleged victims are the wealthy or the poor, the savvy or the vulnerable. The Southern District of New York, with its partners at the District Attorney's Office, the IRS, and the SEC, will not rest until financial fraudsters who worm their way into communities are stopped."

New York County District Attorney CYRUS VANCE, JR. stated: "Today's indictment shows that the public benefits when we team up with our partners in law enforcement. I want to commend the investigators in my Office, the U.S. Attorney's Office, the Securities and Exchange Commission and the Internal Revenue Service for collaborating to bring an end to Starr's crimes."

IRS Special Agent-in-Charge CHARLES R. PINE stated: "Financial advisers play a key role in the financial services industry, providing trusted professional advice in finance, accounting and tax matters. The commitment to place their client's financial interest ahead of their own is an important aspect of the trust relationship. Unfortunately, some people in this industry have damaged its reputation by stealing their client's money. IRS Criminal Investigation devotes its resources to trace the money that is stolen and attempts to recover it for victims. The Ponzi scheme that Starr has allegedly committed is just another form of theft and investors should protect themselves by being cautious and remember the old cliché, 'If it's too good to be true, it probably is.'"

Assistant United States Attorneys WILLIAM J. HARRINGTON, MICHAEL S. BOSWORTH, and MICHAEL LOCKARD, 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>.

This case was 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 proceeds for victims of financial crimes.

The charges and allegations contained in the Indictment are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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