UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, -against- FERNANDO J. ESPUELAS, JACK C. CHEN, STEVEN J. HELLER, PETER R. MORALES, WALTHER MÖLLER, BETSY D. SCOLNIK, ADRIANA J. KAMPFNER, and PETER E. BLACKER, Defendants.	Civil No. ____________ COMPLAINT (Securities Fraud)

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint against Fernando J. Espuelas ("Espuelas"), Jack C. Chen ("Chen"), Steven J. Heller ("Heller"), Peter R. Morales ("Morales"), Walther Möller ("Möller"), Betsy D. Scolnik ("Scolnik"), Adriana J. Kampfner ("Kampfner"), and Peter E. Blacker ("Blacker"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. This is a financial fraud case involving improper recognition of Internet services revenue by StarMedia Network, Inc. ("StarMedia"), a former New York City-based Internet portal. During 2000 and the first two quarters of 2001, various defendants utilized three types of transactions to inflate StarMedia's revenue by over $18 million, in order to meet the company's revenue projections and secure additional financing for its operations. As a result of the defendants' fraudulent acts and accounting practices, StarMedia improperly recognized revenue

from certain barter transactions, certain round trip transactions, and certain sales transactions that had undisclosed contingencies or side agreements. As a result of the defendants' conduct, StarMedia filed false and misleading disclosures and financial statements with the Commission and provided false statements to analysts and shareholders. In addition, the company used inflated revenue amounts to persuade corporate investors to purchase $35 million in convertible preferred shares.

2. Defendants were senior StarMedia executives who planned the fraud or played important roles in its implementation. The defendants include StarMedia's Chief Executive Officer and Chairman at the time, Fernando J. Espuelas; the company's President at the time, Jack C. Chen; the company's Chief Financial Officer, Steven J. Heller; its Senior Vice President for Strategic Development, Betsy D. Scolnik; and its Senior Vice President of Global Sales and the President of StarMedia de Mexico, Adriana J. Kampfner. The remaining defendants are Walther Möller, the President of the company's AdNet S.A. de C.V. ("AdNet") subsidiary, and two other senior StarMedia managers, Peter R. Morales and Peter E. Blacker.

3. In November 2001, the company announced that it would restate its financial statements and examine its revenue recognition practices. The announced restatement involved two subsidiaries, AdNet and StarMedia de Mexico, and transactions that had generated over $14 million in improperly recognized revenues. First, during 2000 and 2001, AdNet engaged in a number of so-called "base book" transactions with its former owners, Harry Möller Publicidad, S.A. de C.V. ("HMP") and Grupo MVS, S.A. de C.V. ("MVS"). In these transactions, AdNet had immediately recognized as revenue the entire stated value of Internet advertising purchased from it by clients of HMP and MVS, but had deferred the recognition of an equal amount of expenses related to

production services that AdNet was contractually obligated to purchase from HMP and MVS. After investigating these base book transactions, the company restated them as barter transactions, in conformity with U.S. generally accepted accounting principles ("GAAP").

4. StarMedia also engaged in so-called "incremental revenue" transactions. These were round trip transactions whereby StarMedia de Mexico, and to a lesser extent AdNet, improperly recognized as revenue certain funds the company agreed to provide HMP and MVS through AdNet. As consideration for those funds, HMP and MVS, in turn, agreed to purchase an equal dollar amount of ad space from StarMedia de Mexico and AdNet, purportedly through or on behalf of MVS's or HMP's clients. Finally, StarMedia's investigation also found that the company had improperly recognized revenue based on sales that were contingent or were altered by oral or written side agreements.

5. As part of the defendants' fraudulent schemes, StarMedia filed an annual Report on Form 10-K for its fiscal year 2000 and quarterly Reports on Form 10-Q for its quarters ended March 31, and June 30, 2001. These filings contained false disclosures and financial statements that materially overstated revenue. In addition, the company issued false and misleading press releases and other statements to the public from the second quarter of 2000 through the time of the company's announcement of its restatements in November 2001.

6. Defendant Chen sold 715,000 shares of StarMedia common stock after the company issued false financial and other statements and prior to its November 2001 announcement that it would restate its financial statements. At the time that he sold his StarMedia stock, Chen knew that StarMedia's filings with the Commission and statements to the public contained materially misleading information. He obtained this material, nonpublic

information as an officer and director of the company. As a result of his use of the nonpublic information, Chen avoided losses of at least $150,438, through his sales of his StarMedia stock.

7. By virtue of the foregoing conduct, each of the defendants, directly or indirectly, individually or in concert, has engaged in acts, practices, and courses of business that constitute violations, or give rise to liability for violations, of the federal securities laws and the rules and regulations thereunder.

8. Unless the defendants are permanently restrained and enjoined, they will again engage in the acts, practices, transactions, and courses of business set forth in this complaint and in acts, practices, transactions, and courses of business of similar type and object.

JURISDICTION AND VENUE

9. The Commission brings this action pursuant to Section 20(b) and (d) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77t(b) and (d)] and Section 21(d) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78u(d)].

10. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

11. The defendants have made use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this complaint.

12. Certain of the acts, practices, and courses of conduct constituting the violations of law alleged in this complaint occurred within this judicial district, and, therefore, venue is proper pursuant to Section 22 of the Securities Act [15 U.S.C. § 77u] and Section 27 of the Exchange

Act [15 U.S.C. § 78aa].

13. The defendants, directly and indirectly, engaged in, and unless restrained and enjoined by this Court will continue to engage in, transactions, acts, practices, and courses of business that violate one or more of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5, 13b2-1, and 13b2-2 thereunder [17 C.F.R. §§ 240.10b-5, 240.13b2-1, and 240.13b2-2]; and aid and abet violations of one or more of Sections 13(a) and 13(b)(2)(A) of the Exchange Act [15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)] and Rules 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13].

DEFENDANTS

14. Fernando J. Espuelas, age 39, is a resident of North Salem, New York. Espuelas founded StarMedia in 1996 and was the company's Chief Executive Officer from March 1996 through August 2001 and its Chairman from March 1996 through November 2001. As Chief Executive Officer, Espuelas managed all corporate functions of StarMedia, including its accounting practices. Espuelas was StarMedia's principal spokesperson on matters concerning the company's financial performance. As Chief Executive Officer of StarMedia, Espuelas signed StarMedia's annual Reports on Form 10-K.

15. Jack C. Chen, age 39, is a resident of Hanover, New Hampshire. Chen co-founded StarMedia with Espuelas in 1996. He was StarMedia's President from April 1996 through May 2001, served on its Board of Directors from April 1996 to August 2001, and was the Vice Chairman of the Board from June through August 2001. As President, Chen managed the day-to-day affairs of the company.

16. Steven J. Heller, age 40, is domiciled in Natick, Massachusetts. Heller was a Senior Vice President and the Chief Financial Officer of StarMedia from May 1999 through November 2001.

17. Betsy D. Scolnik, age 40, is a resident of Washington, D.C. Scolnik was employed by StarMedia from February 1998 through November 2001. From February 1999 through November 2001, Scolnik was first StarMedia's Senior Vice President for Strategic Development and later an Executive Vice President. In these positions, she first reported to Espuelas, later to Chen, and ultimately a successor Chief Executive Officer of StarMedia.

18. Adriana J. Kampfner, age 33, is a resident of Brooklyn, New York. Kampfner was employed by StarMedia from August 1997 through December 2001. During the years 2000 and 2001, Kampfner was StarMedia's Senior Vice President, Global Sales and the President of StarMedia de Mexico. As Senior Vice President, Global Sales, Kampfner reported to Chen and Espuelas.

19. Walther Möller, age 45, is a Mexican citizen residing in Mexico. StarMedia employed Möller as the President of AdNet pursuant to an employment agreement entered into at the time StarMedia acquired AdNet. Prior to the acquisition, Möller was a senior executive at his family's advertising firm, HMP.

20. Peter R. Morales, age 50, is a resident of Franklin Lakes, New Jersey. Morales was employed by StarMedia from June 1998 through November 2001 as the Controller and Vice President, Finance.

21. Peter E. Blacker, age 35, is a resident of Miami, Florida. Blacker was employed by StarMedia from December 1997 through May 2001 as the company's Senior Vice President,

Global Sales Strategy & Partnerships.

OTHER RELEVANT ENTITIES

22. StarMedia Network, Inc. was incorporated in Delaware in March 1996 and maintained its headquarters in New York, New York. StarMedia was an Internet portal that targeted Spanish- and Portuguese-speaking markets. During the years 2000-2001, its fiscal year ended on December 31. StarMedia's common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act [15 U.S.C. § 78*l*(g)] and traded on the National Market System of the NASDAQ Stock Market, Inc. In November 2001, StarMedia had approximately 70.4 million shares of common stock outstanding. On February 1, 2002, the NASDAQ National Market delisted the common stock of StarMedia. On December 23, 2003, the company formerly known as StarMedia filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Pursuant to the Chapter 11 proceeding a majority of the company's assets have been liquidated.

23. AdNet, S.A. de C.V. was acquired by StarMedia in April 2000. At the time, AdNet was a leading Mexican Internet search portal and Web directory. StarMedia acquired AdNet from its shareholders, MVS and HMP, for $5 million in cash and StarMedia common stock valued at approximately $15 million, with an earnout provision requiring payment of additional StarMedia common stock if AdNet met certain revenue targets. There was no cap on the number of StarMedia shares that could be earned pursuant to the earnout agreement.

24. AMG International, Inc., ("AMG"), was an "Internet incubator" that provided seed capital for Latin American and Asian Internet start-up companies in exchange for a percentage of ownership. AMG sought to develop the companies through its contacts with larger U.S.-based Internet portals. Among the companies that AMG invested in were Media4.com, Gemelo, and

Official Kiosk Group.

BACKGROUND

25. With others, Espuelas and Chen founded StarMedia in 1996. The company's May 1999 initial public offering raised $105 million. A secondary public offering in October 1999 raised $204 million. The price of StarMedia's common stock rose from the initial public offering price of $15 per share to a high of $70 per share in the third quarter of 1999. After its initial and secondary offerings, StarMedia used acquisitions as one method of expanding its network in the Latin American market.

The AdNet Acquisition

26. In April 2000, StarMedia acquired AdNet from MVS and HMP. MVS was a leading Mexican media operator, with radio and television properties. StarMedia pursued the acquisition in part because of its interest in acquiring AdNet's revenue stream.

27. Prior to the acquisition, AdNet maintained business arrangements with MVS, HMP, and their customers. Pursuant to those arrangements, MVS and HMP placed their clients in advertising relationships with AdNet, and in return AdNet purchased an equal dollar amount of radio or television advertising from MVS or of production services from HMP. These arrangements provided as much as sixty percent of AdNet's pre-acquisition revenue, and StarMedia sought to continue the arrangements.

28. HMP was owned by Möller's family, and Möller was an executive at the firm. Accordingly, in order to keep the business relationships among AdNet, HMP, and MVS intact, StarMedia employed Möller as President of AdNet, entered into service and advertising agreements with HMP and MVS, and included an earnout provision in the acquisition agreement.

29. The five-year earnout agreement set certain revenue targets for each year and provided for additional payments of StarMedia common stock to the former owners of AdNet if the targets were met.

StarMedia's Revenue Crisis

30. During 2000, StarMedia's stock price steadily declined, in part because of a general decline in Internet advertising revenues. The company also experienced a decline in its cash reserves during this period. Nevertheless, throughout 2000, the company issued optimistic predictions of continued revenue growth. In addition, a consortium led by BellSouth Corporation ("BellSouth") emerged as a potential source of additional financing. To secure that financing, however, the company needed to demonstrate that it had met its revenue targets.

StarMedia's Accounting Manipulations Caused by Defendants

Fiscal Year 2000

31. In the second quarter of 2000, Espuelas, Chen, Heller, Scolnik, and Kampfner learned from internal reports that StarMedia's actual sales and revenues were falling significantly short of budget projections. Instead of disclosing StarMedia's true financial condition, Espuelas and Chen resorted to improperly recognizing revenue on the base book transactions among AdNet, MVS, and HMP. Accordingly, StarMedia recognized as advertising revenue the full amount AdNet invoiced customers of MVS and HMP for advertising.

32. To present financial statements in conformity with GAAP, StarMedia should not have recognized and recorded the full amount of the transactions with customers of MVS and HMP. It could not properly recognize the full amount, because AdNet was obligated to make payments to MVS and HMP equal to the dollar amount of the advertising purchased on behalf of

their clients. Had it accounted for these "base book" deals as barter transactions, as required by GAAP, StarMedia would have recognized little or no revenue from the transactions.

33. StarMedia subsequently restated the base book transactions in its restatement of its financial statements. After analyzing the transactions under the relevant GAAP provisions on barter transactions, the company wrote off over ninety percent of the revenue from the transactions.

34. In addition, during the second quarter of 2000, StarMedia improperly booked revenue from a contingent transaction. The Internet incubator AMG agreed to purchase $500,000 of Internet advertising on behalf of Gemelo, a company in its portfolio, contingent on AMG's approval of the advertising services. If AMG did not approve of the advertising services, its liability was limited to a payment of $10,000. Scolnik, Kampfner, and Blacker agreed to provide the services on this contingent basis. In order to cause the company to recognize the entire $500,000 as revenue in the period, Scolnik, Kampfner, and Blacker did not inform StarMedia's finance department of the contingent terms of the transaction.

35. As a direct result of Scolnik's, Kampfner's, and Blacker's failure to communicate the contingent terms of the oral agreement with AMG to StarMedia's finance department, StarMedia recognized and recorded in its books and records $500,000, the full amount listed on the insertion order.

36. The oral agreement was subsequently memorialized in December 2000. Scolnik, Kampfner, and Blacker did not inform, communicate, or submit the written side agreement to the StarMedia finance department. The services ultimately proved unacceptable to AMG, and it did not pay the balance of $490,000.

37. In the third quarter of 2000, Blacker, in consultation with Kampfner and under pressure from Scolnik, negotiated a bogus transaction with Groupe Danone ("Danone"). Blacker and Kampfner sought to induce Danone to use StarMedia on a large project involving a range of Internet services in Latin America. Blacker, with Kampfner's knowledge and consent, offered Danone's media buyer $500,000 of Internet services at no charge, as an incentive for Danone to select StarMedia for the large project. Blacker, with Kampfner's knowledge and consent, told Danone's media buyer that StarMedia required a signed insertion order to reserve space on StarMedia's delivery schedule.

38. Subsequently, at Blacker's direction, a $500,000 insertion order was submitted to StarMedia's finance group. The insertion order did not reflect that the advertising was being provided to Danone free of charge. Blacker, Kampner, and Scolnik knew that the services were to be provided free of charge, but they withheld the information from StarMedia's finance group

39. In addition, during the third quarter of 2000, Espuelas and Chen each caused StarMedia to book the full amount of AdNet's base book transactions, $774,000, as revenue from advertising sales rather than treating the orders as barter transactions. Each knew or were reckless in not knowing that these amounts were improperly recorded as revenue.

40. Thus, utilizing the contingent transaction with Danone and recording the full amount of the base book transactions, StarMedia fraudulently inflated its revenue by $1.274 million in the third quarter of 2000.

41. Scolnik, Kampfner, and Blacker each knew that StarMedia had implemented a process that required the sales department to provide an accurate insertion order or contract to the finance department so that StarMedia could determine the appropriate amount of revenue to

record in its books and records. Scolnik, Kampfner, and Blacker each knew that as a result of his or her conduct, StarMedia improperly recognized revenue from the transactions with Danone and with AMG's portfolio company.

42. In the fourth quarter of 2000, StarMedia's management again learned from internal reports that projected revenue would fall significantly short of budget. Espuelas, Chen, Heller, Kampfner, and Scolnik set about finding additional sources of revenue to close the gap. Together with Möller, they devised a set of round trip transactions to help StarMedia inflate its revenues.

43. In November 2000, Espuelas, Chen, Heller, Scolnik, and Kampfner discussed using Möller's connections with MVS and HMP to inflate StarMedia's revenue. Scolnik and Kampfner had initial discussions with Möller concerning the proposed transactions, and subsequently, at Chen's direction, Heller became more involved in the discussions.

44. On November 29, 2000, Möller sent Heller an e-mail outlining what became known as the "incremental revenue" transactions. Möller attached a diagram to this e-mail illustrating how the proposed transactions could be structured.

45. On November 30, 2000, Heller, in New York City, spoke by telephone with Espuelas and Kampfner, in Mexico City, about a meeting Espuelas and Kampfner were to have later that day with Möller. During the call, they discussed possible terms for the incremental revenue transactions. After the call, Espuelas, Kampfner, and Möller met and reached an agreement on the structure of the transactions.

46. As part of those transactions, StarMedia agreed to provide AdNet with funds, characterized as "capital contributions." Moreover, pursuant to the agreement, AdNet, using the

purported capital contributions and its own funds, would purchase $3.2 million of services from HMP and MVS. In return, HMP and MVS agreed to direct the purchase of $2.6 million of advertising from StarMedia de Mexico and $623,000 of advertising from AdNet, purportedly on behalf of the clients of HMP and MVS.

47. On December 4, 2000, StarMedia wired $345,000 to an HMP bank account. On December 5, 2000, the third business day after the agreement, Möller sent an e-mail to Kampfner naming fifteen clients and the dollar amount of advertising for each client. The e-mail asked Kampfner to recommend the "inventory" to be run for each client, so that the information could be placed on insertion orders.

48. On December 7, 2000, Möller sent an e-mail to Heller confirming the transactions, their timing, and the responsibilities of the parties pursuant to the agreement reached in Mexico on November 30, 2000.

49. In some instances, the HMP and MVS clients purportedly involved in these transactions had no knowledge of "their" advertising purchases. Other clients apparently knew of the purchases but were indifferent toward them because HMP and MVS were paying, directly or indirectly, for the advertising.

50. As a result of the agreement, StarMedia, through AdNet, essentially agreed to pay HMP and MVS, through Möller, $3.2 million, which in turn would be paid back to StarMedia, either directly or through AdNet, for advertising sales in the fourth quarter.

51. In the fourth quarter of 2000, StarMedia improperly recognized and recorded $2.6 million in revenue through StarMedia de Mexico and $623,000 through AdNet from the incremental revenue transactions.

52. Although the $3.2 million of revenue from the incremental revenue transactions represented approximately sixteen percent of StarMedia's fourth quarter revenue, the company did not make any public announcement or disclosure concerning the transactions.

53. In the fourth quarter of 2000, StarMedia paid only $345,000 of the $3.2 million it had promised to HMP and MVS. Subsequently, in the first quarter of 2001, the company made additional payments totaling $1.08 million, after complaints from Möller that the company was not abiding by their agreement.

54. Morales learned about the incremental revenue scheme from Heller early in December 2000. Heller asked Morales to prepare and authorize a payment to HMP. Morales followed through and approved the wire transfer of $345,000 from StarMedia directly to HMP. That payment provided the initial funds used to capitalize the incremental revenue transactions.

55. When Heller first told Morales about the incremental revenue transactions, he also told him the planned accounting treatment for them. Heller told Morales that StarMedia would recognize all revenue from the transactions in the fourth quarter but defer recognition of the expenses related to the offsetting, purchased services until the quarter in which the services were utilized. Morales initially did not agree with this treatment. He told Heller the transactions appeared to be barter transactions and should be classified and recorded as such. Morales relented only after Heller assured him that he would deal with the company's auditors if they raised any questions.

56. In addition, during that the fourth quarter of 2000, Espuelas and Chen each caused StarMedia to resort once again to improperly recognizing revenue from the base book transactions, thereby further inflating StarMedia's revenue by $599,000.

57. During that quarter, StarMedia also improperly recognized $1 million of revenue from insertion orders from Danone. Those insertion orders, once again, had been described to Danone's media buyer as simply a means of reserving network space for services that StarMedia would deliver free of charge to Danone as a sales incentive. Blacker submitted the orders to StarMedia's finance department without disclosing that the customer had no obligation to pay. Scolnik and Kampfner knew that Danone was not required to pay for the services, yet neither of them so informed the finance group.

58. Further, in the fourth quarter of 2000, StarMedia improperly recognized $750,000 on an advertising transaction with International Kiosk Group, a portfolio company of AMG, that was contingent on customer approval. Scolnik and Blacker were involved in negotiating the terms of that transaction with AMG's President and its in-house counsel. Kampfner subsequently approved the terms of the transaction. Scolnik, Kampfner, and Blacker did not disclose the contingency to StarMedia's finance group, and, as a result, StarMedia recognized the full amount of the transaction from the face of the insertion order. (Ultimately, AMG was not satisfied with the services and therefore had no obligation to pay StarMedia.)

59. As part of its restatement of its financial statements, StarMedia wrote off $600,000 of revenue from this transaction.

60. In all, for StarMedia's fiscal year 2000, the company improperly recognized at least $8.4 million in revenue, overstating its revenue by sixteen percent. StarMedia's fraudulent revenue recognition in 2000 allowed the company to meet analysts' revenue projections and to create an illusion of a vibrant, growing company.

61. Scolnik, Kampfner, and Blacker each knew that StarMedia had implemented a

process that required the sales department to provide an accurate insertion order or contract to the finance department so that StarMedia could determine the appropriate amount of revenue to record in its books and records. Scolnik and Kampfner each knew that, as a result of her conduct, StarMedia improperly recognized revenue from the incremental revenue transactions, the transaction with Danone, and the transaction with the portfolio company of AMG. Blacker knew that, as a result of his conduct, StarMedia improperly recognized revenue from the contingent transactions with Danone and with the portfolio company of AMG.

62. Morales and Möller also each knew that StarMedia had implemented a process that required the finance department to receive an accurate insertion order or contract for it to determine the appropriate amount of revenue to record in StarMedia's books and records. Morales and Möller each knew that as a result of his conduct, the finance department did not receive accurate information with respect to the incremental revenue transactions and, consequently, StarMedia improperly recognized revenue from those transactions in company's fiscal year 2000.

First Quarter 2001

63. StarMedia's fraudulent revenue recognition scheme continued in 2001. In the first quarter of 2001, StarMedia improperly recorded \$5.9 million of revenues, overstating actual revenues by sixty-seven percent.

64. During that quarter, Espuelas, Chen, Heller, Kampfner, and Scolnik learned from internal revenue reports that StarMedia's expected revenue for the quarter was below budget. Rather than disclose the company's true financial condition, each set about to close the gap by once again resorting to fraudulent methods.

65. In the first quarter of 2001, Espuelas and Chen each caused StarMedia to recognize and improperly record as revenue $1.8 million from the AdNet base book transactions. Each knew or was reckless in not knowing that, at best, these transactions were to be accounted for as barter transactions.

66. In addition, in the first quarter of 2001, Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, and Möller caused StarMedia to recognize $2.6 million in revenue through StarMedia de Mexico, by utilizing the incremental revenue transactions.

67. On March 10, 2001, Kampfner communicated to Espuelas, Chen, and Heller that she had discussed with Möller the company's revenue shortfall and the possibility of using incremental revenue transactions to close that shortfall. Kampfner communicated to them that Möller had said he could provide $2 million in base book revenue for Adnet and that Kampfner had told him "to do it." She also said that Möller would confer with a top executive at MVS concerning the possibility of reaching StarMedia's quarterly target of $3 million in revenue from the incremental revenue transactions.

68. On March 14, 2001, Kampfner told Espuelas, Chen, and Heller that Möller had indicated that the target could be met, but that a few items needed to be resolved. Specifically, she recounted, Möller was demanding that StarMedia issue certain StarMedia shares earned by HMP and MVS pursuant to the earnout provision of the AdNet acquisition agreement and pay $1 million for services provided in the fourth quarter of 2000.

69. On March 24, 2001, Kampfner updated Espuelas, Chen, Heller, and Scolnik concerning StarMedia's first quarter revenue situation, including progress on the base book revenues and the incremental revenues.

70. On March 27, 2001, Kampfner communicated to Chen that Möller was near the incremental revenue target for that quarter.

71. Scolnik subsequently suggested to Chen that Möller be rewarded for his efforts on the base book and incremental revenue transactions. Chen relayed the suggestion to Espuelas. Espuelas invited Möller and his wife to dinner, and he directed StarMedia to provide Möller and his wife with a European vacation as a reward.

72. After the close of the first quarter of 2001, StarMedia, through AdNet, paid $950,000 to HMP, purportedly for the advertising purchased pursuant to the incremental revenue transactions in that quarter. Heller directed Morales to effect the transfer of funds from StarMedia to Adnet. Heller informed Chen that funds had been sent to AdNet earmarked for payment to HMP.

73. In the first quarter of 2001, StarMedia also improperly recognized $1.5 million of contingent revenues from two transactions with portfolio companies of AMG. Scolnik, Kampfner, and Blacker took part in these transactions by negotiating or approving the terms. None of them communicated the side agreements to StarMedia's finance group.

74. Scolnik, Kampfner, and Blacker each knew that StarMedia had implemented a process that required the sales department to provide an accurate insertion order or contract to the finance department so that StarMedia could determine the appropriate amount of revenue to record in its books and records. Scolnik and Kampfner each knew that as a result of her conduct, StarMedia improperly recognized revenue from the incremental revenue transactions and transaction with AMG's portfolio company. Blacker knew that as a result of his conduct, StarMedia improperly recognized revenue from the contingent transactions with AMG's

portfolio company.

75. Morales and Möller each knew that StarMedia had implemented a process that required the finance department to receive an accurate insertion order or contract for it to determine the appropriate amount of revenue to record in StarMedia's books and records. Morales and Möller each knew that as a result of his conduct, the finance department did not receive accurate information with respect to the incremental revenue transactions and, consequently, StarMedia improperly recognized revenue from the incremental revenue transactions in its first quarter of 2001.

Second Quarter of 2001

76. In the second quarter of 2001, Espuelas, Heller, Kampfner, and Scolnik once again learned from internal revenue reports that StarMedia's expected revenue was below budget. Rather than disclose the company's true financial condition, they again resorted to fraudulent methods to increase StarMedia's reported revenue. As a result, in the second quarter of 2001, StarMedia improperly recorded $3.725 million of revenues, overstating actual revenues fifty-nine percent.

77. This overstatement included $1.05 million in AdNet base book revenues that Espuelas caused to be recorded in StarMedia's books and records. Espuelas knew or was reckless in not knowing that these transactions were to be accounted for as barter transactions.

78. In addition, StarMedia recognized $2.675 million of incremental revenues through StarMedia de Mexico. Espuelas, Heller, Kampfner, Scolnik, Möller, and Morales each knowingly or recklessly participated in implementing those transactions in the second quarter of 2001.

79. After the close of the second quarter of 2001, StarMedia, through AdNet, paid $517,500 to HMP, purportedly for advertising purchased pursuant to the incremental revenue transactions in the first or second quarter of 2001. Heller, Morales, and Kampfner directed the transfer of funds from StarMedia to AdNet and knew that the funds were to be paid to HMP as part of the incremental revenue transactions.

80. Scolnik and Kampfner each knew that as a result of each of her conduct, StarMedia improperly recognized revenue from the incremental revenue transactions in its second quarter of 2001.

81. Morales and Möller each knew that StarMedia had implemented a process that required the finance department to receive an accurate insertion order or contract for it to determine the appropriate amount of revenue to record in StarMedia's books and records. Morales and Möller each knew that, as a result of his conduct, the finance department did not receive accurate information with respect to the incremental revenue transactions and, consequently, StarMedia improperly recognized revenue from the incremental revenue transactions in its second quarter of 2001.

Misleading Disclosures and Financial Statements in Filings and Public Statements

82. As a result of its improper revenue recognition from the base book transactions, incremental revenue transactions, and sales transactions with undisclosed contingencies or side agreements, StarMedia filed with the Commission periodic reports that contained materially false and misleading statements and financial information for the year ended December 31, 2000; and the quarters ended March 31 and June 30, 2001.

83. At the time Espuelas and Chen signed StarMedia's annual Report of Form 10-K

for its fiscal year ended December 31, 2000, each knew or was reckless in not knowing the filing contained false disclosures and financial statements that contained materially false and misleading statements and financial information.

84. At the time that Heller signed StarMedia's quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, and June 30, 2001, and the company's annual Report on Form 10-K for its fiscal year ended December 31, 2000, he knew or was reckless in not knowing that the filings contained materially false and misleading statements and financial information.

False Statements to the Company's Auditors

85. StarMedia did not disclose to its auditor, Ernst & Young LLP, the true economic realities of the base book transactions, the incremental revenue transactions, or the Danone and AMG sales transactions.

86. Chen, Heller, and Morales signed management representation letters to Ernst & Young LLP which expressly represented that: "We have made available to you all significant contracts and agreements"; "[r]eceivables represent valid claims . . . and do not include amounts for . . . other types of arrangements not constituting sales"; "[w]e have disclosed to you all sales terms, including all rights of return or price adjustments"; "[w]e have provided you with all sales agreements . . . [and] [t]hese represent the entire arrangements and are not supplemented by other agreements either written or oral"; "[t]here has been no fraud involving management or employees who have significant roles in internal control"; and "[t]here has been no fraud involving other employees that could have a material effect on the financial statements." These representations were all false, and Chen, Heller, and Morales each knew or was reckless in not knowing that they were false when he signed the management representation letters.

Espuelas, Chen, Heller, and Scolnik Present False Information to Potential Investors

87. Espuelas, Chen, Heller, and Scolnik each played a role in the presentation of financial information, discussions, and negotiations with entities, led by BellSouth, that were considering whether to provide financing to the company during 2000 and 2001. The consortium led by BellSouth did provide additional financing to StarMedia in the form of the purchase of $35 million worth of convertible preferred shares, by means of a transaction that closed in May 2001. Espuelas, Chen, Heller, and Scolnik each knew or was reckless in not knowing that Bell South relied on the financial information in providing that financing.

Chen Avoids Losses in His Sales of StarMedia Common Stock

88. Chen sold 715,000 shares of StarMedia common stock in the period from August 13 to November 1, 2001, prior to the November 19, 2001 StarMedia announcement that it would restate its financial statements. At the time of his sales, Chen knew that StarMedia's filings with the Commission and other public statements contained materially false and misleading disclosures and financial information, including the fraudulent overstatement of StarMedia's revenue. Chen learned the information as a result of his employment at StarMedia and by authorizing and implementing the fraud. By selling StarMedia stock while aware of the fraud, but while investors were not, Chen avoided losses of at least $150,438.88.

FIRST CLAIM

FRAUD IN THE OFFER OR SALE OF SECURITIES
Violations of Section 17(a) of the Securities Act
(Against Espuelas, Chen, Heller, Scolnik)

89. The Commission realleges and incorporates by reference ¶¶ 1 through 87 above.

90. Each of defendants Espuelas, Chen, Heller, and Scolnik, by engaging in the

conduct described above, directly or indirectly, in the offer or sale of securities by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails:

a. with scienter, employed devices, schemes, or artifices to defraud;

b. obtained money or property by means of untrue statements of a material fact or by omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

c. engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

91. By engaging in the conduct described above, each of defendants Espuelas, Chen, Heller, and Scolnik violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CLAIM

FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder (Against Espuelas, Chen, Heller, Scolnik, Kampfner, and Möller)

92. The Commission realleges and incorporates by reference ¶¶ 1 through 87 above.

93. Each of defendants Espuelas, Chen, Heller, and Scolnik, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

a. employed devices, schemes, or artifices to defraud;

b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or

c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

94. By engaging in the conduct described above, each of defendants Espuelas, Chen, Heller, and Scolnik violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

95. Each of Defendants Kampfner and Möller knowingly provided substantial assistance to StarMedia's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

96. By engaging in the conduct described above and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], defendants Kampfner and Möller aided and abetted StarMedia's violations, and unless restrained and enjoined will continue to aid and

abet, violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

<u>THIRD CLAIM</u>

FRAUDULENT STOCK SALES

Violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 (Against Chen)

97. The Commission realleges and incorporates by reference ¶¶ 1 through 88 above.

98. After concealing material information concerning the false and misleading disclosures and financial statements in StarMedia's filings with the Commission and providing false statements to analysts and shareholders, Chen knowingly or recklessly sold StarMedia common stock, in breach of a duty that he owed to StarMedia and its shareholders.

99. By reason of the foregoing, Chen directly or indirectly, violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

<u>FOURTH CLAIM</u>

REPORTING VIOLATIONS

Aiding and Abetting Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder (Against Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker)

100. The Commission realleges and incorporates by reference ¶¶ 1 through 87 above.

101. StarMedia violated Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and

240.13a-13], by filing with the Commission a materially false and misleading annual Report on Form 10-K for its fiscal year 2000 and materially false and misleading quarterly Reports on Form 10-Q for the first two quarters of 2001.

102. Each of defendants Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker, and each of them, acted with knowledge or recklessly, and thereby knowingly provided substantial assistance to one or more of StarMedia's violations of Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13].

103. By engaging in the conduct described above and pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], each of defendants Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker aided and abetted one or more of StarMedia's violations, and unless restrained and enjoined will continue to aid and abet violations, of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13[17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13].

FIFTH CLAIM

RECORD-KEEPING VIOLATIONS

Aiding and Abetting Violations of Section 13(b)(2)(A) of the Exchange Act (Against Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker) and Violations of Rule 13b2-1 thereunder (Against Espuelas, Chen, Scolnik, Kampfner, Morales, Möller, and Blacker)

104. The Commission realleges and incorporates by reference ¶¶ 1 through 88 above.

105. StarMedia violated Section 13(b)(2)(A) of the Exchange Act

[15 U.S.C. § 78m(b)(2)(A)] by failing to make or keep books, records, and accounts that in reasonable detail accurately and fairly reflected its transactions and disposition of its assets.

106. Each of defendants Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker acted with knowledge or recklessly, and thereby knowingly provided substantial assistance to StarMedia's violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] .

107. By engaging in the conduct described above, each of defendants Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker aided and abetted StarMedia's violations, and unless restrained and enjoined will continue to aid and abet violations, of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

108. By engaging in the conduct described above, each of defendants Espuelas, Chen, Scolnik, Kampfner, Morales, Möller, and Blacker violated Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1] by, directly or indirectly, falsifying or causing to be falsified StarMedia's books, records, and accounts subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)]. Unless restrained and enjoined, defendants will continue to violate Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

SIXTH CLAIM

FALSE STATEMENTS TO AUDITORS

Violation of Exchange Act Rule 13b2-2
(Against Chen, Heller, Morales)

109. The Commission realleges and incorporates by reference ¶¶ 1 through 88 above.

110. By engaging in the conduct described above, each of defendants Chen, Heller, and Morales violated Rule 13b2-2 of the Exchange Act [17 C.F.R. § 240.13b2-2] by directly or indirectly making or causing to be made materially false or misleading statements to accountants and omitting to state, or causing another person to omit to state, to accountants, material facts necessary in order to make statements made to the accountants, in light of the circumstances under which such statements were made, not misleading. Unless restrained and enjoined, defendants Chen, Heller, and Morales will continue to violate Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter Orders:

A. Permanently restraining and enjoining each of Espuelas, Chen, Heller, and Scolnik from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)];

B. Permanently restraining and enjoining each of Espuelas, Chen, Heller, and Scolnik from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

C. Permanently restraining and enjoining each of Kampfner and Möller from aiding and abetting violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5];

D. Permanently restraining and enjoining each of Espuelas, Chen, Scolnik, Kampfner, Morales, Möller, and Blacker from violating Exchange Act Rule 13b2-1

[17 C.F.R. § 240.13b2-1], and each of Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker from aiding and abetting violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)];

E. Permanently restraining and enjoining each of Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, Möller, and Blacker from aiding and abetting violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13];

F. Permanently restraining and enjoining each of Chen, Heller, and Morales from violating Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2];

G. Imposing civil monetary penalties on each of Espuelas, Chen, Heller and Scolnik pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(e)];

H. Imposing civil monetary penalties on each of Espuelas, Chen, Heller, Scolnik, Kampfner, Morales, and Blacker pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)];

I. Prohibiting, pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], each of Espuelas, Chen, Heller, and Scolnik, and pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Kampfner, from acting as an officer or a director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78*l*]or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. §78o(d)];

J. Ordering Chen to disgorge all ill-gotten gains, with prejudgment interest, from the sales of his StarMedia common stock; and

K. Granting such other and additional relief as this Court may deem just and proper.

Dated: March 29, 2006

/s/
____

Scott W. Friestad (SF 8048)
James T. Coffman
David Frohlich
Paul W. Sharratt
Charles D. Stodghill (Lead Trial Attorney)
100 F Street, N.E .
Washington, D.C. 20549-4010A
(202) 551-4413 (Stodghill)
(202) 772-9246 (Stodghill fax)

Attorneys for Plaintiff
Securities and Exchange Commission