



THE UNITED STATES ATTORNEY'S OFFICE
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Department of Justice

U.S. Attorney's Office

Central District of California

FOR IMMEDIATE RELEASE

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Lawyer Michael Avenatti Sentenced to 14 Years in Federal Prison for Stealing Millions of Dollars from Clients and Tax Fraud

SANTA ANA, California – Suspended plaintiffs' lawyer Michael John Avenatti was sentenced today to 168 months in federal prison for stealing millions of dollars from his clients – one of whom was a paraplegic with mental health issues – and for obstructing the IRS's efforts to collect more than \$3 million in payroll taxes from an Avenatti-owned coffee business.

Avenatti, 51, a former Newport Beach resident now in federal custody, was sentenced by United States District Judge James V. Selna, who said Avenatti "has done great evil for which he must answer."

In imposing the 14-year sentence, Judge Selna ordered that this term of imprisonment run consecutive to sentences totaling five years previously imposed in two federal cases in the Southern District of New York.

Judge Selna also ordered Avenatti to pay \$10,810,709 in restitution to four clients and to the IRS.

Today's sentencing follows Avenatti's entry of guilty pleas on June 16 to four counts of wire fraud and one count of endeavoring to obstruct the administration of the Internal Revenue Code. He has been a federal prisoner since on February 7, soon after he was ordered to begin serving a sentence in one of the New York cases.

"Michael Avenatti was a corrupt lawyer who claimed he was fighting for the little guy. In fact, he only cared about his own selfish interests," said United States Attorney Martin Estrada. "He stole millions of dollars from his clients – all to finance his extravagant lifestyle that included a private jet and race cars. As a result of his illegal acts, he has lost his right to practice law in California, and now he will serve a richly deserved prison sentence."

"Michael Avenatti violated the trust placed in him by his clients. Instead of helping his clients receive the compensation that they were owed and needed, he pocketed the money, stealing from people who were already hurting. The money was used to fuel a lavish lifestyle that had no limits," stated Tyler Hatcher, the Special Agent in Charge of IRS Criminal Investigation's Los Angeles Field Office. "While today's sentencing concludes the government's case against Mr. Avenatti, the enormous damage left behind will be felt by his

former clients for quite some time. It is our sincere hope that his victims will take some solace in the fact that he has been held accountable for his criminal actions.”

The Wire Fraud Counts

Avenatti received money on behalf of clients into client trust accounts, misappropriated the money, and then lied to the clients about receiving the money or, in one case, claimed that the money had already been sent to the client. The four clients suffered actual losses totalling approximately \$7.6 million.

“Although the details pertaining to each of the four clients underlying the charges in the indictment differ, the general pattern was the same,” according to a sentencing memorandum filed by prosecutors. “[Avenatti] would lie about the true terms of the settlement agreement he had negotiated for the client, conceal the settlement payments that the counterparty had made, secretly take and spend the settlement proceeds that belonged to the client, and lull the client into not complaining or investigating further by providing small ‘advances’ on the supposedly yet-to-be paid funds.”

According to court documents:

- In the case of Geoffrey Johnson, Avenatti represented Johnson in a lawsuit against the County of Los Angeles that alleged, among other things, Johnson became a paraplegic as a result of the county violating his constitutional rights. The county paid a \$4 million settlement in January 2015, but within months Avenatti had drained the entire settlement payment from his law firm’s trust account and used portions of the settlement to finance his coffee business and pay personal expenses. Avenatti never told Johnson about the settlement agreement and terms, and he concealed from Johnson the receipt of the settlement payment from the county. Instead of giving Johnson his portion of the settlement, Avenatti gave Johnson periodic “advances” of no more than \$1,900 and paid the rent for his assisted living facility to falsely reassure him that Avenatti was continuing to work on his behalf.
- Alexis Gardner obtained a \$3 million settlement in a matter, which included a payment of \$2.75 million in early 2017. Avenatti never provided a copy of the settlement agreement to Gardner or told her the true terms of the settlement. Upon receipt of the settlement money, Avenatti took the bulk of this money – \$2.5 million – and used it to purchase his portion of a jet, while falsely telling Gardner that the settlement called for monthly payments over eight years. Avenatti gave Gardner a small “advance” for rent and made approximately 12 monthly payments, totally approximately \$227,500, making them appear to come from the individual who paid the settlement, but then Avenatti stopped paying Gardner.
- Gregory Barela was to receive a \$1.9 million settlement in an intellectual property dispute. Avenatti embezzled the first installment of \$1.6 million in January 2018, in part by providing Barela with a bogus settlement agreement indicating that the payment was going to be made two months later. Avenatti used the money to pay expenses at his coffee business and to pay his own legal expenses.
- Michelle Phan and Long Tran hired Avenatti to negotiate a “Common Stock Repurchase Agreement” for the sale of nearly \$27.5 million worth of Phan’s shares of ipsy, a company founded by Phan, and then another sale of approximately \$8.15 million worth of Phan’s shares. When the first payment was made, Avenatti took his fees for the overall \$35 million sale and sent the balance to Phan. But when the second stock sale was finalized and the company sent nearly \$8.15 million, all of which belonged to Phan, Avenatti kept \$4 million for himself and used this money to pay some of his law firm’s bankruptcy creditors, including the IRS; to provide funding for his various businesses; and to make lulling payments to Johnson, Gardner and Barela. When Phan and Tran demanded Phan’s money, Avenatti falsely told them that the stolen \$4 million already had been wired to them and provided them with a wire transfer confirmation document which actually documented the transfer of an earlier \$4 million payment.

“[Avenatti’s] scheme to defraud his clients was cruel – often reducing those clients to begging for needed funds and making them feel beholden to him when he ‘advanced’ or ‘loaned’ them funds that were, in fact, the clients’ own money,” prosecutors argued in the sentencing memorandum.

The Tax Count

Avenatti corruptly obstructed and impeded the IRS's efforts to collect more than \$3.2 million in unpaid payroll taxes, which includes money that he withheld from the paychecks of employees of Global Baristas US LLC, the Avenatti-owned company that operated Tully's Coffee, and should have paid to the IRS but never did.

Avenatti obstructed the agency's efforts to collect the monies that his company owed by making false statements to an IRS revenue officer; directing employees to stop depositing cash receipts; and changing the company name, Employer Identification Number, and bank account information listed with his credit card processing company to avoid IRS levies.

In addition, prosecutors argued in support of allegations in an indictment that:

- Avenatti failed to file individual tax returns or pay any personal income taxes for 2011 through 2017, even though he had a substantial income and lived lavishly.
- He also failed to file partnership returns or pay taxes – including payroll taxes – for his now-defunct Newport Beach-based law firm Eagan Avenatti LLP, of which he was the managing partner, for 2013 through 2017, even though the law firm received many millions of dollars during those years.
- Furthermore, Avenatti failed to file corporate tax returns or pay taxes for Avenatti & Associates, of which he was president, for 2011 through 2017, even though this entity also received substantial funds.

“[Avenatti's] tax fraud scheme was massive, resulting in losses to the federal treasury...and harming hundreds of his employees whose payroll taxes he stole,” prosecutors noted in the sentencing memorandum.

IRS Criminal Investigation conducted the investigation in this matter. The Office of the United States Trustee provided assistance.

Assistant United States Attorneys Brett A. Sagel of the Santa Ana Branch Office and Rane A. Katzenstein, Chief of the Major Frauds Section, prosecuted this case.

Topic(s):

Tax

Financial Fraud

Component(s):

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