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FOUR DEFENDANTS SENTENCED TO PRISON TERMS BETWEEN FIVE AND 10 YEARS IN THREE INVESTMENT FRAUD SCHEMES

CHICAGO — Four defendants who swindled investors out of millions of dollars in three separate Ponzi fraud schemes were each sentenced to federal prison terms between 5 and 10 years and ordered to pay full restitution to their victims. The cases demonstrate that federal law enforcement agencies continue to safeguard investors from individuals who solicit, obtain and use other people's money illegally. Two of the three cases resulted from investigations by law enforcement agencies and financial market regulators. One defendant reported himself to investigators as his fraud scheme was collapsing.

The defendants and their sentences last week in U.S. District Court were:

MICHAEL MORAWSKI, 56, of Sleepy Hollow, was sentenced to 10 years in prison, and his co-defendant, FRANK CONSTANT, 59, of West Dundee, was sentenced to 7½ years in prison, and both were ordered to pay more than $18 million in restitution for defrauding 267 victims;

JAMES BRANDOLINO, 44, formerly of Joliet and Chicago, was sentenced to just under nine years in prison and ordered to pay more than $3.8 million in restitution for defrauding more than 50 investors; and

CHRISTOPHER VARLESI, 54, of Chicago, was sentenced to five years in prison and ordered to pay $638,227 in restitution for defrauding approximately 15 investors.

In each case, many of the victims lost their life savings, including retirement money and college funds, as well as suffered emotional hardship. Each of the defendants benefitted personally, as well as used some investors' funds to pay back earlier investors to keep their fraud schemes from collapsing.

United States v. Morawski and Constant

Morawski pleaded guilty to two counts of mail fraud in September 2012 and was sentenced to 10 years in prison by U.S. District Judge Gary Feinerman, who imposed the sentence last Tuesday. Constant pleaded guilty to one count of wire fraud and was sentenced to 90 months in prison by Judge Feinerman on Thursday. Both men were ordered to pay $18,211,547 in restitution and to begin serving their sentences on July 15, 2013.

"Mr. Morawski must be punished for the lies and fraud he perpetrated and the way in which he conducted business when it became clear that things were not going well. At the time when people get into situations when businesses go south, it is at that time there has to be the most deterrence," Judge Feinerman said.

In sentencing Constant, the judge said: "The sentence should send a signal to people in positions of trust that truth has to be told in good time and bad. It's important to investors to know when thing go well, but what Constant did was deprive the investors of full information to make an informed choice."

Between 2006 and 2010, Morawski and Constant fraudulently obtained approximately $21 million and caused 267 investors to lose more than $18 million. After forming a real estate investment company, Michael Franks, LLC, in Palatine, and several related businesses, they misused the money they raised for their own benefit and to make Ponzi-type payments to earlier investors.

Michael Franks offered investors passive ownership in multi-family residential properties, including apartment buildings in Illinois, Texas and Alabama. Morawski and Constant offered two types of investments to the public: one was an investment in acquiring, improving and operating specific apartment complexes for a period of three to five years, and investors were typically told they would earn between seven and nine percent interest annually, and potentially more upon the sale of the property; the second was an investment in real estate-based "funds" that would provide an interest in various properties backed by promissory notes, often offering an annual interest payment of between 8 and 30 percent per year.

Certain real estate projects undertaken by Michael Franks performed poorly and failed to generate enough revenue to meet operating expenses. The defendants began transferring funds from various investments to support poorly-performing projects and to pay earlier investors, without disclosing this information. At the same time, they misused investor funds to pay employees, to make commission payments to individuals who raised new funds, and to pay themselves, as well as to make payments for Constant's company car and country club payments, and to extend loans to friends of Morawski, who pocketed nearly $1 million for himself.

The government was represented by Assistant U.S. Attorney Sunil Harjani. The investigation was conducted by the FBI.

United States v. Brandolino

Brandolino pleaded guilty to mail fraud in August 2011 and was sentenced to 107 months in prison and ordered to pay $3,865,484 in restitution by U.S. District Judge Elaine Bucklo, who imposed the sentenced last Thursday. Brandolino has been in custody since January 2011 when he turned himself in after a seven-year investment fraud scheme in which he swindled more than 50 investors out of $3.75 million. He agreed to being ordered to pay additional restitution of $128,576 to managed account holders who suffered trading losses.

Between 2003 and January 2011, Brandolino solicited approximately $4.8 million from about 60 investors, many of them family and friends. He lured investors with promises of healthy returns and principal safety, and he fabricated account statements showing steady gains, convincing investors to keep their money with him and to invest additional funds.

Of the funds he fraudulently obtained, Brandolino lost approximately $850,000 through unsuccessful futures trading and used approximately $1.4 million to pay principal and purported profit returns to existing pool participants, including more than $300,000 he paid to investors in excess of their investments. He also misappropriated more than $2 million for himself and used the money to purchase such items as a luxury BMW, a Rolex watch, and a piano.

Brandolino held various National Futures Association registrations in the commodities brokerage business, with exchange floor trading privileges at the Chicago Board of Trade, now part of the CME Group. He was also a principal of several commodities trading businesses, including Brandolino Investment Group, Lloyd Lewis Capital, Inc., Falcon Trading Group, Inc., and Falcon Capital Partners LLC.

The government was represented by Assistant U.S. Attorney Samuel B. Cole. The investigation was conducted by the FBI and the U.S. Postal Inspection Service. The Commodity Futures Trading Commission assisted in the investigation.

United States v. Varlesi

Varlesi pleaded guilty to wire fraud in December 2012 and was ordered to surrender on June 17, 2013, by U.S. District Judge Ruben Castillo, who imposed the five-year sentence last Wednesday. Varlesi engaged in a Ponzi scheme while purporting to operate a company called Gold Coast Futures and Forex, an investment trading pool. Between July 2008 and January 2012, he fraudulently obtained more than $1.5 million from approximately 18 investors, including friends, friends of friends, and family members. Neither Varlesi nor Gold Coast held any license or registration related to trading securities or commodities or operating a commodity trading pool.

Varlesi misappropriated a substantial portion of investor funds for his own benefit, including misusing more than $120,000 to pay for a year's rent for an apartment in the Trump International Hotel & Tower in Chicago, as well as to make Ponzi-type payments to other investors.

Trading only a small portion of the money he received from investors, Varlesi made false representations about using clients' money to trade gold, commodity futures, and foreign currency, the expected return on their investments, and the security of their money. He concealed the scheme by creating and distributing false account statements, and also told clients that their investments were guaranteed to be profitable, with no risk of losing principal. He provided promissory notes to certain investors, falsely promising to return the entire principal amount of their investment, as well as guaranteed interest ranging between 5 to 7.5 percent per month.

The government was represented by Assistant U.S. Attorney Sarah E. Streicker. The investigation was conducted by the FBI and the Illinois Securities Department. The Commodity Futures Trading Commission assisted in the investigation.

The sentences were announced by Gary S. Shapiro, United States Attorney for the Northern District of Illinois; Cory B. Nelson, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation; and Pete Zegarac, Inspector-in-Charge of the U.S. Postal Inspection Service in Chicago.

The investigations fall under the umbrella of the Financial Fraud Enforcement Task Force, which 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. For more information on the task force, visit: www.StopFraud.gov.

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