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FORMER MEXICAN HOTEL OPERATOR PLEADS GUILTY IN FIRST STAGE OF RESOLVING $500 MILLION SCHEME TO DEFRAUD THOUSANDS OF U.S. INVESTORS IN SALES OF PROMISSORY NOTES AND TIME-SHARE LEASES

CHICAGO — Partially resolving one of the largest investment fraud cases ever in Federal Court here, a defendant who owned hotel properties in Mexico pleaded guilty yesterday to securities fraud, admitting that he fraudulently obtained approximately $500 million from some 8,000 investors throughout in the United States. The defendant, MICHAEL E. KELLY, was sentenced today to the maximum term of five years in prison, ensuring that final orders of restitution and forfeiture will be imposed despite Kelly's ill health. Meanwhile, Kelly still faces additional charges carrying substantial additional periods of incarceration.

On Nov. 20, U.S. District Judge Ronald Guzman, ordered the first distribution of $50 million in restitution to more than 7,000 victims, who collectively lost more than $340 million as a result of Kelly's fraud scheme. Kelly has remained in federal custody in Chicago since he was arrested in December 2006. Since then, authorities, including a court-appointed special master, have worked to untangle and liquidate a complex web of businesses and properties in Mexico and Panama to provide restitution to victims.

Judge Guzman stressed today that these developments are only a "small step" in the overall proceedings against Kelly.

Kelly, 63, formerly of South Bend, Ind., who holds citizenship in the United States, Mexico and Belize, and others associated with him used a significant portion of the funds raised from investors for their own personal benefit, including the purchase of hotels, businesses, homes, boats, automobiles, an airplane, a night club, and an interest in a real estate development project in Cancun, Mexico, where Kelly resided for several years before he was arrested.

Kelly's guilty plea to one count of securities fraud was designed to be the first step in resolving his entire prosecution since final orders of restitution in criminal cases may only be issued at the time of sentencing. As part of today's sentencing, Kelly agreed to, and Judge Guzman ordered, restitution totaling $342,143,221, minus any credit for funds distributed by the court-appointed special master overseeing the liquidation of Kelly's assets.

Before imposing the five-year sentence, which exceeds the amount of time Kelly has been in custody, Judge Guzman granted Kelly's request to be released temporarily under home incarceration, with global position electronic monitoring, for up to four months or no longer than necessary to receive medical treatment for colon cancer at his own expense without using any investor or government funds. Kelly's relatives co-signed a $10 million signature bond and posted properties in Lakeville, Ind., and Double Springs, Ala., to secure his release.

Kelly still faces 13 additional counts of mail, wire, and securities fraud, which remain pending until they are resolved by a trial or a second guilty plea at a later date. If convicted of those counts, Kelly will be subject to substantial additional terms of imprisonment.

The guilty plea and sentence were announced today by Gary S. Shapiro, Acting United States Attorney for the Northern District of Illinois, and Thomas R. Trautmann, Acting Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation. FBI agents in South Bend, Ind., also participated in the investigation. The U.S. Securities and Exchange Commission also cooperated with the investigation.

In pleading guilty, Kelly admitted that beginning in 1998 he defrauded purchasers and prospective purchasers of two types of investments — one, a nine-month promissory note, and the second, a so-called "universal lease." Kelly was the president and sole shareholder of Yucatan Investment Corp., and Resort Holdings International, Inc., both of which at various times offered and sold either the promissory notes or universal leases.

Between January 1998 and June 1999, Kelly fraudulently obtained approximately $34 million from the sale of the promissory notes, which guaranteed an annual rate of return as high as 10.75 percent of the purchase price, and could be renewed for one or more additional nine-month terms. Through various companies and a network of salesmen, Kelly fraudulently obtained approximately $500 million from the sale of promissory notes and interests in universal leases, which had a 25-year term and purported to relate to particular rooms for particular time periods in particular Mexican hotels operated by Kelly. A lease investor had three options: 1) use the room; 2) rent the room; or 3) allow a purported independent third-party management company, World Phantasy Tours, Inc., doing business as Majesty Travel, Viajes Majesty or, later, Galaxy Properties Management, to rent the room in exchange for guaranteed payments to the investor. Almost all of the lease purchasers chose the third option under which World Phantasy Tours guaranteed investors an annual return as high as 11 percent, regardless of whether the room was actually rented. Kelly and others promoted the investment as carrying little risk by promising to buy back the interest in the universal lease at any time at a slight discount and further promising to pay back 100 percent of the purchase price in as little as either two or three years.

Between 1999 and 2004, Kelly regularly met with salesmen and prospective purchasers to explain the terms of the universal lease investments, often as part of an all expenses paid trip to Cancun. Many of the investments were sold to retirees who found the promised high fixed rates of return, coupled with the reported safety of the buy-out (or repurchase) provision, to be an attractive investment. In the offer and sale of both the promissory notes and the interests in the leases, Kelly and others made material misstatements and omissions about the return on investments, the guaranteed nature of the returns, and the liquidity and risks of the investments. Kelly and others concealed from investors that the ability to make promised payments depended on continually raising funds from new investors and using those funds to pay earlier investors.

The government is being represented by Assistant U.S. Attorneys Edward Kohler and Daniel Gillogly.

The case falls 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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