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THREE INDICTED FOR ILLEGALLY PROFITING FROM CONTRACTS AND LEASES WITH SECRETARY OF STATE'S OFFICE SINCE 1991

RICO indictment alleges illegal profits shared with SOS officials and others

CHICAGO -- A Chicago businessman allegedly illegally used his influence and control over the Illinois Secretary of State Office for the personal and financial benefit of himself and others, receiving approximately \$2.8 million in profits from SOS contracts and leases since 1991, according to a federal grand jury indictment returned today. The businessman, **Lawrence E. Warner**, allegedly retained a portion of the proceeds for himself; provided a portion to a high-ranking SOS official; and gave a portion to co-defendant **Donald Udstuen**, with the knowledge and concurrence of the high-ranking SOS official. A third defendant indicted today, **Alan A. Drazek**, allegedly helped disguise the illegal payments from Warner to Udstuen, keeping a portion for himself. The 11-count indictment is part of *Operation Safe Road*, the ongoing four-year-old investigation of corruption in the Illinois Secretary of State's Office during 1991 to 1999, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois.

From 1991 through 1999, Warner, with the knowledge, consent and authorization of one or more high-ranking SOS officials, "directly and substantially participated in the affairs of the SOS Office," the indictment alleges, including at various times, acting as an agent for the office and as a decision-maker regarding certain governmental affairs. Although he was a private citizen, Warner allegedly attended internal SOS Office meetings, including policy meetings and one or more staff

retreats; directed and advised SOS Office personnel, including one or more directors of 21 departments, regarding the awarding of SOS Office contracts to outside vendors and SOS Office leases; and participated in determining the content of official SOS Office documents and communications, including contract specifications.

Warner, 64, of 442 West Wellington, Chicago, was identified as owning and operating several businesses -- a fire insurance adjustment firm, a construction maintenance and supervision firm and two consulting companies -- out of offices at 3101 North Western Ave. He was charged with five counts of mail fraud, two counts of money laundering and one count each of racketeering, extortion and illegally structuring monetary transactions.

Udstuen, 58, of 240 McHenry Ave., Crystal Lake, was a representative and employee of the Illinois State Medical Society, and, as such, was a registered lobbyist. Udstuen has authorized the government to disclose that he is cooperating in the *Safe Road* investigation and will plead guilty to tax fraud conspiracy.

Drazek, 61, of 7831 Churchill St., Morton Grove, owned and operated American Management Resources, a direct mailing company. Along with Udstuen, Drazek was charged with conspiracy to obstruct and impede the Internal Revenue Service in the collection of income taxes.

All three defendants will be summoned to appear for arraignment at a later date in U.S. District Court. The indictment also seeks forfeiture against Warner alone of the proceeds of the alleged racketeering activity, approximately \$2.8 million, along with his partnership interest in the assets of the companies that own the Joliet and Bellwood buildings leased by the SOS Office, and his interest in the SOS contract with a vendor that provides digital licensing technology.

“The indictment alleges that Larry Warner fixed the process by which certain contracts and leases were awarded by the Secretary of State’s Office for his own profit and the profit of others. He secretly obtained ownership interests in buildings that he then caused to be leased by the state.

At the same time he was fixing the process for certain contracts, he extorted money from a company doing business with the state. This fraud and extortion reaped millions for Warner which he shared with others inside and outside state government,” Mr. Fitzgerald said.

Mr. Fitzgerald announced the charges with Thomas J. Kneir, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation; Thomas P. Brady, Acting Inspector-in-Charge of the Northern Illinois Division of the U.S. Postal Inspection Service; James W. Martin, Special Agent-in-Charge of the Internal Revenue Service Criminal Investigation Division; and Dieter Harper, Special Agent-in-Charge of the Midwest Region of the U.S. Department of Transportation Office of Inspector General. The investigation is continuing, they said.

Mr. Kneir of the FBI said: “These charges allege that a private citizen corruptly influenced the affairs of the Secretary of State Office and deprived the taxpayers of fair and honest government by those whose duty it was to serve the public with integrity. Such conduct will continue to be vigorously investigated by the FBI whenever and wherever warranted.”

Mr. Martin of the IRS-CID said: “The IRS is aggressively serving the American public by investigating potential criminal violations of the Internal Revenue Code. We will not be deterred by anyone’s position or influence. Our foremost responsibility is the maintenance of the public’s trust in the federal tax system. We will aggressively pursue violators of that trust.”

According to the indictment, Warner and two of his companies -- National Consulting Company and Omega Consulting Group, Ltd. -- along with the SOS Office and others known and unknown, were associated and constituted the Warner-SOS Office Enterprise. Beginning no later than 1991 and continuing to at least 1999, the Warner-SOS Office Enterprise engaged in a pattern of racketeering activity that included multiple acts of extortion, mail fraud and money laundering, all of which were disguised to control the award of SOS contracts and leases, extort companies

doing business with the SOS to pay Warner to get and/or keep SOS business and launder the proceeds.

As part of the fraud scheme, in early 1991, Warner and Udstuen allegedly discussed Warner's plan and intention to make money from one or more outside vendors doing business with the SOS Office. Warner advised Udstuen that, with the knowledge and concurrence of SOS Official A, Warner would provide Udstuen with one-third of the proceeds that he obtained from certain outside vendors doing business with the SOS Office. Warner also advised Udstuen that Warner would provide SOS Official A with a portion of the proceeds that he obtained from outside SOS vendors, the indictment alleges.

At the outset in early 1991, Warner and Udstuen allegedly agreed that to conceal the flow of proceeds between them, Warner would cause checks to be written to Drazek's company, American Management Resources. Udstuen and Drazek agreed that Drazek would provide a portion of those proceeds back to Udstuen in cash, with Drazek keeping a portion for himself. During the next nine years, Warner provided money, property and other things of value to SOS Official A, others at SOS Official A's direction, and other SOS officials and employees to influence and reward them in the performance of their official duties, according to the indictment.

In chronological order, the racketeering count alleges the following activities:

The Validation Stickers Contract – Between 1991 and 1998, Warner received approximately \$332,000 in revenues related to a contract with Vendor 1 for vehicle registration validation stickers that were required to be affixed to all Illinois license plates. Warner paid Udstuen approximately one-third of the proceeds he received from Vendor 1 in connection with the contract. In early 1991, Warner learned that the SOS Office contract specifications for the stickers included the requirement of a feature known as the “metallic security mark,” which was a product created and manufactured by Vendor 1 and effectively guaranteed the contract being awarded to Vendor 1, which had held the contract since 1986.

In July 1991, Warner made an unsolicited contact with an employee of Vendor 1, and indicated that in exchange for \$2,000 a month, he would ensure that the “metallic security mark” requirement would remain in the contract specifications. Warner

indicated that if Vendor 1 did not pay him, the specifications likely would change and Vendor 1 would lose the contract. As a result of Warner's statements and out of fear that Vendor 1 might otherwise lose the contract, Employee 1-A authorized the payment of \$2,000 a month to Warner. That same month, Warner directed SOS Official B that the Vehicle Services Department was to continue doing business with Vendor 1. In July 1991, Warner directed SOS Official B to meet with him and Udstuen in Chicago and provide them with information and materials not generally available to the public, including SOS Office documents, draft contract specifications, and samples of outside vendor materials.

Between July 1991 and December 1993, Warner repeatedly threatened employees of Vendor 1 that if it did not continue to timely pay defendant's monthly fee, Vendor 1 would lose the SOS Office validation stickers contract. In November 1992, Vendor 1 increased Warner's monthly fee to \$3,000.

In the summer of 1993, after a committee of seven Vehicle Services Department employees unanimously had recommended to SOS Official B that the "metallic security mark" requirement be removed from the contract specifications, and after SOS Official B, acting on the committee's unanimous recommendation, had caused the "metallic security mark" requirement to be eliminated, Warner directed SOS Official B to put the "metallic security mark" requirement back into the contract specifications. After SOS Official B expressed concern regarding changing back the specifications, Warner caused SOS Official A to intervene and direct SOS Official B to change the specifications back to include the "metallic security mark."

In early 1994, after Vendor 1 had been purchased by another individual, Warner threatened employees of Vendor 1 that if Vendor 1 did not pay him \$5,000 a month, Vendor 1 would lose the contract. As a result, Vendor 1 began paying Warner \$5,000 a month. In September 1998, after Vendor 1 was sold again, Warner threatened an employee that if Vendor 1 did not pay him \$25,000 related to previously unpaid monthly fees and further agree to pay him \$8,000 a month in the future, Vendor 1 would lose the contract. As a result, Vendor 1 offered to pay Warner \$5,000, after which Warner terminated his communications and relationship with Vendor 1.

In order to conceal the flow of unlawful proceeds from Warner to Udstuen relating to the contract, Warner caused National Consulting Company checks to be written to Drazek's company, American Management Resources, which were then sent to Udstuen's home and subsequently provided to Drazek for depositing. Drazek deposited the NCC checks into one or more accounts of American Management Resources, and then gave a portion of the proceeds to Udstuen in cash and kept a portion for himself.

From 1994 through at least 1998, Warner, Udstuen and others knowingly and intentionally failed to file lobbyist registration statements, as required by state law, with regard to income and activities related to Vendor 1;

The Title Laminates Contract – In August 1991, Warner told an employee of Vendor 1 that in exchange for \$67,000, he would help cause the SOS Office contract for title laminates (laminated strips affixed to vehicle titles for security purposes), which was then held by Vendor 2, to be awarded to Vendor 1. Based upon Warner's statements, Vendor 1 paid him \$67,000, in the form of two \$33,500 checks. At the same time, Warner caused SOS Official B to provide him with materials not available to the general public, including samples of title laminates produced by Vendor 2. A month later, Warner caused SOS Official B to delay releasing the title laminates specifications so that changes could be made to benefit Vendor 1's ability to successfully bid on the contract. To conceal the scheme, Warner and Udstuen cautioned SOS Official B not to make the advantage to Vendor 1 appear blatant in making changes to the contract specifications. Beginning in late 1991, Warner paid Udstuen approximately one-third of Warner's proceeds from Vendor 1 related to the title laminates contract, again funneling the money through Warner's and Drazek's companies;

The Computer System Contract – Between 1993 and at least 1999, Warner received approximately \$991,000 in revenues from SOS Office contracts relating to the installation and maintenance of a mainframe computer system and information technology services awarded to Vendor 4. From 1993 until at least 1998, Warner paid Udstuen approximately one-third of the proceeds he received from Vendor 4. In March 1993, Warner entered into a written lobbying contract with Vendor 4 under which it agreed to pay him a percentage of all revenues that Vendor 4 received in connection with SOS Office contracts. From 1993 through 1998, Warner used his authority and influence within the SOS Office to help cause Vendor 4 to be awarded SOS Office computer system and services contracts.

To conceal the flow of unlawful proceeds from Warner to Udstuen relating to the contract, Warner funneled the money through Omega Consulting Group Ltd. to Drazek's company, AMR. In addition, between November 1995 and June 1999, Warner structured cash withdrawals totaling approximately \$120,000 in amounts less than \$10,000 from Omega's account at North Community Bank.

In December 1994, after Vendor 4 advised Warner of his obligation to file lobbyist registration statements and reports, Warner initially refused to file such documents. In January 1995, Vendor 4 and Warner entered into a further written agreement under which Warner agreed to file lobbyist registration documents and Vendor 4 agreed to pay him a monthly fee in addition to his commission on all SOS Office contracts. In his lobbyist registration documents from 1995 through 1999, Warner knowingly and intentionally omitted Udstuen's involvement and financial interest in Vendor 4's contracts;

The 17 N. State Lease – In April 1991, Warner contacted the property manager of a building at 17 N. State St., in Chicago, and indicated that he was acting as a broker on behalf of the SOS Office with regard to a prospective lease for use of that building. Warner entered into a contract with the property manager giving him a six percent commission on any SOS Office lease for the building. Warner omitted his

name from the commission contract and caused it to be executed by a third party nominee who otherwise had no dealings with the property manager related to the building. On Oct. 2, 1991, Warner and others helped cause the SOS Office to enter a six-year lease for the building, and between October 1991 and at least February 1994, Warner received approximately \$233,550 in commission payments related to the lease;

The Bellwood Lease – In 1992, Warner contacted SOS Official C, a senior official from the Physical Services Department, and advised Official C that the SOS Office had identified a building at 405 N. Mannheim Rd., in Bellwood, for potential official SOS Office use. On Oct. 15, 1992, Warner obtained an ownership interest in the building, but concealed it by using a third party nominee as purchaser of the property. On Dec. 15, 1992, Warner and others helped cause the SOS Office to enter into a five-year lease for the building. Warner’s involvement with and financial interest in the Bellwood lease were nowhere reflected in the lease or related publicly available materials. Between December 1992 and late 1998, Warner received approximately \$171,000 in profit related to the lease;

The Joliet Lease – In early 1994, after SOS Official A instructed SOS Official D to contact Warner to help locate a building for a new SOS Office lease, Warner arranged for SOS Official D to inspect a building at 605 Maple Road in Joliet. On Oct. 31, 1994, Warner obtained a substantial ownership interest in the building, but concealed it by using a third party nominee as purchaser of the property. On Jan. 1, 1995, Warner and others helped cause the SOS Office to enter into a four-year lease for the building. Warner’s involvement with and financial interest in the Joliet lease were nowhere reflected in the lease or related publicly available materials. Between January 1995 and 1999, Warner received approximately \$387,500 in profit related to the lease; and

The Digital Licensing Contract – In 1996, the SOS Office began an initiative to switch to a digital licensing system through which all Illinois automobile and truck driver’s licenses would be created and maintained through digital technology. In October 1996, after certain prospective vendors, including Vendor 5, had made presentations to SOS Office staff and officials, including SOS Official A and other senior officials, regarding their digital licensing technologies, Warner contacted one or more senior SOS Office officials regarding the initiative and presentations. After conferring with them, Warner entered into a contract to assist Vendor 5 in its efforts to obtain the digital licensing contract with the SOS Office. To conceal his involvement, Warner excluded his name from the initial contract for his services on behalf of Vendor 5, and instead the contract was entered between Vendor 5 and an individual identified as Individual 1. Under the contract with Vendor 5, Warner and Individual 1 were to receive a commission of five percent of all revenues received by Vendor 5 in connection with the digital licensing contract. Between 1998 and the present, Warner received approximately \$677,000 in revenues related to the contract, which was awarded to Vendor 5 on June 2, 1997. From August 1996 through the present, to conceal his involvement, Warner knowingly and intentionally failed to file lobbyist registration documents regarding income and activities related to

Vendor 5, and he omitted from lobbyist registration statements filed with the SOS Office Index Department any information reflecting his involvement with and financial interest in the digital licensing contract.

The tax fraud conspiracy count against Udstuen and Drazek alleges that from 1991 through April 7, 2002, they agreed to defraud the IRS by laundering Warner's illegal payments to Udstuen through checks from Warner's companies to Drazek's company and sharing the cash proceeds. For the years 1991 through 1998, Udstuen allegedly filed false individual income tax returns in which he failed to declare either the gross amount of income attributable to him from the Warner checks or the net amount of that income he received back in cash from Drazek. For the same years, Drazek allegedly filed false individual income tax returns declaring the full amount of the Warner checks as his income.

From late 2000 through March 2001, after Udstuen learned that certain of Warner's activities related to the SOS Office were the subject of a federal investigation, and fearing that the flow of proceeds from the Warner checks might come to the attention of the IRS, Udstuen and Drazek together caused to be prepared and filed amended individual income tax returns for each of them for the years 1996, 1997 and 1998. These amended returns allegedly were false in that: Udstuen's returns falsely attributed all proceeds from the Warner checks to him, when, in fact, he and Drazek knew that a portion of the proceeds was kept as income by Drazek in return for his services relating to the Warner checks; and Drazek's returns falsely omitted the income from the Warner checks that he had retained.

On April 7, 2002, Drazek and Udstuen met and discussed falsely and fraudulently representing that although Udstuen had now declared all the proceeds from the Warner checks as income on his amended returns, he had not actually received any portion of the proceeds, when both them knew that Udstuen had, in fact, received portions of the proceeds back from Drazek in cash.

Today's indictment brings to 51 the number of defendants who have been charged since *Operation Safe Road* began in 1998. The government is being represented by Assistant U.S. Attorneys Zachary T. Fardon, Patrick M. Collins and Joel R. Levin.

If convicted, Warner faces the following maximum penalties on each count: racketeering, extortion and money laundering – 20 years in prison; structuring monetary transactions – 10 years in prison; and mail fraud -- 5 years in prison. In addition, each count carries a maximum fine of \$250,000, or, as an alternative, some counts carry a maximum fine of twice the gross gain to any defendant or twice the gross loss to any victim, whichever is greater. If convicted of tax fraud conspiracy, Udstuen and Drazek each face a maximum penalty of five years in prison and a \$250,000 fine. The Court, however, would determine the appropriate sentence to be imposed under the United States Sentencing Guidelines.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

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