

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

UNITED STATES SECURITIES)	
AND EXCHANGE COMMISSION,)	
)	
Plaintiff,)	Civil Action No. _____
)	
v.)	
)	
FRANK BLUESTEIN,)	
)	
Defendant.)	
_____)	

COMPLAINT

Plaintiff, United States Securities and Exchange Commission (“Commission”),
alleges and states as follows:

NATURE OF THE COMPLAINT

1. Frank Bluestein (“Bluestein”) was the single largest salesperson in a \$250 million Ponzi scheme perpetrated by an individual named Edward May (“May”) and May’s company, E-M Management Company LLC (“E-M”).
2. From 2002 to 2007, Bluestein, while employed as a registered representative of a broker-dealer and an associated person of a registered investment adviser, raised approximately \$74 million from over 800 investors in connection with the sale of about 110 supposedly separate E-M private offerings.
3. Bluestein misrepresented to investors that the investments in E-M securities were low risk investments. He made these statements even though he had no basis for doing so. In addition, Bluestein misrepresented to investors that he conducted adequate due diligence with respect to the investments when, in fact, he did little to

investigate the legitimacy of the E-M offerings. Bluestein failed to investigate even when confronted with serious red flags regarding the existence of some of the transactions underlying the E-M offerings.

4. Bluestein's misconduct was particularly egregious when he solicited investors using unscrupulous tactics such as: (1) specifically targeting potential investors who were retired and/or elderly; (2) luring these retired or elderly investors through so-called "investment seminars"; and (3) encouraging many of these investors to refinance their mortgages for their homes in order to fund their investments.

5. Bluestein misled investors about the compensation he received from the E-M offerings by not disclosing that he received at least \$2.4 million in commissions from May and E-M.

6. Bluestein also received an additional \$1.4 million in disclosed compensation from investors in the form of fees for his company Fast Frank, Inc. ("F.F. Inc.").

7. Bluestein has violated and, unless enjoined, will continue to violate Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)], Sections 10(b) and 15(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78o(a)], and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

8. The Commission seeks against Bluestein an order of permanent injunction enjoining him from future violations of the foregoing provisions of the federal securities laws, disgorgement, plus prejudgment interest, of all ill-gotten gains, civil penalties and such other ancillary and equitable relief as is sought herein and may be appropriate.

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

DEFENDANT

10. Frank Bluestein, age 59, is a resident of Oakland County, Michigan. He is a former registered representative of a broker-dealer and a former associated person of a registered investment adviser. At all times relevant to this case, Bluestein held his series 6, 7 and 65 licenses.

JURISDICTION

11. This Court has jurisdiction pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa] and 28 U.S.C. § 1331. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

12. The acts, practices and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Eastern District of Michigan and elsewhere.

13. Defendant is an inhabitant of, and transacts business in, the Eastern District of Michigan.

14. Defendant, directly or indirectly, has made use of the mail or the means and instrumentalities of interstate commerce in connection with the transactions, acts, practices and courses of business alleged herein.

FACTS

THE UNDERLYING MASSIVE PONZI SCHEME

15. Beginning at least as early as 1998, and as recently as July 2007, May and E-M sold shares, or “percentages,” of limited liability companies to investors. May and E-M raised as much as \$250 million from approximately 1,200 investors through approximately 180 purportedly separate private offerings of securities. May told investors, many of whom are senior citizens, that each LLC would install and service telecommunication equipment in various hotels, casinos, and truck stops.

16. Many of the offering materials contained purported contracts between E-M and various hotel chains and casinos. May and E-M guaranteed the return of all principal, in addition to a percentage of the earnings for the contracts. May and E-M also touted that they were involved in similar deals in the past.

17. In reality, these offerings were fraudulent. Many, if not all, of the purported telecommunication service contracts with hotels and casinos simply did not exist. May and E-M misappropriated investor funds to pay other investors the “guaranteed” monthly returns, i.e., to perpetrate a Ponzi scheme, and to pay for Ed May’s personal expenditures and for his other businesses. The scheme eventually collapsed and, in August 2007, E-M stopped issuing checks to investors.

18. On November 20, 2007, the Commission filed an emergency civil injunctive action against Ed May and E-M, alleging violations of Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. On December 18, 2007, this Court entered permanent injunctions against

May and E-M, enjoining them from future violations of the aforementioned federal securities laws.

**BLUESTEIN PLAYED A KEY ROLE IN
PROMOTING THE E-M OFFERINGS**

19. Bluestein was the single largest salesperson who solicited investors on behalf of Ed May and E-M. Of the approximately 1,200 investors who invested \$250 million in the E-M offerings, Bluestein was responsible for soliciting approximately 800 investors who invested close to \$74 million in these offerings.

20. From 2002 to 2007, Bluestein solicited investors for the E-M offerings while he was a registered representative for two broker-dealers and an associated person of two registered investment advisers.

21. Bluestein operated his branch office through a private company he co-owned, Maximum Financial Group, Inc. (“Maximum Financial”).

22. As an associated person of a registered investment adviser, Bluestein owed a fiduciary duty to his clients, including an affirmative duty of good faith and the full disclosure of all material facts.

23. Bluestein did not sell the E-M securities through either broker-dealer.

24. For instance, the E-M offerings did not appear on the brokerage statements for either broker-dealer, nor were the investments processed through either firm.

25. Bluestein’s role as a registered representative of these financial firms provided the E-M offerings with an aura of legitimacy and engendered trust from potential investors, many of whom were unsophisticated and non-accredited.

26. Bluestein was highly successful in soliciting a large number of investors through his frequent use of so-called “investment seminars” to lure potential investors.

27. Bluestein, through his company Maximum Financial, conducted numerous investment seminars in at least Michigan and California to find new E-M investors.

28. Bluestein was methodical in the way he introduced E-M offerings to investors to avoid alerting attendees to the fact that these “seminars” were really a forum to pitch the E-M offerings. For instance, Bluestein was careful not to discuss the E-M offerings openly during these seminars. Instead, he first gained the trust of the attendees by discussing generic financial planning topics and other investment products during the seminars. However, he would invite individuals who had already invested in E-M offerings and, under the guise of informal conversations, generate talks among attendees about E-M offerings. For instance, Bluestein would often ask attendees who had already invested in E-M offerings if they had “received their Ed May checks?” or “How do you like those Ed Mays?” in order to drum up discussion of the investments.

29. Bluestein also purposely arranged for existing E-M investors to be seated with new potential investors again to generate discussions about E-M offerings. After exposing potential investors to E-M offerings during the seminar, Bluestein would then schedule one-on-one appointments with potential investors he met during the seminar, at which time he would solicit them to invest in the offerings.

30. As part of his sales strategy, Bluestein specifically targeted retirees and seniors.

31. For example, Bluestein compiled his invitation lists for his investment seminars by purchasing lists with the names and addresses of individuals from a direct mail marketing company. He specifically requested lists of individuals who were age 50 and over. Bluestein told one investor that he worked strictly with retirees. It is thus not a

surprise that a large number of E-M investors solicited by Bluestein were elderly and/or retired.

32. To maximize the amount of funds such investors could invest in E-M offerings, Bluestein urged numerous investors to refinance their home mortgages in order to purchase interests in the E-M LLCs.

33. In some cases, Bluestein referred clients to certain mortgage brokers to handle the refinance.

34. As a result of his encouragement, several Bluestein clients used home equity lines of credit to borrow \$100,000 or more. Bluestein even encouraged one investor to borrow \$1 million on her home to purchase interests in the Ed May projects.

35. As part of his strategy to tap into potential investors' home equity, Bluestein co-hosted some of his investment seminars with mortgage brokers. Again, Bluestein was methodical in his approach. He first established relationships with several mortgage brokers by attending a mortgage broker convention in San Antonio hosted by a coaching program for mortgage brokers and real estate agents. Bluestein gave a presentation to mortgage brokers regarding real estate investment trusts, or REITs, and other investments.

36. Bluestein met at least two mortgage brokers, both from California, while at the convention.

37. Thereafter, Bluestein co-hosted at least three investment seminars with these two mortgage brokers in California, at which he solicited additional investors for E-M projects.

**BLUESTEIN FALSELY ASSURED INVESTORS
THAT E-M INVESTMENTS INVOLVED LOW RISKS**

38. In attracting investors who, in some cases, refinanced their homes to invest in E-M offerings, Bluestein made representations to investors about the purported transactions underlying the E-M offering and assured these investors that the E-M projects were safe investments and that they posed little to no risk.

39. Bluestein explained to investors that Ed May coordinated LLCs that had contracts with hotels for the installation of equipment such as televisions, gaming consoles, internet, etc. and that money was earned by charging for the use of the equipment.

40. Bluestein told investors that the money they invested would be used to purchase equipment and that they would receive a guaranteed repayment of their initial investment within 20 to 22 months.

41. Bluestein also represented to investors that, after the guarantee period, they would continue to receive distributions for up to 12 years.

42. Bluestein also told a number of investors that the projects were his best cash flow piece and were low risk investments.

43. He misrepresented to at least one investor that the E-M projects were a “unique” product because they minimized risk.

44. Bluestein also falsely told some investors that the Ed May investments were insured and that the guaranteed payments in some instances were covered by the insurance should something happen to the properties. According to Bluestein, if a hotel property was destroyed, for example by a natural disaster, the investors would continue to receive their guaranteed payments.

45. These representations were all false since the supposed transactions did not exist and the offerings were a Ponzi scheme. Bluestein did not have any reasonable basis for his representations.

**BLUESTEIN MADE MISREPRESENTATIONS TO INVESTORS
ABOUT THE PURPORTED DUE DILIGENCE HE CONDUCTED**

46. Bluestein affirmatively lied about the due diligence he supposedly conducted regarding the E-M offerings. Further, Bluestein was aware of serious red flags regarding the existence of some of the purported hotel transactions underlying the E-M offerings.

47. Bluestein assured many investors by telling them that he conducted due diligence with respect to the E-M LLCs.

48. In fact, Bluestein told some investors that he never recommended a project that he did not thoroughly investigate or purchase himself.

49. Bluestein told investors that he had performed several acts of due diligence, including traveling to Las Vegas to visit hotels and perform an “audit” and reviewing purported contracts between the LLCs and hotels.

50. In reality, Bluestein conducted little, if any, meaningful due diligence.

51. For instance, in an answer to an arbitration claim, Bluestein claimed to fly to Las Vegas to meet with Randal Wolf (a purported executive for MGM-Mirage Inc. (“MGM”)), Reed Stewart (a purported executive for Tropicana Resorts Inc. (“Tropicana”)) and two other unnamed hotel executives. However, no one named Randal Wolf or Reed Stewart had ever served as executives for MGM or Tropicana.

52. Bluestein claimed that when he met with purported hotel executives in Las Vegas, he only received one business card, which was for a concierge at Hilton. Indeed,

the only business card that Bluestein provided the Commission was for an executive slot host at Bellagio. This person turned out to be a victim of the E-M fraudulent scheme, who lost \$192,000.

53. Bluestein also testified before the Commission staff that he met with an individual who was an associate of Ed May at least three times in Las Vegas between 2005 and 2007. This individual is a business man located in Las Vegas who was paid by May.

54. Bluestein met with this person purportedly to verify the existence of the Ed May deals. According to Bluestein, the only information that the individual provided him was via the individual's laptop. This information purportedly showed the money flow for the projects. However, the individual supposedly refused to provide Bluestein with a hard copy of any supporting documentation for the deals.

55. Bluestein claims that when he raised this issue with Ed May, May stated that he could not give him information regarding the phone deals in hard copy. Bluestein declined to raise the issue any further with May.

56. During sworn testimony, Bluestein stated that he visited truck stops on the West Coast that were purportedly part of the E-M projects.

57. Bluestein, however, admitted that he did not know whether the phone equipment at the truck stops was part of the Ed May phone deals. He also admitted that he spoke with no one at the truck stops, he did not see the hotel rooms at the truck stop and he made no effort to make a connection between the phone equipment and the Ed May phone deals.

58. Bluestein also testified that Ed May told him he would never be able to determine if the phones were installed by May or E-M during his trips to hotels and truck stops “because there is nobody in a local hotel that would know or be privy to that information.”

59. Not only did Bluestein fail to conduct any meaningful due diligence with respect to the Ed May deals, Bluestein also ignored significant red flags regarding the legitimacy of the E-M offerings. For instance, when one of Bluestein’s employees at Maximum Financial brought to his attention that at least two different Ed May offerings involved the same property, Bluestein merely responded that it was a typographical error without any further investigation.

60. Bluestein investors even received distribution payments for a hotel that did not even exist. Specifically, investors continued to receive distribution payments for a purported project with the Stardust Hotel in Las Vegas, even after the Stardust Hotel, from which revenue was purportedly derived, was demolished in March 2007.

61. In testimony, Bluestein admitted he was aware the hotel had been demolished and he did not know how the distribution payments were actually being funded.

62. These red flags should have caused Bluestein serious concerns as to the existence of the purported transactions underlying the E-M offerings.

63. While Bluestein represented to investors that he thoroughly investigated each project he recommended, the truth is Bluestein did not carry out any meaningful due diligence and he ignored significant red flags concerning the projects.

**BLUESTEIN MISLED INVESTORS REGARDING HIS
COMPENSATION FOR PROMOTING THE E-M OFFERINGS**

64. While offering E-M securities to investors, Bluestein represented to investors that a private company he co-owned, F.F. Inc., would receive a “fee,” typically around \$1000, for each investment a client purchased.

65. Bluestein collected approximately \$1.4 million in fees through F.F. Inc.

66. Bluestein provided a variety of often inconsistent reasons for this fee to different investors. Bluestein told some investors that the fee was used to process investments on their behalf, while he told others that the fee was for an “internal audit” or for due diligence. Bluestein also told at least a few investors that the F.F. Inc. fee was for insurance, which would be used to cover distribution payments during the guarantee period should something happen to the hotel property.

67. These statements regarding the purpose of the fees were false since Bluestein did little if any due diligence and there was never any insurance for the supposed hotel transactions.

68. While representing to investors that he was receiving a fee via F.F. Inc., Bluestein received an additional amount of approximately \$2.4 million from Ed May for selling interests in the LLCs that was not disclosed to investors.

69. Bluestein testified before the Commission staff that he had a verbal agreement with Ed May to receive a referral fee between 2.5% and 4% of the money raised from clients for each deal.

70. Bluestein received payment from May in the form of referral fees or under the guise of distributions from Bluestein’s supposed personal investment in E-M offerings.

71. Bluestein admitted to the staff, during sworn testimony, that he did not disclose this compensation to investors.

72. In fact, Bluestein affirmatively told a number of investors that he did not receive any compensation for the sale of E-M securities, beyond the fees he received via F.F. Inc.

BLUESTEIN SOLD UNREGISTERED SECURITIES TO INVESTORS

73. Bluestein raised approximately \$74 million through the sale of interests in the LLCs, which were unregistered securities.

74. No registration statements have ever been filed or in effect for any of the interests of LLCs that Bluestein offered and sold to investors, nor is there a valid exemption from registration under federal securities laws.

COUNT I

**Violations of Sections 5(a) and 5(c) of the Securities Act
[15 U.S.C. §§ 77e(a) and 77e(c)]**

75. Paragraphs 1 through 74, are realleged and incorporated by reference as though set forth herein.

76. From 2002 to 2007, Bluestein, directly and indirectly, made use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell and offer to sell securities in the form of interests in LLCs through the use and medium of offering materials and otherwise, securities to which no registration statement was in effect; and carried such securities and caused them to be carried through the mails and in interstate commerce by the means and instruments of transportation for the purpose of sale and delivery after sale.

77. No valid registration statement was filed or was in effect with the Commission, in connection with interests in the LLCs.

78. No valid exemption from registration under the federal securities laws existed for these offerings of interests in the LLCs.

79. By reason of the activities described in paragraphs 1 through 74, Bluestein violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

COUNT II

Violations of Sections 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)]

80. Paragraphs 1 through 79, are realleged and incorporated by reference as though set forth herein.

81. By engaging in the conduct described above, Bluestein, in the offer and sale of securities, by the use of means and instruments of transportation or communication in interstate commerce or by use of mails, directly or indirectly, employed devices, schemes and artifices to defraud.

82. Bluestein intentionally or recklessly engaged in the devices, schemes, and artifices as described above.

83. By reason of the foregoing, Bluestein violated Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT III

Violations of Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)]

84. Paragraphs 1 through 83, are realleged and incorporated by reference as though set forth herein.

85. By engaging in the conduct described above, Bluestein, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly:

- a. obtained money or property by means of untrue statements of material fact or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- b. engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchasers of such securities.

86. Bluestein made untrue statements and omissions of material fact and engaged in the devices, schemes, and artifices described above.

87. By reason of the foregoing, Bluestein has violated Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and (3)].

COUNT IV

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

88. Paragraphs 1 through 87, are realleged and incorporated by reference as though set forth herein.

89. As more fully described in paragraphs 1 through 74 above, Bluestein, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and by the use of the mails, directly and indirectly: used and employed devices, schemes and artifices to defraud; made untrue

statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in acts, practices and courses of business which operated or would have operated as a fraud and deceit upon purchasers and sellers and prospective purchasers and sellers of securities.

90. Bluestein intentionally or recklessly engaged in the devices, schemes, and artifices as described above.

91. By reason of the foregoing, Bluestein violated 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].

COUNT V

Violations of Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)]

92. Paragraphs 1 through 91, are realleged and incorporated by reference as though set forth herein.

93. From 2002 to 2007, Bluestein, by the conduct described above, namely the sale of interests in the E-M offerings, directly and indirectly, made use of the mails and means and instrumentalities of interstate commerce to effect transactions in, and induced or attempted to induce the purchase and sale of the securities, without being properly registered with the Commission as a broker or dealer in accordance with Section 15(b) of the Exchange Act [15 U.S.C. § 78o(b)].

94. By reason of the conduct described above, Bluestein violated Section 15(a)(1) of the Exchange Act [15 U.S.C. § 78o(a)(1)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Find that Defendant Bluestein committed the violations charged and alleged in this Complaint.

II.

Enter an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining Defendant Bluestein, his officers, agents, servants, employees, attorneys and those persons in active concert or participation with him who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c) and 77q(a)], Sections 10(b) and 15(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78o(a)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

III.

Issue an Order requiring Defendant Bluestein to disgorge the ill-gotten gains that he received as a result of his wrongful conduct, including prejudgment interest.

IV.

With regard to Defendant Bluestein's violative acts, practices and courses of business set forth herein, issue an Order imposing upon Bluestein appropriate civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

V.

Retain jurisdiction of this action in accordance with the principals of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant such other and further relief this Court may deem necessary and appropriate.

Respectfully submitted,

/s/ Adolph J. Dean, Jr.

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