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THE UNITED STATES ATTORNEY'S OFFICE
SOUTHERN DISTRICT of NEW YORK

Department of Justice

U.S. Attorney's Office

Southern District of New York

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Former Ceo Of Two Investment Advisers Pleads Guilty To Defrauding A Native American Tribe And Various Investors

Scheme Involved the Fraudulent Issuance and Sale of More Than $60 Million of Tribal Bonds

Robert Khuzami, Attorney for the United States, Acting Under Authority Conferred by 28 U.S.C. § 515, announced that MICHELLE MORTON pled guilty today to defrauding a Native American tribal entity and various investment advisory clients of tens of millions of dollars in connection with the issuance of bonds by the tribal entity and the subsequent sale of those bonds through fraudulent and deceptive means. MORTON pled guilty to conspiracy to commit securities fraud and a substantive count of investment adviser fraud before U.S. District Judge Ronnie Abrams.

Mr. Khuzami said: "Michelle Morton, CEO of Atlantic Asset Management, purchased tribal bonds for the accounts of her clients knowing they were issued under false pretenses and of little or no value to clients. Today, Morton admitted to shirking her fiduciary responsibility to her financial clients for her own personal gain, and she now faces a serious term of imprisonment."

According to the allegations contained in the Superseding Indictment filed against MORTON and her co-conspirators and statements made in related court filings and proceedings[1]:

From March 2014 through April 2016, MORTON, along with her co-conspirators Jason Galanis, John Galanis, a/k/a "Yanni," Hugh Dunkerley, Gary Hirst, Devon Archer, and Bevan Cooney, engaged in a fraudulent scheme to misappropriate the proceeds of bonds issued by the Wakpamni Lake Community Corporation ("WLCC"), a Native American tribal entity (the "Tribal Bonds"), and to use funds in the accounts of clients of asset management firms controlled by MORTON and others to purchase the Tribal Bonds, which the clients were then unable to redeem or sell because the bonds were illiquid and lacked a ready secondary market.

The WLCC was convinced to issue the Tribal Bonds through false and fraudulent representations by John Galanis. Once the Tribal Bonds were issued, MORTON and Hirst used funds belonging to clients of two related investment advisers, Hughes Capital Management, Inc. ("Hughes"), and Atlantic Asset Management, LLC ("Atlantic") – where MORTON served as chief executive officer – to purchase the Tribal Bonds, even though MORTON was well aware that material facts about the Tribal Bonds had been withheld from clients in whose accounts they were placed, including the fact that the Tribal Bond purchases fell outside the investment parameters set forth in the investment advisory contracts of certain Hughes clients and of the Atlantic pooled investment vehicle in which the Tribal Bonds were purchased. In addition, MORTON and her co-defendants failed to apprise clients of Hughes and Atlantic regarding substantial conflicts of interest with respect to the issuance and placement of the Tribal Bonds before the Tribal Bonds were purchased on these clients' behalf.

Hughes and Atlantic clients were provided no prior notice that MORTON caused them to purchase the Tribal Bonds. When these clients learned about the purchase of the Tribal Bonds in their accounts, several of them demanded that the Tribal Bonds be sold. However, because there was no ready secondary market for the Tribal Bonds, no Tribal Bonds have been sold from any Hughes or Atlantic client accounts.

Documents governing the Tribal Bonds specified that an investment manager would invest the proceeds of the Tribal Bonds in investments that would generate annuity payments sufficient to pay interest on the Tribal Bonds and provide funds to the WLCC to be used for tribal economic development purposes. In fact, none of the proceeds of the Tribal Bonds were turned over to the investment manager specified in the closing documents. Instead, significant portions of the proceeds were misappropriated by the defendants for their personal and professional use.

Specifically, the proceeds of the Tribal Bonds were deposited into a bank account in the name of Wealth Assurance Private Client Corporation ("WAPCC"), an entity controlled by Hirst and Dunkerley. Dunkerley transferred more than $38 million from the WAPCC account to an account controlled by Jason Galanis, who then misappropriated more than $8.5 million of the proceeds for his personal use, including for expenses associated with his home, jewelry and clothing purchases, travel and entertainment, and restaurant meals.

In addition, a portion of the misappropriated proceeds were recycled and provided by Jason Galanis to entities affiliated with Archer and Cooney in order to enable Archer and Cooney to purchase subsequent Tribal Bonds issued by the WLCC. As a result of the use of recycled proceeds to purchase additional issuances of Tribal Bonds, the face amount of Tribal Bonds outstanding increased and the amount of interest payable by the WLCC increased, but the actual bond proceeds available for investment on behalf of the WLCC did not increase.

* * *

MICHELLE MORTON, 57, pled guilty to one count of conspiracy to commit securities fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; and one count of investment adviser fraud, which also which carries a maximum sentence of five years in prison and a maximum fine of $10,000 or twice the gross gain or loss from the offense. Sentencing before Judge Abrams has been scheduled for November 30, 2018, at 11:00 a.m.

Jason Galanis, 47, pled guilty to one count of conspiracy to commit securities fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; one count of securities fraud, which carries a maximum sentence of 20 years in prison and a maximum fine of $5,000,000 or twice the gross gain or loss from the offense; and one count of conspiracy to commit investment adviser fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense. On August 11, 2017, Galanis was sentenced principally to a term of 173 months in prison.

Hugh Dunkerley, 44, pled guilty to one count of conspiracy to commit securities fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; two counts of securities fraud, each of which carries a maximum sentence of 20 years in prison and a maximum fine of $5,000,000 or twice the gross gain or loss from the offense; one count of bankruptcy fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; and one count of falsification of records with the intent to obstruct a Government investigation, which carries a maximum sentence of 20 years in prison and a maximum fine of $5,000,000 or twice the gross gain or loss from the offense.

Gary Hirst, 65, pled guilty to one count of conspiracy to commit securities fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; one count of securities fraud, which carries a maximum sentence of 20 years in prison and a maximum fine of $5,000,000 or twice the gross gain or loss from the offense; one count of conspiracy to commit investment adviser fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000 or twice the gross gain or loss from the offense; and one count of investment adviser fraud, which also which carries a maximum sentence of five years in prison and a maximum fine of $10,000 or twice the gross gain or loss from the offense.

The maximum potential sentences in this case are prescribed by Congress and are provided here for informational purposes only, as any sentencings of the defendants will be determined by the judge.

Trial against the remaining defendants is scheduled to begin on May 22, 2018, before Judge Abrams.

Mr. Khuzami praised the work of the U.S. Postal Inspection Service and the Federal Bureau of Investigation, and thanked the SEC.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Rebecca Mermelstein, Brendan F. Quigley, and Negar Tekeei are in charge of the prosecution.

[1] As for the defendants who have not pled guilty (John Galanis, Devon Archer, and Bevan Cooney) the description of the charges set forth herein constitute only allegations.

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