

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

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Department of Justice
U.S. Attorney's Office
Southern District of New York

FOR IMMEDIATE RELEASE

Thursday, June 28, 2018

Three Convicted In Manhattan Federal Court For 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 JOHN GALANIS, a/k/a "Yanni," DEVON ARCHER, and BEVAN COONEY were each convicted today of conspiracy to commit securities fraud and securities fraud, following a five and half week trial before U.S. District Judge Ronnie Abrams.

Mr. Khuzami said: "As a unanimous jury swiftly found, these defendants orchestrated a highly complex scheme to defraud a Native American community and multiple pension funds, all to corruptly bankroll their own personal and business interests. This Office remains steadfast in its commitment to prosecuting the most complex financial frauds and protecting the investing public."

According to the allegations in the charging documents and statements made in court proceedings:

From March 2014 through April 2016, JOHN GALANIS, ARCHER, and COONEY, along with their co-conspirators Jason Galanis, Hugh Dunkerley, Gary Hirst, and Michelle Morton, engaged in a fraudulent scheme that involved (a) causing the Wakpamni Lake Community Corporation ("WLCC"), a Native American tribal entity, to issue a series of bonds (the "Tribal Bonds") through lies and misrepresentations; (b) deceptively causing 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; and (c) misappropriating the proceeds resulting from those bond sales.

The WLCC was convinced to issue the Tribal Bonds through false and fraudulent representations by JOHN GALANIS. Simultaneously, Jason Galanis, with the backing of ARCHER and COONEY, worked to acquire Hughes Capital Management ("Hughes"), a registered investment adviser. Morton and Hirst were installed respectively as Hughes' chief executive officer and chief investment officer. Within weeks of taking control of Hughes, Morton and Hirst caused the entire \$28 million first series of Tribal Bonds to be purchased by Hughes clients, primarily pension funds, but never disclosed to these clients material facts about the Tribal Bonds, including the fact that the Tribal Bonds fell outside the investment parameters set forth in the investment advisory contracts of certain Hughes clients. In addition, Hughes's clients were not told about 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.

After securing the sale of the Tribal Bonds to these unwitting clients, the defendants and their co-conspirators then misappropriated the proceeds of first Tribal Bond issuance. Specifically, although the Tribal Bonds were supposed to be invested in an annuity, Hugh Dunkerley, at the direction of Jason Galanis, transferred significant amounts of the bond proceeds to support the defendants' business and personal interests. JOHN GALANIS, for example, secretly received \$2.35 million in proceeds of the first bond issuance, which he spent on a variety of personal expenses and luxury items, including cars, jewelry, and hotel expenses. Similarly, Jason Galanis used a portion of the proceeds of the first Tribal Bond issuance to finance the purchase of a \$10 million luxury apartment in Tribeca.

In addition, after JOHN GALANIS induced the WLCC to issue a second round of Tribal Bonds, ARCHER and COONEY used \$20 million of bond proceeds from the first issuance to buy the entirety of the second issuance. 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. The bonds purchased by ARCHER and COONEY were then used to meet net capital requirements at two broker dealers in which ARCHER and COONEY had interests. COONEY also obtained a \$1.2 million loan based on his purported ownership of the bonds, a loan he subsequently failed to repay. In addition, millions of dollars in bond proceeds from the first and second issuances were used finance the acquisition of companies that the defendants and their co-conspirators acquired as part of a strategy to build a financial services conglomerate.

In the spring of 2015, JOHN GALANIS induced the WLCC to issue an additional \$16 million worth of Tribal Bonds. Simultaneously, Jason Galanis, ARCHER, and others purchased a second investment adviser, Atlantic Asset Management ("Atlantic"), and again installed Morton as the chief executive officer. Within days of obtaining control of Atlantic, Morton placed the entirety of the \$16 million Tribal Bond with an Atlantic client, without the client's consent and without disclosing the fact that the Tribal Bonds were outside the client's investment parameters and that numerous conflicts of interest existed. The proceeds of the \$16 million issuance were again not invested in an annuity as promised, but instead were diverted to, among other things, finance the defendants' acquisition of another company in furtherance of their plan to build a financial services conglomerate and make payments to one of the broker dealers in which ARCHER and COONEY had interests.

Jason Galanis, Michelle Morton, Gary Hirst, and Hugh Dunkerley each pled guilty prior to trial to participation in the scheme.

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Defendants' Ages and Residences

<u>Defendant</u>	<u>Residence</u>	<u>Age</u>
John Galanis	Oceanside, California	74
Devon Archer	Brooklyn, New York	44
Bevan Cooney	Missoula, Montana	45

Mr. Khuzami praised the work of the Federal Bureau of Investigation and the United States Postal Inspection Service, and thanked the U.S. Securities and Exchange Commission.

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.

Topic(s):

Securities, Commodities, & Investment Fraud

Component(s):

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