



PRESS RELEASE

Jason Galanis Pleads Guilty In Manhattan Federal Court To Multiple Fraudulent Schemes

Friday, January 31, 2020

For Immediate Release

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

Geoffrey S. Berman, the United States Attorney for the Southern District of New York, announced that JASON GALANIS pled guilty today for his participation in multiple fraudulent schemes. In particular, GALANIS pled guilty for his role in a scheme to manipulate the market for Gerova Financial Group, Ltd. (“Gerova”), a publicly traded company listed on the New York Stock Exchange, and to defrauding the shareholders of that company (the “Gerova Scheme”), as well as to defraud the clients of an investment advisory firm. GALANIS also pled guilty today to defrauding a Native American tribal entity and the investing public of tens of millions of dollars in connection with the issuance of bonds by the tribal entity (the “Tribal Bond Scheme”). GALANIS pled guilty to three counts of conspiracy to commit securities fraud, two counts of securities fraud, one count of investment adviser fraud, and one count of conspiracy to commit investment adviser fraud before U.S. District Judge P. Kevin Castel. GALANIS had previously pled guilty, in July 2016, for his participation in the Gerova Scheme and, in January 2017, for his participation in the Tribal Bond Scheme, but those convictions were subsequently vacated.

U.S. Attorney Geoffrey S. Berman said: “As he admitted today, Jason Galanis orchestrated two multimillion-dollar fraud schemes, and put together a team of co-conspirators to carry them

out. He and his codefendants engaged in market manipulation and the defrauding of shareholders, and they stole a large portion of the proceeds of tribal bonds that were intended to fund economic development projects. The overriding theme was victimizing others to enrich themselves. Now Jason Galanis awaits sentencing for his criminal greed.”

According to the allegations contained in the Information filed against GALANIS, charging documents filed against GALANIS’s co-conspirators, and statements made in related court filings and proceedings:

The Gerova Scheme

From 2009 to 2011, GALANIS, along with his co-conspirators John Galanis, Gary Hirst, Derek Galanis, Ymer Shahini, and Gavin Hamels, engaged in a scheme to defraud the shareholders of Gerova and the investing public, by effecting securities transactions in Gerova stock for the purpose of conferring millions of dollars of undisclosed remuneration to GALANIS and his co-conspirators, without adequate disclosure of GALANIS’s role in directing the transactions or the benefits received by GALANIS and his co-conspirators.

As a part of the scheme to defraud, GALANIS obtained sufficient control over Gerova so as to be able to cause Gerova to enter into transactions of his design, and for his benefit, including the issuance of Gerova stock. GALANIS obtained this control without causing himself to be identified as an officer or director of Gerova so as to purport to abide by an SEC-imposed bar that forbade him from holding such positions at publicly traded companies. Among other means and methods, GALANIS, with the assistance of Hirst, caused over 5,000,000 shares of Gerova stock, which represented nearly half the company’s public float and which were intended for GALANIS’s ultimate benefit, to be issued to and held in the name of Ymer Shahini, who knowingly served as a foreign nominee for GALANIS. GALANIS, John Galanis, Jared Galanis, Derek Galanis, Hirst, and Shahini understood that the purpose of the stock grant to Shahini was to disguise GALANIS’s ownership interest in the stock, and to evade the SEC’s regulations for issuing unregistered shares of stock.

At the same time, and as a further part of the scheme to defraud, GALANIS’s co-conspirators, with his knowledge and approval, opened and managed brokerage accounts in the name of Shahini (the “Shahini Accounts”), effected the sale of Gerova stock from the Shahini Accounts, and received and concealed the proceeds, knowing that this activity was designed to conceal from the investing public GALANIS’s ownership of and control over the Gerova stock.

GALANIS, among others, also fraudulently induced investment advisers, including Gavin Hamels, to purchase shares of Gerova stock in the investment advisers’ client accounts by offering compensation and/or other benefits to the respective investment adviser. By causing the purchase of Gerova stock at the time, quantity, and/or price of their choosing, GALANIS and others were able to, among other things, effectuate the sale of large quantities of Gerova stock

from the Shahini Accounts that GALANIS controlled while artificially maintaining the price of Gerova stock through coordinated match trading. Such coordinated trading served to manipulate the market for Gerova stock and deceive the investing public. As a result, GALANIS and his co-conspirators reaped nearly \$20 million in profits.

The Scheme to Defraud Clients of Investment Firm-1

From 2007 to 2010, GALANIS along with an investment adviser identified in the Information as “CC-2,” participated in a scheme to defraud the clients of CC-2’s investment advisory firm, identified in the Information as “Investment Firm-1.” Oftentimes in exchange for compensation from GALANIS, CC-2 caused Investment Firm-1 clients to invest in notes issued by entities associated with GALANIS.

When obligations owed by entities associated with GALANIS became due, CC-2 used client funds to purchase either notes issued by other entities associated with GALANIS or publicly traded shares held by such entities. The funds generated were then used to pay the original obligations owed to other Investment Firm-1 clients. Through these securities trades, funds in client accounts of one set of Investment Firm-1 investors were used to pay obligations owed to a different set of Investment Firm-1 investors by entities associated with GALANIS.

The Tribal Bond Scheme

From March 2014 through April 2016, GALANIS, along with his co-conspirators Gary Hirst, John Galanis, a/k/a “Yanni,” Hugh Dunkerley, Michelle Morton, 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 GALANIS and his codefendants 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.

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 GALANIS and his codefendants for their own personal 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 Dunkerley and Hirst. Dunkerley transferred more than \$38 million from the WAPCC account to an account controlled by 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.

There was no ready secondary market for the Tribal Bonds. Nonetheless, without prior notice to their clients, Morton and Hirst, acting at the direction of GALANIS, used funds belonging to clients of two related investment advisers, Hughes Capital Management, Inc. (“Hughes”), and Atlantic Asset Management, LLC (“Atlantic”), to purchase the Tribal Bonds, even though GALANIS, Hirst, and Morton were 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. When Hughes and Atlantic 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. In addition, GALANIS and his codefendants 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.

In addition, a portion of the misappropriated proceeds was recycled and provided by 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.

* * *

GALANIS, 49, pled guilty to three counts of conspiracy to commit securities fraud, each carrying 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 investment adviser fraud, 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; 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 \$10,000 or twice the gross gain or loss from the offense. GALANIS will be sentenced by Judge Castel on May 12, 2020.

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

Mr. Berman 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 Brian Blais, Rebecca Mermelstein, and Negar Tekeei are in charge of the prosecution.

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