

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF NEW JERSEY**

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**SECURITIES AND EXCHANGE  
COMMISSION,**

**Plaintiff,**

v.

**JOHN HUGHES,**

**Defendant.**

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: **Civil Action No. 23-cv-21816**  
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: **Complaint for Violations of the**  
: **Federal Securities Laws**  
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: **Jury Trial Demanded**  
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Plaintiff Securities and Exchange Commission (the “Commission”), One Penn Center, 1617 JFK Boulevard, Suite 520, Philadelphia, Pennsylvania 19103, alleges as follows against defendant John Hughes (“Hughes”), whose last known address is 2 Matthew Place, Mahwah, NJ 07430.

**SUMMARY**

1. This case involves a multi-year investment adviser fraud orchestrated by Hughes, Individual 1, Prophecy Asset Management LP (“PAM”), and Individual 2.
2. Hughes and Individual 1 owned, operated, and controlled PAM, a registered investment adviser that managed multiple investment funds. Hughes and Individual 1 reviewed and approved all of PAM’s written communications with investors and prospective investors and had ultimate authority over the representations made by PAM.
3. During the period 2014 through March 2020, Hughes deceived the investment funds’ investors, prospective investors, auditors and administrator about nearly every aspect of

the investment funds, including their structure and operation, risk-management practices, investments, and performance.

4. Hughes, Individual 1, and PAM told investors and prospective investors, both orally and in writing, that the investment funds were diversified, liquid, actively risk managed, generated positive returns every month since their inception, and that the primary investment fund was secured by cash collateral.

5. In reality, however, Hughes, Individual 1, and PAM did not achieve those results and did not provide investors with stable, diversified, risk-managed, well-performing funds. Instead, they concentrated a huge percentage of the investment funds' assets with a single sub-adviser, Individual 2, who sustained massive losses unbeknownst to investors.

6. To conceal these losses from their investors, prospective investors, auditor, and administrator, Hughes, PAM, and Individuals 1 and 2 fabricated documents, effectively eliminated an important part of PAM's strategy for reducing risk—the requirement that Individual 2 provide cash collateral to support Individual 2's trading—and engaged in sham, round-trip transactions designed to give the false appearance that investments had performed profitably.

7. These actions painted an inaccurate picture of the funds' financial health by hiding losses and other impaired assets, which, in turn, inflated the value of the funds and generated excessive management and incentive fees to Hughes, Individual 1, and PAM.

8. Between 2014 through March 2020, Hughes, Individual 1, and PAM raised more than \$500 million for the investment funds.

9. During the period 2014 through March 2020, Hughes, PAM, and Individual 1 collected in excess of \$15 million in management and incentive fees.

10. By March 2020, however, fund losses exceeded \$350 million; the investment funds' auditor withdrew its 2018 audit opinion and resigned; and Hughes, Individual 1, and PAM gated the investment funds, indefinitely suspending redemptions by investors.

11. By engaging in the conduct described in this Complaint, Hughes violated, directly or indirectly, and unless enjoined will continue to violate, Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)]; Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act" [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; and Sections 206(1), (2), and (4) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-6(1), (2), and (4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

### **JURISDICTION AND VENUE**

12. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b), (d)], Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d), (e)], and Sections 209(d) and 209(e) of the Advisers Act [15 U.S.C. §§ 80b-9(d), (e)] to enjoin such acts, practices, and courses of business, and to obtain disgorgement, prejudgment interest, civil money penalties, an officer and director bar and such other and further relief the Court may deem just and appropriate.

13. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), (d), and 77v(a)]; Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), (e), and 78aa]; and Sections 209(d), 209(e), and 214 of the Advisers Act [15 U.S.C. §§ 80b-9(d), (e), 80b-14]. Hughes, directly or indirectly, made use of the mails, or the means and instrumentalities of interstate commerce, or the facility of national security exchanges, in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

14. Venue in this district is proper pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa], Section 214 of the Advisers Act [15 U.S.C. § 80b-14], and 28 U.S.C. § 1391(b), because certain acts, practices, transactions, and courses of business constituting violations of the federal securities laws occurred within the District of New Jersey. In connection with the fraud, Hughes worked from his home office located in New Jersey and sent and/or caused to be sent, wire transmissions that went through servers located in New Jersey.

#### **THE DEFENDANT**

15. John Hughes, age 55, resides in Mahwah, New Jersey. During the relevant period, Hughes was a 50% co-owner of PAM and had authority over all uses of investor funds invested in the investment funds defined below.

#### **RELEVANT INDIVIDUALS AND ENTITIES**

16. Individual 1 resides in New Jersey. During the relevant period, he was a 50% co-owner of PAM and had authority over all uses of investor funds invested in the investment funds defined below.

17. Individual 2 resides in Florida. During the relevant period, he controlled several entities that traded the investment funds' capital or to which the investment funds loaned capital.

18. PAM is a Delaware limited partnership and registered investment adviser established in 2001. PAM provided investment advisory services to the investment funds defined below.

19. "Prophecy," as used herein, refers collectively to Prophecy Trading Advisors Master Fund LP, Prophecy Trading Advisors LP, and Prophecy Trading Advisors International LTD.

20. Prophecy Trading Advisors Master Fund LP (“Master Fund”) is a Cayman Island limited partnership established in 2018 and operated as a purported hedge fund.

21. Prophecy Trading Advisors LP (“PTA”) is a Delaware limited partnership established in 2011 and operated as a purported hedge fund.

22. Prophecy Trading Advisors International LTD (“PTA International”) is a British Virgin Islands limited company established in 2012 and operated as a purported hedge fund.

23. “Special Opportunities,” as used herein, refers to Prophecy Special Opportunities Fund LP and Prophecy Special Opportunities Fund International LTD.

24. Prophecy Special Opportunities Fund LP is a Delaware limited partnership established in 2018 and operated as a purported hedge fund.

25. Prophecy Special Opportunities Fund International LTD is a British Virgin Islands limited company established in 2018 and operated as a purported hedge fund.

## **FACTS**

### **A. Background**

26. In 2001, Individual 1 founded PAM, which became an SEC-registered investment adviser on May 9, 2012. Individual 1 was PAM’s Chief Executive Officer and Chief Investment Officer. His primary duties included raising capital for Prophecy, communicating with investors and prospective investors and identifying and selecting sub-advisers.

27. Hughes joined PAM in 2006 and served as PAM’s President and Chief Compliance Officer, oversaw the back-office and risk management operations for PAM, and selected sub-advisers.

28. PAM was the investment adviser to Prophecy, which originally consisted of PTA and eventually included PTA International and the Master Fund. In July 2018, Prophecy transitioned to a master-feeder structure, converting both PTA and PTA International into feeder funds that invested all the capital in the newly created Master Fund, where all investment activity took place.

29. From its inception, Prophecy's "first-loss" business model purportedly involved a risk managed trading platform wherein PAM would allocate Prophecy's capital to dozens of sub-advisers, who then traded the capital in prime brokerage accounts held by Prophecy. Sub-advisers enjoyed back-office support from PAM and the benefits of leveraged trading capital provided by Prophecy's prime brokers, and were entitled to a percentage of any trading profits generated by their trading. In return, sub-advisers paid a monthly administrative fee.

30. Under the Prophecy model, while sub-advisers were permitted a percentage of profits, they also were also responsible for covering losses up to an agreed amount. Typically, PAM required sub-advisers to post 10% of the agreed upon trading allocation as cash collateral to be available to cover possible losses.

31. PAM purportedly actively monitored the sub-advisers' performance. If a sub-adviser's losses exceeded their posted cash-collateral, PAM was supposed to cut off the sub-adviser's trading until the sub-adviser provided additional cash collateral.

32. Hughes, Individual 1, and PAM collectively represented to investors and prospective investors in written materials and orally that Prophecy followed its first-loss business model.

33. PAM entered into an Account Investment Advisory Agreement ("Advisory Agreement") with each sub-adviser to memorialize certain terms, including the amount of capital

to be allocated to the sub-adviser for trading, administrative fees, profit split percentages and the amount of cash collateral to be posted by the sub-adviser.

34. In exchange for the payment of administrative fees and agreeing to absorb trading losses up to the amount of their required cash collateral, the sub-advisers were permitted to keep a larger percentage of their trading profits compared to industry standards, typically 80% or more.

35. The Advisory Agreement, an example of which was frequently provided to investors for due diligence purposes, indicated that all collateral posted by the sub-adviser was to be segregated in a separate bank account controlled by Prophecy's administrator and used to offset any trading losses incurred by that sub-adviser.

36. To induce investments in the funds, Hughes, Individual 1, and PAM, through marketing documents for Prophecy, represented that the combination of a lower profit split to Prophecy, the monthly administrative fees collected from all sub-advisers, and the insurance against trading losses afforded by each sub-advisers' cash deposit created a steady stream of mid to high single-digit annual returns uncorrelated to market conditions or the performance of the sub-advisers.

**B. Hughes Misrepresented Prophecy's Business Model to Investors and Prospective Investors**

37. The premise of steady, single-digit returns protected against loss was based on misrepresentations of active risk management where sub-advisers were purportedly routinely monitored with respect to diversification, cash collateral, and liquidity of trading strategies.

**1. Misrepresentations Regarding Sub-adviser Diversification**

38. In written materials and/or orally, Hughes, Individual 1, and PAM touted sub-adviser diversification as a key aspect of Prophecy’s purported first-loss trading strategy because it minimized concentration risk. In other words, the risk to the investment funds as a whole would be reduced by avoiding over-exposure to a single sub-adviser. If any one sub-adviser incurred losses exceeding the balance of their cash deposit, the funds being managed by other sub-advisers would not be impacted.

39. Hughes and Individual 1, through PAM, represented that Prophecy’s capital was allocated to dozens of sub-advisers employing multiple diverse and even “unique” trading strategies. For example, PAM distributed monthly “fact sheets” to investors stating that Prophecy “seeks to generate returns by making notional allocations to a diverse group of sub-advisers running a variety of discretionary, systematic and unique investment strategies.”

40. Similarly, Hughes and Individual 1 caused PAM to provide investors and prospective investors a Due Diligence Questionnaire, which stated that Prophecy has “a diversified sub-adviser platform.”

41. In meetings and phone conversations, Individual 1 told prospective investors that diversification of sub-advisers helped minimize concentration risk.

42. However, Hughes and Individual 1 knew or were reckless in not knowing—and concealed from investors—that from at least 2017 through March 2020, the majority of Prophecy’s assets were allocated to Individual 2 for purposes of trading.

43. Hughes and Individual 1 received monthly Portfolio Breakdown Reports, which were internal reports that identified each sub-adviser by name, including Individual 2, and listed their allocation amounts.



44. In December 2018, PAM began circulating these monthly Portfolio Breakdown Reports to investors and prospective investors but anonymized each sub-adviser as “Manager 1”, “Manager 2”, etc.

45. The Portfolio Breakdown Reports concealed Prophecy’s massive concentration in Individual 2 by presenting his total allocation as if Individual 2 were multiple, individualized sub-advisers.

46. For example, the December 2018 report listed 33 sub-advisers and identified them merely as Manager 1 through Manager 33. Unbeknownst to investors, six of the 33 sub-advisers were controlled by Individual 2, who had been allocated approximately 78% of Prophecy’s more than \$1 billion in leveraged capital available for trading.

## **2. Misrepresentations Regarding Individual 2’s Cash Collateral**

47. Hughes and Individual 1, through PAM, distributed offering and marketing documents that also stated that Prophecy protected its capital from losses by holding cash collateral contributed by each sub-adviser. PAM represented that if a sub-adviser’s losses absorbed 50% or more of its cash collateral deposit, PAM would stop the sub-adviser’s trading and require additional collateral or a reduction in exposure.

48. For example, the Due Diligence Questionnaire specifically stated that allocations to sub-advisers “are supported by cash deposits provided by each sub-adviser. The deposits serve as the primary downside risk protection for the fund.” The Due Diligence Questionnaire further boasted that Prophecy’s “‘edge’ is that each sub-adviser is accountable for losses from their strategy and must supply capital to a third-party deposit account or similar collateral structure. This deposit is used to offset any losses.”

49. Further, Prophecy's 2017 audited financial statements, which were provided to at least some investors, stated that Prophecy maintains contractual agreements that required each sub-adviser "to deposit their own capital into a separate bank account managed by the Fund administrator. . . . Sub-advisers agree to absorb their trading losses by reimbursing the Fund from the deposited capital." In addition, on calls and/or in-person meetings with investors and prospective investors, Individual 1 represented that Prophecy required cash deposits equal to 10% of a sub-adviser's trading allocation to absorb any trading losses incurred.

50. Since at least 2018, Prophecy's cash collateral deposits fell well short of the stated 10% of sub-adviser allocations.

51. For example, as of January 2019, Prophecy's total cash deposit balance equaled a mere 0.77% of the reported gross market value of its assets. By July 2019, Prophecy's cash deposit balance dipped even lower, to 0.05%.

52. Prophecy had all but abandoned its cash deposit requirement for Individual 2, notwithstanding Individual 2's outsized allotment of Prophecy's trading capital and enormous trading losses.

53. For instance, Individual 2's trading losses exceeded the amount of the cash collateral Individual 2 had contributed by: \$55 million in 2018; \$216 million in 2019; and \$328 million in 2020.

54. At all times, Hughes and Individual 1 were aware of Individual 2's trading losses and related cash deposit deficits because they were provided monthly reports indicating each sub-advisers' profit and loss and cash deposit balances. Hughes and Individual 1 also discussed Investor 2's trading losses in person and by phone. Nevertheless, Hughes and Individual 1 allowed Individual 2 to continue trading.

55. Despite knowing of Individual 2's continually increasing cash collateral deficit and mounting trading losses, Hughes, Individual 1, and PAM continued to falsely claim to investors that no sub-adviser had ever exhausted its cash collateral deposit and Prophecy had experienced positive returns since its inception.

56. Contrary to the representations of Hughes, Individual 1, and PAM, Prophecy first had a sub-adviser exhaust their cash collateral in January 2014, when a sub-adviser lost nearly \$3 million of investor capital, an amount well in excess of his cash collateral. At that time, Hughes and Individual 1 caused Prophecy to enter into a series of sham transactions to conceal the loss.

57. Despite that event and the continued losses of Individual 2, Hughes, Individual 1, and PAM continued to knowingly and/or recklessly mislead investors about Prophecy's performance. In an email dated Oct. 28, 2018, several weeks after Individual 2 exhausted his cash collateral deposit and his trading losses reached \$55 million, Individual 1 wrote to investors: "No portfolio managers had a severe enough decline in the allocations to exhaust their deposit and impair the fund." This was false.

58. On May 2, 2019, PAM sent Prophecy's largest investor a document containing information on each sub-adviser's trading results and deposit balance which reflected that Individual 2 maintained a deposit balance of \$36 million. This was false.

59. Contrary to that representation, the bank account designated to hold cash collateral posted by all of Prophecy's sub-advisers contained less than \$10 million and internal records maintained by Prophecy indicated that Individual 2 had a cash collateral *deficit* on May 2, 2019 of more than \$130 million.

60. From January 2018 through March 2020, Individual 2's trading losses exceeded the balance of his cash collateral for all but one month.

61. By February 2020, Individual 2's deposit balance deficit approached \$200 million. Although Individual 1 knew or was reckless in not knowing that Individual 2's deposit balance had a massive deficit, Individual 1 emailed a prospective investor, claiming "the fund is a pure first-loss strategy, with all allocations backstopped by collateral deposits."

**3. Misrepresentations Regarding Liquidity of Investments**

62. Pam's offering documents were also replete with misrepresentations that Prophecy's investments were concentrated in liquid securities traded on Prophecy's platform.

63. For example, the Due Diligence Questionnaire falsely stated that "[t]he majority of positions across the fund can be liquidated within one business day without significantly impacting prices."

64. Hughes knew, or was reckless in not knowing, that during due diligence meetings with potential investors, Individual 1 represented that Prophecy's sub-advisers traded in mainly highly liquid US equities on Prophecy's trading platform, allowing PAM to monitor a sub-adviser's trading activity and quickly liquidate positions if the losses breached the sub-adviser's cash deposit.

65. Individual 1 represented to at least one investor that although Prophecy would occasionally extend loans, or make direct investments in sub-advisers, which PAM referred to as "off-platform" investments, these strategies were for arbitrage-like trading with low downside and comprised less than 5% of Prophecy's assets. Individual 1 represented further that PAM maintained full transparency regarding the off-platform investments. This was false.

66. However, contrary to these representations, from 2018 through March 2020, Hughes and Individual 1 routinely caused Prophecy to invest substantial sums of money in off-platform, illiquid investments.

67. By the end of 2019, Hughes knew, or was reckless in not knowing, that off-platform investments represented approximately 75% of Prophecy's reported net asset value. Furthermore, Hughes knew, or was reckless in not knowing, that these investments were frequently not in low-risk, arbitrage-like trading strategies in which PAM had full transparency, but were instead comprised mainly of unsecured loans or investments in special purpose vehicles for which Hughes and Individual 1 performed little or no due diligence.

**C. Hughes Concealed Investor 2's Trading Losses**

68. Hughes, Individual 1, and PAM failed to disclose to investors the massive trading losses incurred by Individual 2 and caused PAM to make false representations to investors about the investment funds' performance.

69. From at least October 2017 through March 2020, Hughes and Individual 1 caused PAM to solicit significant sums of new investor capital while representing to investors and potential investors that it had generated positive monthly returns since its inception. For example, in March 2020, a PTA fact sheet circulated to investors showed positive performance in every month between October 2011 and January 2020. These representations were false.

70. The following chart shows Prophecy's monthly assets under management alongside the concealed cumulative trading losses generated by Individual 2. (The undisclosed cumulative trading losses include both unrealized marked-to-market losses and realized cash losses.) By March 2020, Individual 2's use of leverage resulted in cumulative losses that exceeded reported assets under management:

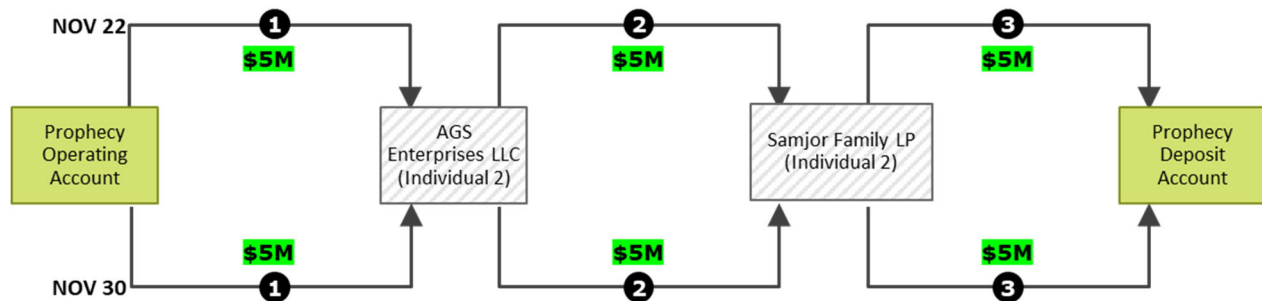
Month	Reported Assets Under Management (Prophecy only)	Undisclosed Individual 2 Cumulative Trading Losses
Jan '18	\$193,262,221	(\$68,796,437)
Feb '18	\$206,680,330	(\$89,272,107)
Mar '18	\$210,514,769	(\$73,855,675)
Apr '18	\$231,581,824	(\$84,973,086)
May '18	\$231,296,977	(\$99,856,774)
Jun '18	\$238,882,887	(\$55,769,941)
Jul '18	\$251,960,512	(\$86,149,501)
Aug '18	\$278,391,448	(\$99,029,274)
Sep '18	\$281,328,749	(\$133,547,197)
Oct '18	\$291,278,303	(\$92,770,160)
Nov '18	\$300,145,549	(\$126,465,092)
Dec '18	\$309,940,471	(\$85,457,632)
Jan '19	\$316,671,028	(\$110,945,903)
Feb '19	\$352,256,146	(\$141,049,323)
Mar '19	\$363,039,646	(\$164,932,011)
Apr '19	\$351,669,307	(\$193,341,589)
May '19	\$334,611,151	(\$270,389,293)
Jun '19	\$338,605,040	(\$274,697,896)
Jul '19	\$346,130,025	(\$277,349,650)
Aug '19	\$371,751,174	(\$272,194,183)
Sep '19	\$395,227,258	(\$260,971,957)
Oct '19	\$361,330,212	(\$278,964,629)
Nov '19	\$367,180,474	(\$288,855,554)
Dec '19	\$363,079,864	(\$264,739,409)
Jan '20	\$363,042,750	(\$270,944,717)
Feb '20	\$380,877,805	(\$294,952,814)
Mar '20	\$386,127,805	(\$401,210,782)

**D. Hughes Concealed Investor 2's Lack of Cash Collateral**

71. Hughes, Individuals 1 and 2, and PAM deceived Prophecy's administrator and auditor by entering into sham transactions to provide Individual 2 with cash to cover his trading losses and falsifying documentation designed to create the appearance that Individual 2's trading losses remained secured by non-cash collateral

### 1. Hughes Used Investor Funds for Individual 2's Cash Collateral

72. For example, by October 2017, Individual 2 had a negative cash collateral deposit of approximately \$19 million. Individual 2 did not contribute additional cash to cure the deficit. Rather than restrict his trading until he contributed additional cash collateral, Hughes caused Prophecy to engage in a “round-trip” transaction with Individual 2 designed to artificially replenish Individual 2's cash collateral deposit. The below diagram illustrates this round-trip transaction:



73. Specifically, Prophecy entered into an agreement with Individual 2 whereby Prophecy “loaned” \$11 million of investor funds to AGS Enterprises LLC (“AGS Enterprises”), an entity with no assets or operations that was owned by Individual 2. Through a series of transactions, AGS Enterprises returned \$10 million of that amount to Prophecy masked as collateral contributions by Individual 2.

74. First, on November 22, 2017, Prophecy wired \$5 million to AGS Enterprises. That same day, AGS Enterprises wired \$5 million to Samjor Family, Individual 2's sub-adviser entity. Then, Samjor Family immediately wired that money back to Prophecy, which recorded

the \$5 million as a cash collateral contribution from Individual 2, notwithstanding that Prophecy had originally advanced this money to a related entity.

75. Eight days later, on November 30, the parties repeated the same process, taking another \$5 million from Prophecy, routing it through entities owned by Individual 2, and sending the same amount of money back to Prophecy to further “replenish” Individual 2’s cash deposit account.

76. In an email, Hughes falsely told Prophecy’s administrator that the \$11 million Prophecy sent to AGS Enterprises in November 2017 was “to fund a new investment.”

77. Hughes and Individual 1 decided to conceal Individual 2’s involvement in the transaction from Prophecy’s auditor and administrator. Hughes relayed this decision to Individual 2, who then forged the signature of a former colleague as the signer of the agreement between Prophecy and AGS Enterprises on behalf of AGS Enterprises (thus masking the involvement of Individual 2). However, Individual 2’s former colleague had no knowledge of this transaction and was no longer associated with AGS Enterprises at the time of the agreement.

## **2. Hughes Allowed Individual 2 To Provide Worthless Non-Cash Collateral**

78. To avoid reporting losses to Prophecy’s auditor, administrator, and investors, Hughes, Individual 1, and PAM caused Prophecy to record Individual 2’s trading losses on its books as a receivable from Individual 2. While the amount of the receivable changed depending on the investments and market conditions, as of year-end 2018, the purported receivable accounted for approximately 0.8% of Prophecy’s reported assets under management.



79. As Individual 2's losses mounted, however, the purported receivable comprised a rapidly increasing percentage of Prophecy's assets under management. By the end of 2019, the claimed receivable accounted for nearly 53% of Prophecy's assets under management.

80. To purportedly secure the receivable with collateral, Prophecy and Individual 2 entered into at least six agreements consisting of, among other things, personal guaranties, promissory notes, and other pledged "assets," which did not exist or had questionable value.

81. Hughes, Individual 1, and PAM performed little to no due diligence on these assets (or on Individual 2's personal finances), never taking any reasonable steps to value, control, or redeem the non-cash collateral provided by Individual 2, some of which was wholly fabricated.

82. For example, Hughes and Individual 2 fabricated documents purporting to show non-cash collateral provided by Individual 2 in response to concerns raised by Prophecy's auditor. In April 2019, during Prophecy's on-going 2018 audit, Prophecy's auditor identified that Individual 2 had a substantial cash deposit deficit during 2018 and emailed Hughes stating he "wanted to understand what was the rationale for the negative deposit accounts for [Individual 2] and how/when Prophecy plans to remediate the same."

83. Subsequently, Hughes and Individual 2 fabricated certain documents concerning a purported agreement between Prophecy and Buddy's Newco LLC ("Buddy's"), a company controlled by Individual 2.

84. Specifically, Individual 2 created an agreement titled, "Buddy's Newco LLC Series A Preferred Stock Agreement" ("Buddy's Preferred Stock Agreement"). On April 10, 2019, Individual 2 emailed Hughes a draft of the Buddy's Preferred Stock Agreement that

purported to show Prophecy's ownership of \$125 million worth of preferred shares of Buddy's stock, backdated to January 1, 2018.

85. Between April and June 2019, Hughes and Individual 2 exchanged additional drafts of the Buddy's Preferred Stock Agreement in which the value of the shares ranged from \$75 million to \$150 million.

86. On June 1, 2019, Hughes emailed Individual 2 stating that they needed to "Finalize the class [A] share document and get certificate for same." Individual 2 responded, "Confirm date of issuance for you should be January 2018. This would become a credit to the fund and an asset on your balance sheet year end 2018 . . . ."

87. By June 3, 2019, Individual 2 delivered to Hughes two Buddy's Convertible Stock Certificates ("Buddy's Certificates") backdated to January 3, 2018. One of the certificates was for 75 shares with a purported valuation of \$75 million. The second certificate was for 150 shares with a purported valuation of \$150 million. Subsequently, Hughes provided Prophecy's auditor with the Buddy's Preferred Stock Agreement and the Buddy's Certificate purportedly valued at \$75 million.

88. In response to a series of questions from Prophecy's auditor to Individual 2, which he forwarded to Hughes, Individual 2 falsely confirmed that Individual 2 had authority to issue the preferred stock to Prophecy and that the preferred stock was collateral used to secure Individual 2's 2018 trading losses, was issued and outstanding as of December 31, 2018, and was issued in Prophecy's name.

89. In reality, Buddy's Newco LLC Series A Preferred Shares were never issued to Prophecy or anybody else because the shares never existed. The entire agreement and transaction was a sham created by Hughes and Individual 2.

90. Around this same time, Prophecy's administrator requested additional information concerning Individual 2's non-cash collateral in light of Individual 2's rapidly accelerating trading losses in 2019. In an email dated June 18, 2019, Prophecy's administrator indicated that more than 58% of Prophecy's \$350 million net asset value was in the form of a \$204 million receivable due from Individual 2 and should be classified as illiquid.

91. The administrator requested that Prophecy identify the non-cash collateral that Individual 2 purportedly pledged to secure the receivable owed to Prophecy and provide the administrator with signed monthly certifications.

92. In response, Hughes provided the administrator with a second Buddy's Preferred Stock Agreement, which was now dated January 1, 2019 and purported to grant Prophecy \$150 million worth of preferred shares. These shares did not exist. The entire agreement and transaction was a sham created by Hughes and Individual 2.

93. As requested, Prophecy began providing its administrator with certified monthly spreadsheets, signed by Hughes, listing Individual 2's non-cash collateral. These monthly spreadsheets included the Buddy's preferred shares, and other bogus collateral, and falsely represented to Prophecy's administrator that the collateral was valid and could be liquidated to settle Individual 2's receivable arising from his trading losses.

94. Hughes, Individual 1, and PAM knew or were reckless in not knowing that the purported Buddy's preferred shares were a sham.

**3. Hughes Failed To Disclose Individual 2's Losses And Lack of Cash Collateral To Investors**

95. In addition, Hughes, Individual 1, and PAM never disclosed to investors that Individual 2 had sustained massive losses or that they were permitting Individual 2 to continue trading without providing sufficient collateral.

96. In July 2019, Prophecy's administrator included a disclosure at the bottom of the June 2019 investor account statements that Prophecy *may* accept non-cash collateral. However, neither Hughes, nor anyone else, disclosed that Prophecy was accepting millions in non-cash collateral from its largest sub-adviser and doing little, if anything, to satisfy itself as to the actual existence and value of the non-cash collateral, most (if not all) of which were sham assets Hughes and Individual 2 made up.

97. Hughes and Individual 1 caused PAM to provide prospective investors many of the same marketing and due diligence materials referenced above, which made no mention that Prophecy accepted non-cash collateral in lieu of cash, let alone in excess of \$100 million from its largest sub-adviser.

**E. Hughes Concealed "Off-Platform" Investment Losses**

98. Hughes, PAM, and Individuals 1 and 2 also concealed other Prophecy losses associated with impaired assets on Prophecy's balance sheet from investors, prospective investors, auditors, and the administrator by engaging in a series of sham and round-trip transactions using falsified and backdated documents.

99. From 2015 through 2019, Prophecy engaged in a series of elaborate sham, round-trip transactions with entities controlled by George Heckler ("Heckler"), Brenda Smith ("Smith"), and Individual 2. These transactions concealed from Prophecy's auditor and

administrator (and ultimately its investors) losses Prophecy sustained, recasting the losses as new investments or loans.

100. On August 27, 2019, the Commission charged Smith and Broad Reach Capital LP (“Broad Reach”), a hedge fund controlled by Smith, with securities fraud. Smith was also charged criminally for the same conduct and pled guilty to securities fraud.

101. On March 9, 2021, the Commission charged Heckler with securities fraud. He was also charged criminally for the same conduct and pled guilty to securities fraud charges.

102. Below are illustrative examples of some of the sham, round-trip transactions Hughes and others utilized to conceal Prophecy’s losses.

**1. Cassatt Short Term Trading Fund**

103. By year-end 2014, Prophecy had invested more than \$20 million with Cassatt Short Term Trading Fund (“Cassatt”), a private hedge fund controlled by Heckler and ultimately revealed to be a Ponzi-like, fraudulent scheme.

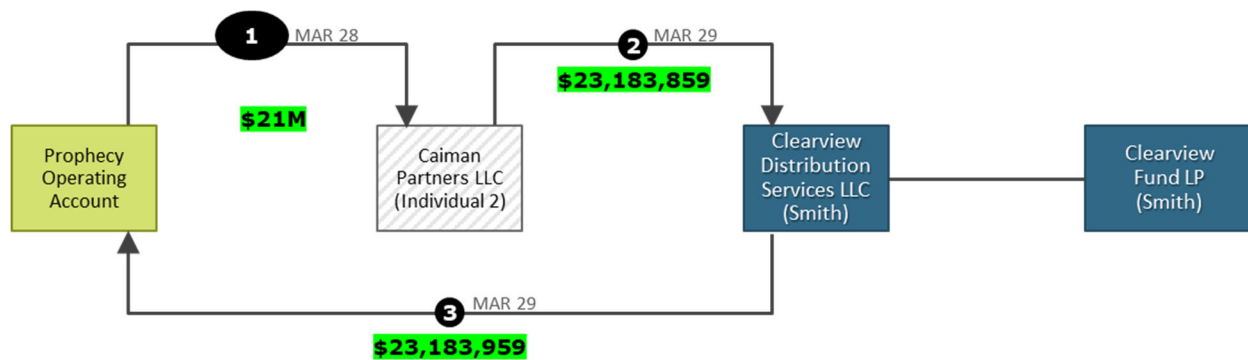
104. By the end of 2014, Heckler had ceased all trading activities, closed Cassatt’s brokerage accounts, mainly held illiquid assets, and was unable to fully redeem Prophecy’s investment.

105. Although Hughes and Individual 1 knew that Cassatt was unable to fully redeem Prophecy’s investment, they failed to disclose to investors, prospective investors, or auditors Prophecy’s substantial loss via the Cassatt investment, which would directly contradict representations made to investors regarding Prophecy’s investment strategy and liquid assets, and would jeopardize the future prospects of both Prophecy and PAM.

106. For instance, by 2018, Prophecy’s investment losses in Cassatt had been shifted to another hedge fund advised by PAM, Prophecy Alpha Fund LP (the “Alpha Fund”) and re-characterized as a \$22.5 million loan owed to the Alpha Fund by another Heckler entity.

107. In February 2018, Hughes, Individual 1, and PAM caused Prophecy to “invest” an equivalent amount (\$22.5 million) in Clearview Fund LP (“Clearview”), an investment vehicle controlled by Smith. Clearview, in turn, used the investment proceeds obtained from Prophecy to purchase from the Alpha Fund the clearly worthless loan owed by Heckler for face value. The worthless loan owed by Heckler was the only asset of Clearview.

108. In 2019, Prophecy cleared its books of the Clearview investment in advance of Prophecy’s 2018 audit by engaging in another set of complex fraudulent transactions. The below diagram illustrates this round-trip transaction:



109. Specifically, on March 28, 2019, Prophecy “loaned” \$21 million to Caiman Partners (“Caiman”), an entity controlled by Individual 2, which had no assets or operations. The following day, Individual 2 wired this money, plus approximately \$2.2 million of his own funds, to Clearview Distribution Services LLC (“Clearview Distribution”), a newly created entity controlled by Smith, for the purported purchase from Clearview of the defaulted loan

owed by Heckler. Clearview Distribution wired the approximately \$23.2 million it received back to Prophecy the same day.

110. Prophecy represented to its auditor and administrator that the approximately \$23.2 million payment received was for the redemption of the investment in Clearview.

## **2. Broad Reach**

111. By 2018, Prophecy had an investment valued at approximately \$24 million in Broad Reach. Though Individual 1 claimed to at least one investor that Prophecy had full transparency into the underlying investments of Broad Reach, this was false. Broad Reach also turned out to be a Ponzi-like, fraudulent scheme.

112. When Prophecy attempted to redeem its Broad Reach investment at the end of 2018, Smith informed Hughes and Individual 1 that Broad Reach was only able to make a partial redemption of \$6.5 million – leaving Prophecy with an approximate \$17.5 million redemption receivable.

113. By May 2019, with collectability of the receivable in doubt and in the midst of its 2018 audit, Hughes, PAM, and Individual 1 again turned to Individual 2 to help fraudulently clear Prophecy's books of the impaired asset and conceal the related loss.

114. Specifically, in May 2019, Hughes emailed Individual 2 asking him to wire \$17,579,885.15 to Prophecy, the exact amount of the outstanding Broad Reach receivable.

115. Individual 2 sourced the funds needed from entities he controlled and routed the funds to Individual 2's AGS Enterprises, which then, via multiple wire transfers, sent the exact amount requested by Hughes to Prophecy.

116. The funds sourced by Individual 2 included approximately \$444,000 and \$580,000 of capital from Special Opportunities (a fund structure launched by PAM in 2019) and

Prophecy, respectively, relating to purported investments in entities controlled by Individual 2 in the days leading up to Individual 2's purchase of the Broad Reach interest.

117. On June 12, 2019, days after Individual 2 began making the AGS Enterprises' payments to Prophecy, Individual 2 emailed Hughes a one-page agreement backdated to April 1, 2019 titled "Assignment of Limited Partnership Interest." This document purported to assign Prophecy's partnership interests in Broad Reach to AGS Enterprises.

118. Hughes and Individual 1 agreed it was again necessary to conceal Individual 2's involvement in this transaction. In addition, Hughes and Individual 1 knew that Prophecy's limited partnership agreement with Broad Reach did not allow Prophecy to unilaterally assign its partnership interests to a third party.

119. To overcome these hurdles, Individual 2 forged the signature of his 13 year-old son on the document, using his son's first and middle name but omitting his last name; and Hughes and Individual 1 altered the limited partnership agreement before sending it to Prophecy's auditors in such a way that purportedly allowed Prophecy to assign its limited partnership interest in Broad Reach.

120. On June 17, Individual 1 emailed Prophecy's auditor concerning the Broad Reach redemption, falsely stating "[w]hile we redeemed for 12/31/18, we received the proceeds plus interest during the interim." Individual 1 supported this assertion by sending a Broad Reach account statement indicating Prophecy was fully redeemed by April 2019.

121. After Smith was charged by the Commission in August 2019 and arrested by law enforcement in connection with the criminal case, at least one investor recalled that Prophecy had invested in Broad Reach. The investor contacted Individual 1 to inquire whether Prophecy had suffered a loss in Broad Reach. On August 27, Individual 1 replied with false assurances



that “[w]e are not in that fund” and “[w]e are not impaired by this event.” Individual 1 knew or was reckless in not knowing that his representations to the investor were false and/or misleading.

### **3. Vintage Capital Management LLC**

122. Although Individual 2 had a cash collateral deficit in excess of \$50 million during the fall of 2018, Prophecy provided a \$36 million unsecured loan to Vintage Capital Management LLC (“Vintage”), an asset management company controlled by Individual 2.

123. Hughes and Individual 1 understood that Individual 2 was going to use the loan proceeds to provide rescue financing to a company in which Vintage was heavily invested. Prophecy included this new “allocation” on the December 2018 Portfolio Breakdown Report sent to investors as “Manager 33”, masking that it was going to an entity controlled by Individual 2.

124. Hughes and Individual 1 failed to disclose the true nature of this large off-platform loan to investors, falsely classifying it as a “Fixed Income” trading strategy on the Portfolio Breakdown Report.

125. By December 2018, the Prophecy loan to Vintage had matured and Individual 2 failed to repay the loan. Rather than acknowledge to Prophecy’s auditor that the loan had defaulted and was uncollectable, Hughes and Individual 2 again entered into a series of complex sham transactions to conceal the failed loan. This time, Prophecy “invested” \$36 million into two other entities controlled by Individual 2, which then routed the money to Vintage so it could repay the loan owed to Prophecy.

126. When questioned by Prophecy’s auditor about the source of the Vintage loan repayment, Hughes lied, stating in an email that no additional loans were exchanged with Vintage or any affiliated entities of Individual 2 for the collection of the \$36 million loan.

#### 4. Samjor LP

127. By year-end 2019, the receivable owed by Individual 2 to Prophecy had grown to approximately \$192 million. However, Prophecy made no effort at any time to collect on the receivable through the purported non-cash collateral that Individual 2 had pledged to secure the receivable.

128. Hughes and Individual 1 became concerned that Prophecy's auditor and administrator would further scrutinize the validity of the non-cash collateral pledged by Individual 2.

129. To relieve this concern, Hughes and Individuals 1 and 2 determined that the receivable Individual 2 owed would need to be replaced with a different "asset."

130. Subsequently, Individual 2 formed a limited partnership called Samjor LP ("Samjor"). According to the Samjor partnership agreement, Individual 2 was to initially capitalize the partnership by contributing \$194 million worth of shares of a publicly traded company for which Individual 2 served as CEO, and Samjor would issue the lone limited partnership interest in the fund to Prophecy. In so doing, the receivable owed by Individual 2 on Prophecy's balance sheet would be exchanged for a new limited partnership investment in Samjor.

131. However, Individual 2 never contributed the shares to the partnership, rendering worthless the limited partnership interest issued to Prophecy. Although neither Hughes nor Individual 1 took any steps to confirm whether Individual 2 ever funded the Samjor partnership with publicly traded securities, Prophecy reported this transaction to its administrator as a new "fund investment" worth \$194 million.

132. In order to finalize Prophecy's net asset value for the month, Prophecy's administrator requested from Hughes a statement issued by Samjor to confirm the value of the investment. Hughes passed along the request to Individual 2, who then issued a fabricated account statement to Prophecy's administrator indicating that Prophecy's investment in Samjor was valued at \$194 million as of December 31, 2019 and January 31, 2020.

**F. Hughes Deceived Investors Into Investing In Special Opportunities, A New Fund Complex**

133. In April 2019, PAM launched Special Opportunities. Similar to Prophecy, Individual 1 raised capital for the funds and communicated with Special Opportunities' investors and prospective investors and Hughes oversaw the back-office and risk management operations.

134. Pursuant to its offering materials, Special Opportunities purportedly allocated capital to a smaller group of sub-advisers that were selected due to their past success. However, unlike Prophecy, Special Opportunities did not purport to have a first-loss component. Instead, investors stood to receive a higher percentage of any trading profits generated by the sub-advisers.

135. Hughes and Individual 1 caused PAM to provide a fact sheet to investors stating that Special Opportunities' "assets are allocated primarily across liquid discretionary and systematic equity long/short strategies that have a non-market risk/asymmetrical return profile, liquidity of the underlying instruments, prior history with Prophecy, quality of operational infrastructure and ability to produce consistent returns."

136. The representations regarding Special Opportunities were false. Instead of investing the capital provided by investors in proven investment strategies as it had represented,

Special Opportunities allocated millions of dollars to Prophecy in the form of undocumented, unsecured loans, and to Individual 2 in the form of investments in entities under his control.

137. According to Special Opportunities' March 2020 balance sheet, of the \$47.5 million of assets held, almost \$18 million had been loaned to Prophecy, and another approximately \$19 million was invested in entities controlled by Individual 2.

138. Hughes and Individual 1 caused Special Opportunities to make these loans and investments at a time when they both knew Prophecy was imploding due to Individual 2's massive trading losses, lack of adequate collateral, and inability to repay his obligations.

139. The capital allocated to Prophecy appears to have been used to purportedly provide first-loss cash deposits for certain sub-advisers whose trading profits would be split with Special Opportunities. But those funds were never segregated in a bank account overseen by the administrator and were largely transferred to prime brokerage accounts held by Prophecy. Moreover, at least some of the money allocated to Individual 2 was round-tripped back to Prophecy in order to conceal other investment losses, including losses arising from Prophecy's investment in Broad Reach.

**G. The Fraud Unravels**

140. In a letter to investors dated March 31, 2020, Individual 1 disclosed that Prophecy's auditor had resigned and withdrawn its opinion and that PAM had suspended all redemptions for Prophecy and Special Opportunities.

**H. Hughes Violated the Federal Securities Laws**

141. During the relevant period, Hughes defrauded investors and potential investors in Prophecy and Special Opportunities.

142. Hughes engaged in deceptive conduct including, but not limited to, creating false documents and engaging in sham transactions.

143. All of the misrepresentations and omissions set forth herein, individually and in the aggregate, are material.

144. Hughes acted knowingly and/or recklessly. Among other things, Hughes knew or was reckless in not knowing that he was engaging in deceptive conduct and making material misrepresentations and omitting material facts in connection with selling or offering of securities.

145. Hughes had ultimate authority for false and misleading statements and omissions made orally and in writing to investors and prospective investors in Prophecy offering materials and other written communications to investors.

146. Through this scheme, Hughes employed a device, scheme or artifice to defraud and engaged in acts, transactions or courses of business that operated as a fraud or deceit upon investors and/or clients.

147. In perpetrating the fraud, Hughes used the means or instruments of interstate commerce or of the mails, or the facility of a national securities exchange, including by sending numerous documents containing false statements via email.

148. The conduct described herein was in connection with the purchase or sale of securities.

149. Hughes acted as an investment adviser during the relevant period by providing investment advisory services for a fee.

150. Hughes provided investment advisory services to pooled investment vehicles, Prophecy and Special Opportunities.

151. In connection with the conduct described herein, Hughes breached the fiduciary duty he owed to his investment advisory clients.

**CLAIMS FOR RELIEF**

**FIRST CLAIM FOR RELIEF  
Violations of Section 17(a) of the Securities Act**

152. The Commission re-alleges and incorporates by reference each and every allegation in paragraphs 1 through 151, inclusive, as if the same were fully set forth herein.

153. By engaging in the conduct alleged herein, Hughes knowingly or recklessly or, with respect to subparts b and c below, negligently, in the offer or sale of securities, directly or indirectly, singly or in concert, by the use of the means or instruments of transportation or communication in interstate commerce, or the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange:

- a. employed devices, schemes or artifices to defraud;
- b. obtained money or property by means of, or made, untrue statements of material fact, or 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
- c. engaged in acts, transactions, practices, or courses of business that operated as a fraud or deceit upon offerees, purchasers, and prospective purchasers of securities.

154. By engaging in the foregoing conduct, Hughes violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

**SECOND CLAIM FOR RELIEF**  
**Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder**

155. The Commission re-alleges and incorporates by reference each and every allegation in paragraphs 1 through 151, inclusive, as if they were fully set forth herein.

156. By engaging in the conduct alleged herein, Hughes directly or indirectly, by use of the means or instruments of interstate commerce or of the mails, or the facility of a national securities exchanges, in connection with the purchase and sale of securities described herein, knowingly or recklessly:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of material facts 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
- c. engaged in acts, practices, and courses of business which operated or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

157. By reason of the foregoing, Hughes, directly and indirectly, violated and, unless enjoined, will continue to violate 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].

**THIRD CLAIM FOR RELIEF**  
**Violations of Section 206(1) and (2) of the Advisers Act**

158. The Commission re-alleges and incorporates by reference each and every allegation in paragraphs 1 through 151, inclusive, as if the same were fully set forth herein.

159. By engaging in the conduct alleged herein, Hughes knowingly or recklessly or, with respect to subpart b below, negligently, as an investment adviser, directly or indirectly, by use of the means or instrumentality of interstate commerce or of the mails:

- a. employed devices, schemes or artifices to defraud any client or prospective client; and

b. engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon any client or prospective client.

160. By engaging in the foregoing conduct, Hughes violated, and unless restrained and enjoined will continue to violate, Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and (2)].

**FOURTH CLAIM FOR RELIEF**  
**Violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder**

161. The Commission re-alleges and incorporates by reference each and every allegation in paragraphs 1 through 151, inclusive, as if the same were fully set forth herein.

162. Hughes, by engaging in the conduct alleged herein, directly or indirectly, by use of means or instrumentalities of interstate commerce or use of the mails, while acting as an investment adviser, engaged in acts, practices, or courses of business that were fraudulent, deceptive, or manipulative.

163. Hughes, while acting as an investment adviser to pooled investment vehicles:  
(a) made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading, to investors or prospective investors in the pooled investment vehicle; or (b) engaged in acts, practices, or courses of business that were fraudulent, deceptive, or manipulative with respect to investors or prospective investors in the pooled investment vehicle.

164. By reason of the foregoing, Hughes violated and, unless restrained and enjoined, will continue to violate Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].



**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

**I.**

Permanently restraining and enjoining Hughes from, directly or indirectly, violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], 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], and Sections 206(1), (2), and (4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), (2), and (4)] and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

**II.**

Ordering Hughes to disgorge all ill-gotten gains or unjust enrichment with prejudgment interest, to effect the remedial purposes of the federal securities laws;

**III.**

Ordering Hughes to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)]

**IV.**

Barring Hughes from serving as an officer or director of a public company pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e), Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)]; and

**V.**

Granting such other and further relief as this Court may determine to be just and necessary.

**JURY DEMAND**

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Plaintiff demands that this case be tried to a jury.

Respectfully submitted,

By: s/ John V. Donnelly III

John V. Donnelly III  
Gregory Bockin  
Burk Burnett  
Julia C. Green  
Securities and Exchange Commission  
1617 JFK Blvd., Suite 520  
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**ATTORNEYS FOR PLAINTIFF  
SECURITIES AND EXCHANGE  
COMMISSION**

Dated: November 2, 2023

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF NEW JERSEY**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

GEORGE HUGHES,

Defendant.

Case No.

**DESIGNATION OF AGENT  
FOR SERVICE**

Pursuant to Local Rule 101.1(f), because the Securities and Exchange Commission (the “Commission”) does not have an office in this district, the United States Attorney for the District of New Jersey is hereby designated as eligible as an alternative to the Commission to receive service of all notices or papers in the captioned action. Therefore, service upon the United States or its authorized designee, David Dauenheimer, Deputy Chief, Civil Division, United States Attorney’s Office for the District of New Jersey, 970 Broad Street, 7th Floor, Newark, NJ 07102 shall constitute service upon the Commission for purposes of this action.

Respectfully submitted,

s/ John V. Donnelly III

John V. Donnelly III

Attorney for Plaintiff  
U.S. Securities and Exchange Commission  
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CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

I. (a) PLAINTIFFS

Securities and Exchange Commission

(b) County of Residence of First Listed Plaintiff (EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address, and Telephone Number) John V. Donnelly III, Esq., Telephone: (215) 597-3100 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103

DEFENDANTS

John Hughes

County of Residence of First Listed Defendant Bergen, NJ (IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys (If Known)

Ian D. Roffman, Esq., Telephone: (617) 439-2421 Nutter, 155 Seaport Blvd., Boston, MA 02210

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- 1 U.S. Government Plaintiff, 2 U.S. Government Defendant, 3 Federal Question (U.S. Government Not a Party), 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- PTF DEF Citizen of This State, Citizen of Another State, Citizen or Subject of a Foreign Country, Incorporated or Principal Place of Business In This State, Incorporated and Principal Place of Business In Another State, Foreign Nation

IV. NATURE OF SUIT (Place an "X" in One Box Only)

Click here for: Nature of Suit Code Descriptions.

Table with 5 columns: CONTRACT, REAL PROPERTY, TORTS, CIVIL RIGHTS, PRISONER PETITIONS, FORFEITURE/PENALTY, LABOR, IMMIGRATION, BANKRUPTCY, SOCIAL SECURITY, FEDERAL TAX SUITS, OTHER STATUTES. Includes various legal categories like Insurance, Personal Injury, Real Estate, etc.

V. ORIGIN (Place an "X" in One Box Only)

- 1 Original Proceeding, 2 Removed from State Court, 3 Remanded from Appellate Court, 4 Reinstated or Reopened, 5 Transferred from Another District, 6 Multidistrict Litigation - Transfer, 8 Multidistrict Litigation - Direct File

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity): 15 U.S.C. §§ 77t(b), (d); 15 U.S.C. §§ 78u(d), (e); and 15 U.S.C. §§ 80b-9(d), (e)
Brief description of cause: Investment adviser and securities offering fraud

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, F.R.Cv.P. DEMAND \$ CHECK YES only if demanded in complaint: JURY DEMAND: [X] Yes [ ] No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE Michael A. Shipp DOCKET NUMBER U.S. v. Hughes (DNJ)

DATE Nov 2, 2023 SIGNATURE OF ATTORNEY OF RECORD s/ John V. Donnelly III

FOR OFFICE USE ONLY

RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE

## INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS 44

### Authority For Civil Cover Sheet

The JS 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

- I.(a) Plaintiffs-Defendants.** Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.
- (b) County of Residence.** For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the "defendant" is the location of the tract of land involved.)
- (c) Attorneys.** Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section "(see attachment)".
- II. Jurisdiction.** The basis of jurisdiction is set forth under Rule 8(a), F.R.Cv.P., which requires that jurisdictions be shown in pleadings. Place an "X" in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.  
 United States plaintiff. (1) Jurisdiction based on 28 U.S.C. 1345 and 1348. Suits by agencies and officers of the United States are included here. United States defendant. (2) When the plaintiff is suing the United States, its officers or agencies, place an "X" in this box.  
 Federal question. (3) This refers to suits under 28 U.S.C. 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.  
 Diversity of citizenship. (4) This refers to suits under 28 U.S.C. 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked. (See Section III below; **NOTE: federal question actions take precedence over diversity cases.**)
- III. Residence (citizenship) of Principal Parties.** This section of the JS 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.
- IV. Nature of Suit.** Place an "X" in the appropriate box. If there are multiple nature of suit codes associated with the case, pick the nature of suit code that is most applicable. Click here for: [Nature of Suit Code Descriptions](#).
- V. Origin.** Place an "X" in one of the seven boxes.  
 Original Proceedings. (1) Cases which originate in the United States district courts.  
 Removed from State Court. (2) Proceedings initiated in state courts may be removed to the district courts under Title 28 U.S.C., Section 1441.  
 Remanded from Appellate Court. (3) Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.  
 Reinstated or Reopened. (4) Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.  
 Transferred from Another District. (5) For cases transferred under Title 28 U.S.C. Section 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.  
 Multidistrict Litigation – Transfer. (6) Check this box when a multidistrict case is transferred into the district under authority of Title 28 U.S.C. Section 1407.  
 Multidistrict Litigation – Direct File. (8) Check this box when a multidistrict case is filed in the same district as the Master MDL docket.  
**PLEASE NOTE THAT THERE IS NOT AN ORIGIN CODE 7.** Origin Code 7 was used for historical records and is no longer relevant due to changes in statute.
- VI. Cause of Action.** Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC 553 Brief Description: Unauthorized reception of cable service.
- VII. Requested in Complaint.** Class Action. Place an "X" in this box if you are filing a class action under Rule 23, F.R.Cv.P.  
 Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction.  
 Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.
- VIII. Related Cases.** This section of the JS 44 is used to reference related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.

**Date and Attorney Signature.** Date and sign the civil cover sheet.