

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

MICHAEL DONNELLY,

Defendant.

Civil Action No.

15 5873

**COMPLAINT**

Plaintiff Securities and Exchange Commission (the "Commission") alleges as follows:

**SUMMARY OF THE ACTION**

1. Defendant Michael Donnelly, a former investment adviser and registered representative, lied to thirteen of his clients and customers to steal approximately \$2 million from 2007 through August 2014.
2. While acting as an investment adviser and registered representative, Donnelly took money from certain advisory clients, some of whom were also his brokerage customers (collectively, "Clients"), purportedly to be invested in various financial products, however, he never invested his Clients' money as promised. Instead, Donnelly deposited the money into accounts that he controlled and used the funds for his own business and personal expenses.
3. Donnelly concealed his scheme by creating and providing these Clients false account statements, trade confirmations, and other bogus information that purportedly reflected their investment holdings. He also made oral misrepresentations to these Clients that their fictitious investments were performing well.

4. In August 2014, Donnelly's scheme collapsed after Donnelly was caught stealing money from one Client's account in an attempt to repay another defrauded Client whom he owed money to.

5. By knowingly or recklessly engaging in the conduct described in this complaint, Defendant Donnelly violated 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) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-6(1), 80b-6(2)].

#### **JURISDICTION AND VENUE**

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

7. The Court has jurisdiction over this action pursuant to Sections 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 Section 214 of the Advisers Act [15 U.S.C. §§ 80b-14].

8. Venue lies in this judicial district 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], and Section 214 of the Advisers Act [15 U.S.C. §§ 80b-14]. Among other things, certain of the acts, practices, and courses of business constituting the violations of the federal securities laws alleged herein occurred within the Eastern District of Pennsylvania.

## DEFENDANT

9. **Michael Donnelly**, age 46, is a resident of Lecanto, Florida. Donnelly worked in the securities industry as an investment adviser and registered representative since the mid-1990s. In 2005, Donnelly incorporated the investment advisor firm, Donnelly Advisors Group, Inc. (“Donnelly Advisors Group”) and registered the entity with the Commission. From 2005 through 2007, Donnelly was the President, CEO, and the sole employee of Donnelly Advisors Group.

10. In 2007, Donnelly ceased working under the name Donnelly Advisors Group to form a registered investment adviser with another individual called Donnelly Steen & Co. Donnelly Steen & Co. began doing business as Coastal Investment Advisors, Inc. (“Coastal IA”) in 2012, after completing its purchase of a registered broker-dealer named Coastal Equities, Inc. (“Coastal Equities”). Donnelly was the President and an investment adviser representative for this advisory firm from 2007 through 2014.

11. Donnelly was also a registered representative at Coastal Equities from approximately 2009 through 2014, and served as Coastal Equities’ President from approximately 2012 through 2014.

## FACTS

### **A. Overview of Donnelly’s Fraud**

12. Donnelly misappropriated Client funds by telling Clients he was going to use their money to invest in various financial instruments, and then secretly depositing their money into bank accounts he controlled.

13. Specifically, when Donnelly intended to steal Client funds, he instructed the Client to write a check payable to Donnelly Advisors Group to fund their investment. Even after

he began offering advisory services through Donnelly Steen & Co., and later when the firm was doing business as Coastal IA, Donnelly instructed his Clients to write checks payable to the Donnelly Advisors Group account.

14. The use of the Donnelly Advisors Account served at least two purposes. First, many of Donnelly's Clients had been with him while he operated under Donnelly Advisors Group, and thus had no reason to question sending money to this account. Second, the use of an account not affiliated with Donnelly & Steen & Co., and later Coastal IA, allowed him to conceal from others at the firm the illicit deposits.

15. Any Client funds that were deposited into a Donnelly Advisor Group account were misappropriated by Donnelly. Donnelly then lied to these Clients, telling them that he had invested their money consistent with their investment objectives, when in reality he had used it to pay business or personal expenses, including rent, car payments, golf club membership dues, and his children's private school tuition.

16. Donnelly employed various techniques over the course of the fraud to prevent his Clients from discovering his theft.

17. One such technique involved Donnelly using an electronic system that Coastal IA maintained which enabled an advisory representative to generate consolidated reports, known as a "Portfolio Report," showing a client's total holdings in his accounts held by the firm, as well as financial products held by third-parties, such as CDs, variable annuities, and insurance products. All investments held with Coastal IA were automatically inputted into the Portfolio Report, however, the outside investments required the client's adviser to manually enter the information. Donnelly manually entered information concerning the fictitious investments, including their name and purported value, into the Portfolio Reports, and either mailed, e-mailed,

or hand delivered the fraudulent Portfolio Reports to some of his Clients, thereby falsely representing they had investments that they did not, in fact, hold.

18. Donnelly also employed a web-based financial software that Coastal IA licensed from a third-party provider to deceive at least one Client. That service allowed Donnelly to link the Client's accounts to an electronic platform which the Client could use to view over the internet. Donnelly manually entered ticker symbols of certain stocks that he purportedly purchased on behalf of the Client from whom he stole money. The stocks (that had not actually been purchased) then appeared on that Client's online account statement along with his investments that had actually been purchased. Accordingly, when this Client logged into his account he was falsely led to believe that Donnelly had purchased certain stocks for him.

19. Another method involved Donnelly altering brokerage account statements or trade confirmations to dupe Clients into believing they held certain investments. For example, one Client gave Donnelly \$440,000 over a six year period that he believed was being invested in stocks. Donnelly provided this Client with an account statements entitled "Donnelly Steen & Co. Account Positions" which reflected a portfolio of dozens of large cap stocks valued at hundreds of thousands of dollars brokerage. However, the account statements belonged to another investor and Donnelly manipulated the document to falsely reflect the defrauded Client as the named account holder.

**B. Donnelly's Victims**

20. From 2007 through 2014, Donnelly defrauded at least thirteen of his Clients and misappropriated a total of approximately \$2 million.

21. Twelve of Donnelly's victims were elderly and all were unsophisticated investors who relied on Donnelly almost entirely to manage their finances. The following chart summarizes the Clients Donnelly victimized:

<b>Victims (current age)</b>	<b>Amount Lost</b>	<b>Date Range</b>
Victim A, age 81 Victim B, age 83	\$800,000	December 2008 - April 2010
Victim C, age 72	\$267,000	August 2014
Victim D, age 46	\$440,000	November 2007 - August 2012
Victim E, age 81	\$208,680.64	May 2008 – January 2013
Victim F, age 80 Victim G, age 85	\$91,738.90	April 2008 – June 2012
Victim H, age 79	\$54,500	June 2008
Victim I, deceased	\$48,231	May 2011 – July 2013
Victim J, age 64 Victim K, age 66	\$30,000	December 2010
Victim L, age 86	\$25,000	August 2008 – September 2011
Victim M, deceased	\$25,000	May 2011
<b>TOTAL</b>	<b>\$1,990,150.54</b>	

**C. Donnelly's Scheme Unravels**

22. Married Victims A&B had been Donnelly's Clients since approximately 2003. In December 2008, Victims A&B sought Donnelly's advice on how to invest money from two CDs that were about to mature. Donnelly advised Victims A&B to invest in one-year institutional CDs, and misrepresented that the CDs would be issued by PNC Bank and Bank of America, would be fully protected by the FDIC, yield a 5.5% interest rate, and that they could withdraw their money at any time without penalty.

23. Based on these representations, Victims A&B wrote two checks payable to Donnelly Advisors Group each for \$100,000 believing they purchased two CDs. Donnelly, however, never purchased these CDs, or otherwise invested the money he received from Victims A&B. In fact, the CDs did not even exist, Donnelly merely fabricated the high yielding, no risk investment to ensure that Victims A&B would invest their money through him.

24. Over the following 16 months, Victims A&B wrote six more checks payable to Donnelly Advisors Group totaling \$600,000. Donnelly repeatedly lied saying that he would use the money to purchase six additional CDs all with similar terms.

25. For over five years, Donnelly made numerous written and oral misrepresentations to Victims A&B to conceal his theft. For instance, Donnelly created and emailed Victims A&B fictitious trade confirmations reflecting the CD purchases. He also, at times, emailed Victims A&B a list of the fictitious CDs, which included false information such as the issuing bank and the CDs' current market value.

26. During his time with Coastal IA, Donnelly prepared and sent Victims A&B multiple Portfolio Reports that reflected their legitimate investments through Coastal, as well as the bogus CDs. Donnelly manually inputted the value of the CDs, the interest rates, dates of maturity and the name of the bank that supposedly issued the CD into the Portfolio Reports. When a CD was due to mature, Donnelly made additional false statements by telling Victims A&B they could rollover their investment into a new CD with the same terms, including the inflated interest rates.

27. In approximately July 2014, Victims A&B informed Donnelly that they intended to move all of their investments to another financial advisor, including the CDs that they believed they owned. Two of the CDs were purportedly set to mature around this same time and Victims A&B also instructed Donnelly to wire those funds to the new advisor.

28. Unable to transfer the non-existent CDs, and having already spent Victims A&B's cash on personal and business expenses, Donnelly decided to steal money from another victim to conceal his fraud from Victims A&B.

29. Specifically, Donnelly told Victim C that she had an opportunity to “buy out” an investment held by another Client. Donnelly provided Victim C scant details but assured her that it was a safe and smart investment. To obtain the necessary funds for this purported investment, Donnelly convinced Victim C to partially liquidate a variable annuity that she held at an insurance company. Based on these misrepresentations, Victim C requested the insurance company send approximately \$267,000 from her annuity account to her personal bank account.

30. On August 26, 2014, Donnelly drove Victim C to her bank and arranged for the approximately \$267,000 to be wired to a private business account controlled by a Coastal IA employee. Donnelly then instructed the Coastal IA employee (who was unaware of the scheme) to wire the money to Victims A&B’s account at the new advisor. Donnelly used the Coastal IA employees’ account to conceal the true source of the funds from the new advisor.

31. When Coastal IA’s senior officers learned that Donnelly transferred funds between his Clients, Donnelly was terminated.

### **FIRST CLAIM FOR RELIEF**

#### Violations of Section 17(a) of the Securities Act.

32. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 31 inclusive, as if they were fully set forth herein.

33. From at least 2007 through August 2014, as a result of the conduct alleged herein, Defendant Donnelly knowingly or recklessly, in the offer or sale of securities, directly or indirectly, by the use of the means or instruments of transportation or communication in interstate commerce, or the mails:

- a. employed devices, schemes or artifices to defraud;



- b. obtained money or property by means of any 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; or
- c. engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities.

34. By engaging in the foregoing conduct, Defendant Donnelly 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.

35. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 31, inclusive, as if they were fully set forth herein.

36. From at least 2007 through August 2014, as a result of the conduct alleged herein, Defendant Donnelly knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of the means or instrumentality of interstate commerce or of the mails, or a facility of a national securities exchange:

- a. employed devices, schemes or artifices to defraud;
- b. 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; or
- c. engaged in acts, practices or 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.

37. By engaging in the foregoing conduct, Defendant Donnelly violated, and unless restrained and 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 Sections 206(1) and 206(2) of the Advisors Act.

38. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 31, inclusive, as if they were fully set forth herein.

39. From at least 2007 through August 2014, as a result of the conduct alleged herein, defendant Donnelly, while acting as an investment adviser, by the use of the means and instrumentalities of interstate commerce and of the mails, directly or indirectly, knowingly or recklessly has employed schemes and artifices to defraud his clients and prospective clients; and has engaged in transactions, practices and courses of business which operate as a fraud or deceit upon his clients.

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

**PRAYER FOR RELIEF**

**WHEREFORE**, the Commission respectfully requests that the Court:

**I.**

Permanently restrain and enjoin Defendant Donnelly from 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) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

**II.**

Order Defendant Donnelly to disgorge any and all ill-gotten gains derived from his illegal conduct, together with prejudgment interest thereon.

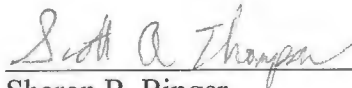
**III.**

Retain jurisdiction of this action for purposes of enforcing any final judgment and orders.

**IV.**

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

Respectfully submitted,



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