The Long Reach Of John Peter Galanis

By Bernard Condon

AS THE SUN BEATS DOWN ON THE PATIO OF THE PENINSULA HOTEL in Beverly Hills, Jason Galanis presses his ear to his cell phone again. A call from a wealthy Pakistani banker. He's just gotten off with the son of a famous billionaire. Before that, an Oxford dean. Proof that those who dismissed him simply because his father was a crook have been wrong. He has worked hard for this moment. He has an apartment nearby in the Beverly Hills Hotel. A Rolex glints on his wrist. He hangs up the phone and confronts the worst of the rumors.

"I'm sure people are saying my father controls everything," says the 30-year-old. "If so, I've snookered a lot of people."

It would be quite a feat for the father, too. He's spent most of the past 15 years in a cell behind double rows of razor wire. But depositions and interviews with Jason's former employees suggest that Jason's father, John Peter Galanis, who bilked investors of $400 million before he was thrown in the slammer, has had heavy if not controlling influence on Jason's businesses. The effect has not been entirely benign: a role in the spectacular blowup of a Colorado bank and millions of losses for grain giant Cargill, whose mix-up with this father-son team has been kept quiet until recently by a gag order.

Most troubling is Jason's latest venture: Incubator Capital, a publicly traded Internet credit card company that he says will close the gap between the Internet haves and have-nots. It is an outfit marked by a share-price swing and self-dealing similar to that of companies dad controlled at the start of his criminal career three decades ago. Earlier this year Jason increased his holdings in Incubator by exchanging its shares for his stakes in three other businesses. The Beverly Hills-based company was trading hands at $5 a share. Within a month shares rose to $13, valuing Incubator at $250 million. The shares now fetch $2.

It doesn't look like any blue chip but it has some distinguished investors, including Kevin Washington, a son of railroad and mining magnate Dennis Washington. Gil F. Amelio, the former chief of Apple Computer, is set to hop on board, too.

Jason blames Incubator's stock drop, in part, on short-sellers in Utah. He says he's close to completing a $10 million private placement. Then, when the stock rises again, he'll issue more shares in a public offering.

"This is my way of getting out of a black cloud," he says. "I want my credit. I deserve my credit."

Does he talk to his father about Incubator? "I do talk to him. About business? No. He's got his own problems."

Jason's father, 56, is on work-release living in a halfway house in New York City. But for a while in the 1980s he cut quite a figure about town. Weighing nearly 400 pounds, he would order multiple entres at Lutce restaurant with his eccentric 300-pound business partner, Jay Botchman. Brilliant, blessed with a photographic memory, the father was also a quick read of character, able to charm even the most cynical of men. He doted on his four sons from his second marriage, once hiring a stonemason to build a 20-foot play castle for them. Jason got a Ferrari for his 16th birthday. The private jet and the 80-foot yacht bore the name *Jader*, after Jason and Derek, the two oldest.

He lured the rich and famous into his schemes. Before he was tossed into prison for the first time, in 1973, he'd convinced the former head of the New York Stock Exchange and the past president of RCA to invest in his hedge fund. He used their money to buy shares that he was unloading in small companies he had hyped. He drove the stock of one company, Hair Extension Center, from $1 to $10, then sold out for a $750,000 profit before it crashed. He served half a year in jail, then spent the next five helping the feds finger other crooks. His life of crime, prosecutors suggested at the time, was over.

His second feeding on the gullible, in the 1980s, created the biggest mess. He sold stakes in an Atlantic City boardwalk project that was never built. He lured Eddie Murphy, Sammy Davis Jr. and many less celebrated names into phony real estate and oil and gas tax shelters. By the time he was convicted in 1988 he had pushed four banks into bankruptcy.

His 27-year sentence was then believed to be the longest ever for a white-collar criminal. His mansions in Greenwich, Conn. and Del Mar, Calif. were seized. But almost all of the money his victims lost was never found. There were hints at the time that some of it was squirreled away in the Netherlands Antilles (FORBES, *Dec. 29, 1986*).

As for Jason, his first business was run from his freshman dorm room at the University of California at Santa Barbara. It was 1988, too long ago to remember how he stumbled on the idea, he says, but he soon found himself buying up credit card debt gone bust. His first purchase was $1.6 million of receivables for nine cents on the dollar, or $140,000. He got the money for the investment, he says, from a trust set up by his grandmother. He called the debtors and tripled his money.

"It was a schlocky business. Six thousand collection agencies," he says. "Extraordinary. The banks were giving away the inventory for free."

One deal led to another. At the end of his second semester he dropped out and moved to San Diego to run the business full time. He says he needed to support his mother. His younger brothers slept three to a room.

"He was the father of the household, yet he never felt sorry for himself," recalls his friend Kevin Washington, who first met him at a San Diego sushi bar about that time. "It's been a rough road, and I've seen it for eight years now."

Jason's business took off after he teamed up with a then-51-year-old lawyer named James Panther. Panther was no angel. One of his previous companies had been barred from doing business with Freddie Mac after having sold it bad loans. But he and Jason had a good idea: Why not offer a Visa card to customers to entice them to pay off their debt? Most had long been blackballed by traditional banks and didn't have any plastic. Credit card giant Providian Financial is now pumping millions into a similar business. The Credit Store, as Panther and the young Galanis called their Oceanside, Calif. company, was a pioneer.

The new company faced big hurdles. It had to find a bank willing to issue cards to such high-risk borrowers. After one pulled out, and another went bankrupt, the two partners fell into the arms of T. Alan Boyd, the head of Colorado's BestBank. He was known to be willing to take a flier on virtually any credit card debt. Jason and Panther would pay a fee for each card issued, or, if they sold the receivables to the bank, take a cut of the profits for collecting from the debtors. BestBank, too, went under, but not for another two years.

So BestBank would dangle a new card soon after Credit Store bought an applicant's bad debt run-up on a previous card. But Credit Store didn't have the capital to buy a lot of card receivables for cash. So Jason partnered with others. For example, he found two Vancouver partnerships (owned by 1,400 individuals) that had bought $10 million (face amount) of receivables for one cent on the dollar. He got them to hand over part ownership of the debt in exchange for collecting on it. But mostly it was a struggle. The fact that his father was in prison didn't help. Jason says Sun America, for example, nixed an investment after two months and 15 meetings when it found out about John Peter Galanis.

"I'll always have that specter out there," says the younger Galanis. "It's not very fair. But fair doesn't count."

"It's a source of major frustration," says Milton Datsopoulos, a director of Dennis Washington's rail company who invested $100,000 in Incubator last year. "He's trying to build respect."

In 1994 Jason and Panther had a turn of luck. The investment arm of Cargill agreed to lend up to $200 million. Over the next year the two partners borrowed $18 million and were asking for more. Then an anonymous letter reached the hands of top executives at the unit's headquarters in Minnetonka, Minn. with a startling accusation: Jason's dad was running the company from prison. Cargill sent down a team of investigators.

"They taped up all the filing cabinets, like the Gestapo," says Jason. "They found nothing."

Well, not quite nothing. They discovered a box of phone records that showed the father making as many as 30 collect calls a day from prison, staying on the line for as long as seven hours, according to sources close to the investigation. They also found expense reports for trips to Terminal Island in nearby Long Beach, where the father was imprisoned.

Credit Store employees signed affidavits stating that Jason's father played no role in the company. But now some employees, speaking on condition of anonymity, tell a different story. One says the father wrote the company's promotional brochures and direct-mail letters, then had the first print versions brought to him for final editing. "He was the brains behind the marketing," says this employee. Another recalls that trade magazines were sent regularly to dad. Volumes on offshore treaties were sent into the prison, says a third, so the father could set up partnerships overseas, which he named Eikos, Thesseus and Ionian. "The father controlled everything."

Federal rules prohibit prisoners from doing business from their cells.

So what does the father say about the calls? "I was encouraging my son in business. I was not a consultant to the company." He says he was limited to four calls a day for 15 minutes each, closely monitored by the prison, for most of his time in jail. "I was questioned but never reprimanded."

What about those affidavits? Depositions taken later for various lawsuits involving the Vancouver partners cast doubt on them. "Everyone had to do it," said one former employee. "You had to sign it at the threat of losing your job." Another stated that the father spoke to him from prison and told of trips there by Ted L. Sanborn, an especially loyal Credit Store employee. In one lawsuit the Vancouver partners alleged misappropriation of funds.

For Cargill it was a potted plant that proved the last straw. "Hey, this thing is plugged in," one investigator exclaimed in a Credit Store room where the team had sequestered themselves to pore over seized records. He traced the cord. A tape recorder was at the end of the line.

By the fall of 1995 Cargill had reached a settlement, limiting its losses to $7 million. The grain giant agreed not to publicize the settlement.

In the months that followed a half-dozen potential investors visited the Credit Store, now in serious trouble. In the spring of 1996 a savior appeared: Jay Botchman, dad's ponytailed epicurean buddy. Botchman wasn't just a family friend; he was the father's chief link to banks that financed the tax shelter venture.

Instead of lending money to Credit Store, Botchman decided to buy it. He paid $1 million each to Panther and Jason. He also agreed to give each of them options to buy, at a price of $500,000, shares now equal to 10% of the company. A 10% stake is worth $15 million today. He also agreed to make, to each of them, performance-based payments over the following five years worth as much as $25 million. Botchman has since pumped $50 million into the business not including the payouts to the former owners.

It was a generous buyout for a business that was losing money. Might Botchman have been motivated by loyalty to Jason's father? After all, John Peter Galanis had taken the fall in their tax-shelter venture, never implicating his partner. The government never laid a glove on Botchman.

Jason dismisses the possibility. He says hooking up with Botchman was a coincidence. Their common past, he says, actually worked against him. Botchman was angry that the father had tarnished his name. Botchman concurs: "I wouldn't give John Galanis 8 cents."

Less than two years after the Botchman deal, Credit Store card-issuer BestBank failed with $285 million of receivables, much of it in default. The bad debt came mostly from another card outfit, but Jason's businesses were the second-biggest suppliers, providing $20 million. The FDIC has had to pump $100 million into the bank. Regulators are looking into two other banks that did business with Jason--Founders Trust National and First National Bank of Brookings, both in South Dakota. Both banks say that their finances are sound.

Is Incubator a fresh start for Jason? Maybe its stock woes are simply due to the bursting of the Internet bubble. Jason's father insists he has had no influence on the new business. But a 10-K filed earlier this year shows deep ties to Jason's old one. InfoBase, one of the companies that Incubator bought for stock this year, was recently owned by a man named Dennis Alba, according to a Dun & Bradstreet file. Jason says the file is wrong, that Infobase was owned by Ted L. Sanborn and a partner. Remember Sanborn, the Credit Store employee who made frequent prison visits? Alba, who also worked for the Credit Store, was in prison with the father, put away for drug dealing, say Bureau of Prison records.

Then there is a worrisome web of overseas companies in Incubator's public filings. Their names have a familiar ring: Eikos, Thesseus, Ionian. Jason says these were set up mostly for tax reasons and that his father had nothing to do with them. Public records reveal a tangled history: a Panamanian outfit linked to a Netherlands Antilles company through their ties to an Isle of Man company which was apparently first set up in Sark, a Channel Islands pile of rocks reached by a four-hour ferry.

There's another connection between Jason's old businesses and Incubator. Jason Galanis settled his dispute with the Vancouver investors by eventually giving them 1 million Incubator shares at a time when the shares were worth $10 apiece. He can afford that; he has options on 2 million Incubator shares, most of them with an exercise price of 4 cents.

Kevin Washington, an Incubator executive vice president and director, professes optimism. He's nearly finished helping Jason raise the $10 million from rich friends, and then there's that deal with Gil Amelio. Earlier this year the former Apple chief agreed to sell a company in which he's invested--Themeware--for $135 million in Incubator shares.

The rumors about a connection between John Peter Galanis and his son's affairs are just "speed bumps" in the road, says Washington. "This business is going to override everything."

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