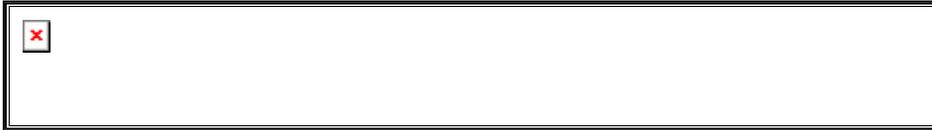


&lt;ADVERTISEMENT&gt;



Published: Thursday, February 15, 2001

## STORY OPTIONS

 [E-mail to a friend](#) [Print this article](#) [Today's Pioneer](#) [Press](#) [PioneerPlanet: front](#) [News](#) [Business](#) [Sports](#) [Entertainment](#) [Living](#) [Tech](#) [Health](#) [Water Cooler](#) [Special Reports](#) [Classified Ads](#) [Site index](#)

## Exchange operator pleads guilty

### *Real estate proceeds lost in stock market*

---

**MIKE HUGHLETT** STAFF WRITER

---

**A** St. Paul area businessman pleaded guilty Wednesday to defrauding his clients by sinking about \$9 million of their money into risky stocks -- money he should have been investing in safe investments like bank or money market accounts.

John A. Davies ran two ``exchange" companies that temporarily warehoused the proceeds of commercial real estate transactions, allowing sellers to defer capital gains taxes. About two dozen sellers will lose about 23 percent of the money they entrusted to Davies -- a total of \$2.1 million, according to court records.

``It is very unfortunate," said Nauni Jo Manty, a court-appointed bankruptcy trustee for Davies' exchange companies, Like Kind Exchange and Nation Wide Exchange Services.

Davies, who lives in Rosemount, pleaded guilty to two counts of wire fraud in U.S. District Court in Minneapolis. Neither he nor his attorney could be reached for comment.

The fall of Davies and his companies, which was first reported in the Pioneer Press last May, is uncommon in the fast-growing exchange business. But it shows that when exchange companies - - which are not regulated -- do go bust, their customers can suffer big losses.

The exchange business has blossomed in recent years after the Internal Revenue Service clearly outlined rules governing tax-deferred commercial property transactions. According to the tax code, commercial property owners need not recognize a gain on sale as long as they ``exchange" their property for a ``like kind" property of equal or greater value within 180 days. When they buy a new property, their capital gain is rolled into their new

investment.

While they're shopping, they warehouse their sales proceeds with a ``qualified intermediary." Such intermediaries are qualified essentially if they have no relationship with their customers.

Davis had been in the exchange business since at least the mid-1990s. In his guilty plea, he admitted that from July 1998 to April 2000 he defrauded his exchange customers.

He told them that their money would be nestled in a Charles Schwab money market account, and that they would earn interest on it -- a typical exchange transaction. Davies would, in turn, be paid a fee for his services.

However, Davies instead used his clients' money to speculate in stocks. He intended to profit by pocketing the difference between the money market rate of return and a higher rate earned by trading stocks, according to Davies' plea agreement.

But Davies invested in several tech stocks, most of which tanked last spring. Davies' companies, which were based in Eagan, filed bankruptcy soon thereafter, unable to meet all of their obligations to clients.

In the wake of Davies' failure, several customers have had to recognize their capital gains, Manty said. Others have had to borrow money in order to complete a purchase, since the money they had entrusted to Davies has been tied up, she said.

Davies has agreed to continue to cooperate fully in providing restitution to his victims, according to his plea agreement.

Davies faces a maximum potential penalty of five years in prison and/or a \$250,000 fine on both counts. Federal sentencing guidelines would provide for a prison term of 30 to 37 months, according to Davies' plea agreement. Sentencing before Judge David Doty is expected in eight to 10 weeks.

- [Help](#)
- [News Archives](#)
- [Feedback](#)

[Back to Top](#)

---

Mike Hughlett can be reached at [mhughlett@pioneerpress.com](mailto:mhughlett@pioneerpress.com) or (651) 228-5428.