

Suits accuse man of investment fraud

By Robyn Rosenthal

rosenthal@swartzcreeknews.com
810.766.6310

SWARTZ CREEK – Federal agencies seized about \$1.7 million from three e-gold accounts belonging to a Swartz Creek man and suspected in an online pyramid investment scheme.

More than 40 civil suits also have been filed in Genesee Circuit Court against Legisi Holdings and its president Greg McKnight of Swartz Creek.

The U.S. Secret Service, Federal Bureau of Investigation, and the Internal Revenue Service have an ongoing investigation into e-gold accounts suspected of money laundering and the operation of an unlicensed money transmitting business, according to federal court records.

Legisi is one of 12 parties accused of wire fraud in the federal complaint. Legisi filed a motion to dismiss the complaint in October. A court date has not been set.

A federal affidavit states that e-gold – a medium of exchange purportedly backed by gold for conducting online fund transfers – is a “highly favored” method of payment for operators of investment scams. It is not widely accepted by mainstream vendors, the affidavit states.

In the affidavit dated July 24, 2007, Legisi Holdings is accused of laundering the proceeds of wire (investment) fraud. The affidavit, issued in support of a complaint for forfeiture of the accounts, specifically names McKnight and accuses him of operating Legisi’s pyramid scheme since December 2005 through *the Web site, www.legisi.com, which could not be accessed this week.*

“This program describes itself as a ‘private, members-only high yield return on loan program,’” the affidavit states.

No criminal charges have been filed against McKnight, said William

Cowden, an assistant U.S. attorney in Washington, D.C. Jason Moon, a spokesperson for the Michigan Office of Financial and Insurance Services, said the agency received an undisclosed number of complaints in 2007 and is conducting an investigation. The state agency is part of the Department of Labor and Economic Growth and provides information regarding financial institutions, insurance and securities.

Richard A. Roth of New York, McKnight and Legisi’s attorney, said federal officials had an aggressive investigation into e-gold, and Legisi was wrongfully targeted because of its e-gold assets.

“The allegations are weak, and we’ve been waiting since October for an argument on it,” **Roth** said.

Roth said McKnight still lives in Swartz Creek and Legisi is still operating.

According to the Federal affidavit in support of the complaint for forfeiture,

Legisi offered investors two programs: a standard loan requiring a minimum investment of \$250, which could be withdrawn after four months with 10 percent monthly interest paid or left to continue to earn 10 percent interest monthly, and a "VIP loan" that required a minimum investment of \$10,000.

After one year, the investor – or lender – could withdraw the investment plus 12.5 percent monthly return or leave it for continued return.

According to the federal affidavit, Legisi had three accounts. The first account, which contained \$978,845 worth of e-gold, was created in December 2005 and transactions occurred through March 12, 2007. More than \$7 million was involved in 1,556 transactions. Some money was paid out to investors, but the affidavit alleges that most funds were taken out for use by McKnight.

A second e-gold account had about \$247,585 as of March 13, 2007. The account had about 1,315 transactions totaling \$4.7 million between September 2006 and March 2007.

About \$3.4 million allegedly was transferred to the first account.

A third Legisi e-gold account received \$2.5 million worth of e-gold from the first two accounts set up to receive investor deposits. The federal affidavit alleges that smaller payouts were made to investors. Shortly before it was seized, it contained about \$1.8 million worth of e-gold and was one of the greatest valued e-gold accounts, according to the federal affidavit.

The assets were seized between April 25 and May 4, 2007, and now are in the custody of the U.S. Department of Treasury, according to court documents.

Cowden, chief of the asset and forfeiture unit, said McKnight has filed a claim to the seized assets.

Roth could not say specifically how McKnight and Legisi have been affected since the assets were seized.

"No one is happy when the government freezes your assets," he said.

Cowden could not say how many people invested with Legisi. He said the Legisi case is related to a larger criminal case pending against e-gold.

"We've been investigating e-gold for some time," he

said. "When the indictments came down, there were warrants to seize some accounts."

Legisi's motion to dismiss the government's civil complaint claims the federal affidavit does not include any facts that Legisi or its accounts were involved in a crime.

"The government does not allege that Legisi's accounts received money in exchange for contraband," the motion for dismissal states. "In addition, it is not alleged that Legisi stole an identity or other account. The government does not allege any facts to show any individual lost any money as a result of conduct by Legisi or conduct related to Legisi's accounts."

Locally, 41 civil complaints have been filed against McKnight and Legisi, according to county circuit court documents. The complaints accuse McKnight and Legisi Holdings of taking money from private lenders and not delivering the promised high rates of return on their investment. Each seeks more than \$25,000 in damages.

Roth said the civil complaints are "baseless"

and that individuals participated in a Legisi program that has nothing to do with McKnight.

"This is a very aggressive plaintiff lawyer that is taking aim at Legisi," **Roth** said, referring to Southfield attorney Gary Nitzkin, who is representing all but one of the plaintiffs. "The case is baseless. We're going to vigorously defend it."

Nitzkin said his clients combined are asking for \$9 million to \$10 million, including some interest. One client is asking for \$2.3 million, which includes interest on the investment.

"It's unbelievable how much people have invested," he said. "They have financed homes, have home equity (loans)."

The federal complaint alleges that McKnight would pay on the initial investment to satisfy lenders and that McKnight offered a 5 percent return on referrals.

"People were having a feeding frenzy," said Nitzkin, who settled another suit against Legisi and McKnight out of court for an undisclosed amount in November.

Attorney Michael Winterfield, who is representing one plaintiff, said his client is from out of town. He said he could not comment further.

Nitzkin said McKnight met with some lenders last month and noted that many investors still are loyal to McKnight. **Roth** said McKnight has met with investors at their request.

According to the civil lawsuits pulled randomly from court, the plaintiffs deposited money into a personal e-Bullion account, which was then transferred to an e-Bullion account in McKnight's name.

"That's the nature of the e-gold system," Cowden said. "People get into the e-gold system from all over the world."

According to e-Bullion's Web site, it is a registered legal entity of the Republic of Panama with a corporate entity in Delaware.

One plaintiff claims in his complaint that he initially deposited \$3,000 into a personal e-Bullion account that was then transferred into an e-bullion account belonging to McKnight. The initial deposit grew to

\$4,392 in about four months.

The plaintiff alleges he gave Legisi another \$20,000 and was promised a monthly rate of return of 10 percent, according to the complaint.

In that case, the lender alleges McKnight later said his rate of return would be 6 percent and refused to return the funds last August.

The plaintiffs claim McKnight announced on the Legisi Web site in June that he would not accept new loans because of a state of Michigan inquiry. It also said McKnight announced on the Web site that he was moving the Web server off shore to protect investors' privacy.

The suits claim Legisi said it would not be able to return money to its investors "due to server problems." They also say Legisi's records have been seized by the state.

The reviewed lawsuits accuse McKnight of breach of contract, fraud, conversion and conspiracy to convert, and violation of the Uniform Securities Act.

Genesee County
Prosecutor David Leyton
said he was unaware of the
civil complaints. No local
criminal complaints are
pending, Leyton said.
Online, McKnight warns
against high-yield
investment plans, saying
99 percent are scams. He
suggests that he was even a
victim of the scam once.

“(They are) set up to steal
your hard-earned dollars.
Even the ones that start out
with the best of intentions
find themselves unable to
meet ongoing expenses
and unsustainable interest
payouts,” he wrote on his
Web site, where he
identifies himself as the
president of Legisi.

McKnight credits Legisi’s
success with having
multiple streams of
income, most in foreign
exchange and
commodities. He says what
sets Legisi apart from
scammers is that he’s
willing to identify himself.

This is an attorney advertisement

The Roth Law Firm, PLLC
545 Fifth Avenue, Suite 960, New York, NY
(212) 542-8882
www.rrothlaw.com