

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

GREGORY N. MCKNIGHT, and
LEGISI HOLDINGS, LLC,

Defendants,

and

LEGISI MARKETING, INC., LIDO
CONSULTING, LLC, HEALTHY BODY
NUTRACEUTICALS, LINDENWOOD
ENTERPRISES, LLC, DANIELLE
BURTON, THERESA BURTON, and
JENNIFER MCKNIGHT,

Relief Defendants.

Case No. 08-11887
Hon. George C. Steeh

NINTH INTERIM REPORT OF RECEIVER

Robert D. Gordon (the “Receiver”), by his counsel, Clark Hill PLC, submits his Ninth Interim Report (the “Ninth Report”) on the status of the case.

I. Background

On May 5, 2008, the United States Securities and Exchange Commission (the “SEC”) filed a complaint (the “Complaint”) against Defendants Gregory N. McKnight (“McKnight”) and Legisi Holdings, LLC (referred to collectively with Legisi Marketing, Inc. as “Legisi”), and Relief Defendants Jennifer McKnight, Theresa Burton, Danielle Burton, Lindenwood



Enterprises, LLC, Healthy Body Nutraceuticals, and Lido Consulting, LLC, alleging, among other things, violations of various federal securities laws. In its Complaint, the SEC alleges that Defendant McKnight, through his control of Defendant Legisi, raised approximately \$72 million from investors in violation of federal securities laws. It is further alleged that McKnight and Legisi invested approximately \$33 million of such funds in various investments such as foreign currencies, commodity futures, shares and warrants in thinly-traded over-the-counter stocks, in one privately-held company, and in one real estate investment partnership. Concurrently, the SEC filed an *Ex Parte Motion for the Appointment of a Receiver*.

On May 5, 2008, the Court entered its *Order Appointing Receiver* (the “Receiver Order”), appointing Robert D. Gordon as Receiver for the estate of Gregory N. McKnight and the estates of every corporation, partnership, trust and/or other entity which is directly or indirectly owned by, or under the direct or indirect control of, McKnight (the “Receivership Estates”). Pursuant to the Receiver Order, the Receiver has a number of powers and duties in administering the Receivership Estates including, among other things, (i) taking custody, control, and possession of all funds, property, premises, leases, and other assets of, or in the possession or under the control of, the Receivership Estates, (ii) managing, controlling, and operating the Receivership Estates, and (iii) making payments and disbursements from the funds taken into his custody, control, and possession.

Since the inception of this case, the Receiver has filed eight interim reports in order to update the Court, investors, and creditors regarding the status of these proceedings. Those reports, along with additional updates, have been posted on the Receiver’s website dedicated to this case. The most recent interim report was filed on May 17, 2012. The Receiver now files his

Ninth Interim Report, discussing the status of the Receivership Estates and actions taken by the Receiver through February 1, 2014.

II. Summary of Actions Taken Since the Last Interim Report

A. First Interim Distribution

On May 17, 2012, the Receiver filed his *Motion for Authority to (I) Make Interim Distribution to Creditors and (II) Employ Xroads Case Management Services, LLC to Server as Disbursing Agent* (the “First Interim Distribution Motion”). In the First Interim Distribution Motion, the Receiver sought Court authority to distribute \$1.5 million to holders of Allowed Claims (as defined below). On May 23, 2012, attorney Gary Nitzkin (“Nitzkin”) objected to the First Interim Distribution Motion on the basis that he believed the Receiver should be compelled to distribute additional funds. On June 1, 2012, the Receiver filed his response to Nitzkin’s objection further explaining the rationale behind his request to distribute \$1.5 million. On June 7, 2012, the Court entered an order (the “Order Granting the First Interim Distribution Motion”) granting the relief requested in the First Interim Distribution Motion. On June 26, 2012, the Receiver sent checks evidencing the pro-rata distribution to holders of Allowed Claims with a current address on record.¹

Prior to filing the First Interim Distribution Motion, the Receiver had filed a total of four omnibus claim objections which were discussed in the Receiver’s prior reports. Attached to the First Interim Distribution Motion was a roster of approved claims. Unless an investor filed a timely objection to the First Interim Distribution Motion, the Receiver was entitled to rely upon the amounts set forth in the roster of approved claims.

¹ The Receiver did not send distribution checks to investors who failed to provide up to date contact information as of June 26, 2012.

On October 16, 2012, the Receiver filed *The Receiver's Motion (I) For Authority to (A) Reserve Distributions to be Made to Claimants Without Valid Current Addresses in the Receiver's Database and (B) Require Such Claimants to Update Their Addresses With the Receiver Within 90 days, and (II) For Related Relief* (the "Contact Information Motion"). [Docket No. 506]. In the Contact Information Motion, the Receiver requested authority to refrain from sending distribution checks to investors who had not provided up to date contact information and deeming such investors to have waived their right to participate in the first interim distribution should they fail to do so within 90 days of entry of an order approving the Contact Information Motion. The Contact Information Motion was served via email to the last known email address of each of the affected claimants and was posted to the Receiver's website. On December 17, 2012, the Court entered its order granting the relief requested in the Contact Information Motion with the additional requirement that the Receiver perform certain investigations to locate current contact information for such claimants. The Receiver attempted to locate each investor who had not submitted up to date contact information. On March 20, 2013, the Receiver mailed distribution checks to claimants who had not previously received a distribution check but had since provided up to date contact information.

B. Recoveries from "Net Winners"

As discussed in the Receiver's last interim report, the Receiver has been working to collect the gains obtained by investors who received more money from the Ponzi scheme than that which they deposited into the scheme ("Net Winners") so that the gains they received may be distributed to investors who suffered net losses as a result of their participation in the Legisi scheme. Receipt of such gains constitutes receipt of a fraudulent transfer under Michigan law. In October and December 2010, the Receiver's attorneys sent demand letters to Net Winners,

requesting that these investors return these gains to the Receiver. The Receiver was able to recover funds from some of the recipients of these letters. In November and December, 2012, the Receiver's attorneys sent additional demand letters to certain Net Winners.

To date, the Receiver has commenced suit against sixty-four (64) Net Winners who received substantial net gains and who have refused to return those gains to the estate. Three (3) suits are currently pending before the Court. The Receiver continues to pursue claims against net winners as additional information becomes available, and may commence additional suits in the coming months if satisfactory payback agreements are not reached. To date, the Receiver has recovered \$557,690.78 from Net Winners through his demand letters and lawsuits.

C. Recovery from e-Bullion

In addition, on June 6, 2013, the Receiver filed his *Motion for Order Authorizing the Receiver to Receive and Collect Any Remission or Restoration of Forfeited Funds Recoverable by or Payable to Legisi Investors Pursuant to Forfeiture Actions Brought by the United States Collection* (the "Ebullion Claims Motion"). The Department of Justice has established a remission process in the Central District of California to administer claims of former accountholders of e-Bullion a/k/a Goldfinger Coin & Bullion. The Receiver seeks to recover funds held in the e-Bullion accounts of various Legisi entities, owed to various Legisi entities by e-Bullion, as well as the balances in the e-Bullion accounts of Net Winners. Such funds would be distributed by the Receiver pursuant to further order of the Court. Legisi investors who were not Net Winners and who had funds stranded in e-Bullion should make direct claims pursuant to the e-Bullion remission process. On August 6, 2013, the Court entered an order granting the Receiver's Ebullion Claims Motion.

D. Liquidation of Stock Holdings

As discussed in detail in the Receiver's prior reports, the Receivership Estates own a large block of stock in Pacific Asia Petroleum, Inc., n/k/a Camac Energy ("Camac").

The Receiver is working with LonePine Capital Advisors, LLC, n/k/a FINNEA Group, LLC ("FINNEA"), to dispose of the Camac stock holdings. The Receiver and FINNEA have worked diligently to monitor the activity of the company and analyze the strategic disposition of the stock. In light of the relatively large stock position held by the Estates and the generally low trading volumes in the stock, the Receiver has worked with FINNEA to take a deliberate and controlled approach to the liquidation of the Estates' position, to try to avoid negatively affecting the share price.

To date, the Receiver has been able to realize net proceeds in the amount of approximately \$3,095,000 on sales of approximately 55% of the Estates' entire stockholding (917,000 shares sold, 779,000 shares remaining). Over the past two years, the stock has generally been trading at depressed prices below \$1 per share, which has impeded the ability to sell shares at favorable prices. Recently, the price of the stock has risen above \$1.00 per share (but not to historically high levels in the \$3 - \$4 range). The Receiver and FINNEA have discussed how best to manage this asset and have developed an approach that they believe allows the Receiver to capitalize on any recovery the stock may make in the future, balanced against the objective of monetizing this asset over the foreseeable future in order to fund a further distribution to victims and also mitigating the risk of a new decline in share value.

E. Administration of Real Estate Assets

As was also discussed in the Receiver's prior reports, Legisi owned a number of unencumbered residential and commercial properties located in Genesee County, Michigan. The properties commonly known as (a) 8465 Hill Road, Swartz Creek; and (b) 4200 South Linden

Road, Flint, are the Estates' only remaining properties and are currently listed for sale with Piper Realty Company. No potential buyers have expressed interest in either of these properties. The Receiver is currently evaluating the possibility of selling the remaining properties at auction. If this option is pursued, then before any auction or other sale of the properties occurs, he will file a motion with the Court requesting authority to proceed.

F. Litigation

1. Lawsuit Against Royal Palm

Legisi invested approximately \$10 million in Royal Palm Realty Investment Fund I LLLP, a Florida real estate limited partnership ("Royal Palm"), which purchased commercial real estate located in south Florida. Upon information and belief, as of late 2011, Royal Palm no longer owns any of said commercial real estate, all or a portion of which was apparently foreclosed upon or deeded to the secured creditor.

On May 7, 2009, the Receiver filed suit in the United States District Court for the Eastern District of Michigan against Royal Palm and several related entities, Robert Rosetto, Roxanne Rosetto, Bruce Rosetto (the Royal Palm entities and the Rosettos are collectively referred to herein as the "Royal Palm Defendants"), as well as Alan Goddard ("Goddard"), Michael Lichtenstein ("Lichtenstein"), and Eric Bloom ("Bloom" and, collectively with Goddard and Lichtenstein, the "GLB Defendants"). Among other things, the complaint alleges (i) violations of section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, (ii) violations of the Michigan Uniform Securities Act, (iii) violation of the Florida Securities Transactions Act, (iv) breach of partnership agreement, (v) violation of Florida Uniform Limited Partnership Act, (vi) breach of fiduciary duty, (vii) fraudulent transfers, (viii) common law fraud, and (ix) misrepresentation.

As discussed in prior reports, on March 8, 2011, the Court entered an order granting the GLB Defendants' second Motion to Dismiss in Favor of Arbitration and granting the Royal Palm Defendants' Motion to Stay Pending Arbitration. As a result, the Receiver's claims thus far asserted against the GLB Defendants will proceed in the FINRA Action (discussed below), and the Receiver's claims against the other Royal Palm Defendants will be held in abeyance, pending the disposition of the FINRA Action. The arbitration hearing in the FINRA Action commenced the week of October 21, 2013 and is scheduled to resume in June 2014, as discussed more fully below.

2. Statement of Claim Against Allen Partners and its Representatives (FINRA Action)

Beginning in or about March 2007, and continuing thereafter, Legisi made a number of significant investments recommended by Sierra Equity Group, Ltd. ("Sierra"), a Florida broker-dealer registered with the SEC and with FINRA. In total, Legisi invested approximately \$21 million dollars with Sierra in several restricted and thinly-traded stocks, as well as All American Home Products and Royal Palm. On June 17, 2008, Sierra became Allen Goddard McGowan Pak & Partners LLC ("Allen Partners"). On March 23, 2009, the Receiver filed a Statement of Claim with FINRA against the GLB Defendants and Allen Partners (referred to collectively as the "Respondents"), as successor in interest to Sierra, alleging violations of federal and state securities laws, common law fraud, breach of fiduciary duties, and fraudulent transfers, among other claims, and seeking damages totaling approximately \$21 million. This lawsuit will be arbitrated by three independent FINRA-appointed arbitrators (the "FINRA Panel").

As discussed in the Receiver's prior reports, there have many discovery disputes in this matter. On November 13, 2012 the Receiver submitted a motion for sanctions against the Respondents based upon the Respondents failure to produce documents. In the sanctions

motion, the Receiver alleges that the Respondents have not only failed to produce responsive documents, but have attempted to affirmatively hinder the Receiver's discovery of such documents. For example, the Respondents failed to produce documents regarding a FINRA investigation of activities which directly relate to the transactions at issue in this arbitration. Unfortunately, the FINRA arbitrators did not grant the relief sought in the Receiver's motion for sanctions. As a result, the Receiver has been forced to seek evidence from various third parties that have possession or control of documents and information that Respondents failed to produce. The Receiver has been forced to incur significant expenses associated with obtaining documents from these third parties. Discovery from the third party sources is ongoing. At the same time, the Receiver has also incurred significant expense in complying with broad and burdensome discovery requests served upon him by the Respondents.

The video deposition of Gregory McKnight was taken on April 30 and May 1, 2013, and was completed on July 31 and August 1, 2013. Mr. McKnight's deposition testimony is being used in lieu of live testimony at the arbitration hearing, in light of his unavailability for trial due to his incarceration. Likewise, the Receiver took the video deposition of another witness, Paul Harary, who is presently incarcerated. Mr. Harary's deposition was taken on May 21 and 22, 2013, and will be used in lieu of Mr. Harary's live testimony at the arbitration hearing. Respondents attempted on multiple occasions to prevent the Receiver from taking Mr. Harary's deposition, thereby forcing the Receiver to incur expenses associated with responding to Respondents' motions. All of Respondents' motions to quash the deposition of Mr. Harary were ultimately denied by the FINRA arbitrators.

The arbitration hearing commenced on October 21, 2013, and continued through October 25, 2013. During that time, the arbitrators heard opening statements from the parties, viewed the

video testimony of Gregory McKnight, and made various evidentiary rulings based upon arguments and briefings by the parties. The FINRA arbitration hearing is currently scheduled to resume on June 16, 2013.

Just days prior to the commencement of the arbitration hearing, Respondent Eric Bloom filed for Chapter 7 bankruptcy. Respondent Bloom's bankruptcy filing automatically stayed the FINRA arbitration against him. The Receiver has filed in Bloom's bankruptcy case a requests to lift the automatic stay in the bankruptcy proceeding for the purpose of liquidating the Receiver's claims against Respondent Bloom in the FINRA arbitration. After the claims are liquidated, the Receiver may further seek a bankruptcy court determination that the Receiver's claims against Respondent Bloom may not be discharged in his bankruptcy.

3. Collection of Judgments

On December 17, 2010, the Receiver successfully obtained judgments against Matthew John Gagnon ("Gagnon") and Mazu Publishing, Inc. ("Mazu"), in the amounts of \$1,691,870.53 and \$810,359.18, respectively. On January 27, 2011, the Receiver also obtained a judgment against defendant Douglas Skordal in the amount of \$1,331,029.50. On June 26, 2013, the Receiver obtained a default judgment against Mary Koehn in the amount of \$60,857.63. The amount of the judgment against Ms. Koehn was based in large part on her receipt of funds in September 2007 after she and others at Mazu had information that Legisi was insolvent and was, in Gagnon's words, "headed for disaster."

The Receiver continues to recover relatively small amounts from Skordal through garnishments. In addition, the Receiver was able to collect \$22,500 in a settlement with Bank of America as mortgagee of a house owned by Gagnon as to which Gagnon used proceeds of his

involvement in the Legisi scheme to make mortgage payments. The Receiver continues to seek collection on the judgments he has obtained through various means.

III. Sentencing of McKnight and Gagnon

On July 9, 2013, Gagnon was sentenced to 5 years in prison followed by 3 years of supervised release and ordered to pay over \$4.4 million in restitution to his victims for his role in promoting the Legisi Ponzi scheme. More information on Gagnon's sentencing may be found in the SEC's press release available at <http://www.sec.gov/litigation/litreleases/2013/lr22749.htm>.

On August 6, 2013, McKnight was sentenced to 188 months in federal prison by United States District Judge Mark Goldsmith. This was the maximum sentence under the guideline range in McKnight's plea agreement to the offense of wire fraud. McKnight was taken into custody immediately. After serving his term in federal prison, he will be under supervised release for three years and required to make monthly installment payments for restitution. Judge Goldsmith ordered McKnight to make restitution in the amount of \$48,969,560.00 less any amounts recovered by the Receiver. Judge Goldsmith stated that he gave McKnight the maximum sentence due to the magnitude of the total loss and the numerous victims.

IV. Conclusion

In sum, the Receiver has been able to achieve favorable dispositions of the Receivership Estates' stock holdings and real estate (as well as its investments in commodities contracts at the beginning of the case) and has successfully obtained judgments against a number of people and entities that participated in the Ponzi scheme. The Estates' current cash balance is approximately \$1,040,000.00, before (among other things) payment of administrative expenses in the form of counsel fees for November through January. Going forward, the Receiver intends to, among other things: vigorously pursue the Estates' claims in the FINRA arbitration proceeding and the

Royal Palm litigation, remaining claims against “net winner” investors, the claim against the liquidation proceeds of e-Bullion, and collection of judgments obtained; and effectively liquidate the Estates’ remaining stock and real estate holdings.

.

Respectfully submitted,

CLARK HILL PLC

By: /s/ Joel D. Applebaum

Joel D. Applebaum (P36774)

Jami A. Statham (P69747)

500 Woodward Avenue, Suite 3500

Detroit, Michigan 48226-3435

(313) 965-8300

japplebaum@clarkhill.com

jstatham@clarkhill.com

Date: February 11, 2014

*Attorneys for Robert D. Gordon, Receiver of the
Estates of Gregory N. McKnight, et al.*