



Department of Justice

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O'NEAL, PERPETRATOR OF MASSIVE "PINNACLE" REAL ESTATE PONZI SCHEME SENTENCED TO FEDERAL PRISON

Gene O'Neal Ordered To Serve 12 Years In \$20 Million Fraud

Atlanta, GA - Defendant GENE A. O'NEAL, 36, of Atlanta, Georgia, was sentenced today to 12 years in prison by United States District Judge Beverly B. Martin, for perpetrating a scheme to defraud investors in "Pinnacle Development Partners, LLC," a \$60 million real estate investment fund formerly run by O'NEAL.

"O'NEAL orchestrated a classic Ponzi scheme, luring over \$60 million in investments by promising a 25 percent rate of return within 60 days, and lying to the investors that he was generating sufficient profits to pay those outrageous returns," said United States Attorney David E. Nahmias. "In the end, over a thousand victims have lost a total of almost \$20 million. Today's sentence comes less than a year after O'NEAL's investment fund collapsed and the investigation began. We hope the speed of this case and the substantial sentence demonstrates that major securities fraud occurring in North Georgia will be aggressively prosecuted and meaningfully punished."

"The United States Postal Inspection Service is committed to investigating these types of cases in an effort to protect the public and the nation's mail system from criminal attack and misuse," said Martin Phanco, Inspector in Charge, U.S. Postal Inspection Service. "This is just another fine example of how committed the U.S. Postal Inspection Service is to fighting fraud and bringing these criminals to justice."

O'NEAL was sentenced to 12 years in prison, to be followed by 3 years of supervised release. He will be liable for over \$20 million in restitution to the more than 1,000 victims of his fraud. About a dozen of the victims were present in the courtroom for the sentencing. Several of the victims described to the court how the fraud had negatively impacted their lives. One victim who is deaf and spoke through a sign translator, indicated that after receiving a cochlear implant she was unable to pay for the post-operative therapy required to make the cochlear implant effective because her funds had been depleted in the fraud scheme.

According to Nahmias and the evidence and information presented in court: Beginning in July 2005, Pinnacle, which was founded by O'NEAL and headquartered in Atlanta, began telling investors they could make a 25% profit in 45 days, which later became a 25% profit in 60 days, upon investment in partnerships Pinnacle formed to acquire real property. Investors were told that Pinnacle was in the business of purchasing distressed, foreclosed or bank-owned real estate, which Pinnacle intended to re-sell at a profit after making minor repairs and cosmetic improvements. Pinnacle solicited investment by running more than \$2.5 million worth of advertising in national and local media publications. As a result of his aggressive advertising campaign, O'NEAL induced more than 2,000 investors from throughout the United States and several foreign countries to invest more than \$60 million in just 15 months.

Pinnacle represented in its offering materials that its real property had been and continued to be sold at a substantial profit to third parties, that it contributed 50% of its own capital to the acquisition costs of its real property and that its investors were secured by being individually named on the deeds to Pinnacle real estate. In fact, however, Pinnacle never sold, or for that matter developed or improved, any of the real property it bought with investor funds and therefore never generated any income with which to pay the 25% profit, plus a return of principal, O'NEAL had guaranteed his investors. To pay the false returns promised to Pinnacle investors, O'NEAL recycled tens of millions of dollars in invested capital from later investors to earlier investors, who were falsely told that their returns were being paid from the development and sale of Pinnacle real property.

Over time, and as huge amounts of investment poured in, Pinnacle acquired larger and considerably more expensive, both in terms of acquisition and development costs, parcels of real estate. O'NEAL told Pinnacle employees, but not most Pinnacle investors, that this real estate would be developed in phases with Pinnacle partnerships holding the properties for 60 days at a time. In fact, however, of the 21 real estate parcels Pinnacle bought, only half were assigned to a Pinnacle partnership and less than half of the partnerships Pinnacle formed ever appeared as record owners or partial record owners of Pinnacle real property, meaning that investors associated with the majority of Pinnacle's partnerships were never assigned to a property, much less individually named on its deed. In addition, the multi-family structures and raw land Pinnacle purchased using 100% investor assets required extensive rehabilitation and development to ever generate income or be sold at a profit. To conceal this fact, O'NEAL directed that certain properties be transferred between and among Pinnacle partnerships. Although these were merely paper transactions and did not involve an actual sale, the transfer prices were as much as 10 times the initial acquisition price, thereby fostering the illusion that properties were being developed and sold at significant profits. O'NEAL also directed that investors not be told about these related-party transactions unless they specifically asked.

Aside from the \$2.5 million spent on advertising, O'NEAL also used investor assets to pay more than \$2.5 million in salary and commissions, more than \$700,000 to furnish

Pinnacle's offices, and more than \$3.5 million in general and administrative expenditures. Pinnacle's investors also bought, among other things, a \$72,000 Land Rover, a \$69,000 Cadillac Escalade and, for O'NEAL's personal benefit, a \$117,000 Maserati and \$26,000 worth of jewelry.

O'NEAL was indicted by a federal grand jury on March 6, 2007, and pleaded guilty to two counts on July 3, 2007.

This case was investigated by Special Agents of the Federal Bureau of Investigation and Postal Inspectors with the United States Postal Inspection Service, with the cooperation of the Atlanta District Office of the U.S. Securities and Exchange Commission, which is prosecuting a related civil proceeding against Pinnacle and O'NEAL.

Assistant United States Attorneys Paul Monnin and Justin Anand prosecuted the case, represented in court today by Assistant United States Attorney Randy S. Chartash.

For further information please contact David E. Nahmias (pronounced NAH-me-us), United States Attorney, or Charysse L. Alexander, Executive Assistant United States Attorney, through Patrick Crosby, Public Affairs Officer, U.S. Attorney's Office, at (404) 581-6016. The Internet address for the HomePage for the U.S. Attorney's Office for the Northern District of Georgia is www.usdoj.gov/usao/gan.