



## Pinnacle Development Partners founder heading to jail

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U.S. District Judge Beverly B. Martin on Monday sentenced Atlantan Gene A. O'Neal, 36, to 12 years in jail for running a Ponzi scheme that defrauded investors out of more than \$20 million.

O'Neal's jail term will be followed by three years of supervised release. He will be liable for more than \$20 million in restitution to the more than 1,000 victims of his fraud.

O'Neal ran a scheme to defraud investors in Pinnacle Development Partners LLC, a purported real estate investment fund he founded and based in Atlanta.

"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 U.S. 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."

According to information presented in court, beginning in July 2005, Pinnacle began telling investors they could make a 25 percent profit in 45 days, which later became a 25 percent profit in 60 days, upon investment in partnerships Pinnacle formed to acquire real property. Investors were told that Pinnacle was in the business of buying distressed, foreclosed or bank-owned real estate, which Pinnacle intended to "flip" for 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 promising 25 percent returns in either 45 or 60 days, O'Neal induced more than 2,000 investors from throughout the United States and some foreign countries to invest more than \$62 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 percent 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. But Pinnacle never sold, significantly developed or improved any of the real property it bought with investor funds, and therefore it never generated any income with which to pay the 25 percent profits, plus a return of principal, O'Neal had guaranteed his investors.

To pay the false returns promised to Pinnacle investors, which upon reinvestment was compounding 25 percent every 60 days, O'Neal "recycled" more than \$25 million in invested capital from later investors to earlier investors, who were falsely told their returns were being paid from the development and sale of Pinnacle real property.

Over a period of time, 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. Investors were told that this real estate would be developed in phases, with Pinnacle partnerships holding the properties, for 60 days at a time, during the various stages of development.

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 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 bought (using 100 percent investor assets) required extensive and lengthy rehabilitation and development to ever generate income or be sold at a profit. To conceal the fact that Pinnacle was neither selling nor otherwise developing its properties, O'Neal directed that certain of them 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.

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 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.

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