

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 66907 / May 2, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14868

In the Matter of

MATTHEW J. GAGNON,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
PROCEEDINGS PURSUANT TO SECTION
15(b) OF THE SECURITIES EXCHANGE
ACT OF 1934 AND NOTICE OF HEARING**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Matthew J. Gagnon (“Respondent” or “Gagnon”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. Gagnon was the sole shareholder, officer, and director of Mazu Publishing Company. Gagnon has never been associated with a registered broker or dealer and has never been registered with the Commission as a broker or dealer or in any other capacity. Gagnon, 44 years old, is a resident of Weslaco, Texas and Portland, Oregon.

B. FINDINGS AND PERMANENT INJUNCTION

2. On May 11, 2010, the Commission filed a Complaint alleging that Gagnon violated Sections 5(a), 5(c), 17(a), and 17(b) of the Securities Act of 1933 (“Securities Act”),

Sections 10(b) and 15(a) of the Exchange Act and Rule 10b-5 thereunder, in the civil action entitled *Securities and Exchange Commission v. Matthew J. Gagnon*, Civil Action No. 10-CV-11891, in the United States District Court for the Eastern District of Michigan (“Court”).

3. On March 22, 2012, the Court granted the Commission’s motion for summary judgment and entered a final judgment against Gagnon permanently enjoining him from future violations of Sections 5(a), 5(c), 17(a) and 17(b) of the Securities Act and Sections 10(b) and 15(a)(1) of the Exchange Act and Rule 10b-5 thereunder, and ordering Gagnon to pay \$3,613,259 in disgorgement, \$488,570.47 in prejudgment interest, and a \$100,000 civil penalty.

4. In granting summary judgment for the Commission, the Court made the following findings and conclusions of law:

a. Gagnon was the sole shareholder, officer and director of Mazu Publishing Company. Through his company’s website, [www. Mazu.com](http://www.Mazu.com), Gagnon described himself as an Internet business opportunity expert and billed his website as “the world’s first and largest opportunity review website.” Gagnon reviewed for his readers various on-line business opportunities, such as multi-level marketing programs, direct marketing, and arbitrage trading. He sold materials to the general public regarding such business opportunities, including promotional booklets and DVDs known as “Mazu Business Packs.” He gave detailed and accurate warnings to readers about Ponzi schemes, describing such schemes as “investment program[s] touting huge returns in a short period of time. Any returns someone sees are paid out of monies gathered from the investors. No real product, investment, or business takes place.”

b. Through the Mazu website, Gagnon helped orchestrate a massive Ponzi scheme. The Ponzi scheme, conducted by Gregory McKnight and his company Legisi Holdings, LLC, raised approximately \$72.6 million from over 3,000 investors through a fraudulent, unregistered offering of investment contracts in a pooled investment program called the Legisi Program from December 2005 through at least November 2007. Gagnon had known McKnight, an underemployed auto worker, for several years having recruited McKnight to sell health care supplements for a multi-level marketing business. Under an agreement he reached with McKnight in 2006, Gagnon and his employees solicited investors on the Mazu website and also promoted the Legisi Program in emails, in Mazu Business Packs, and an on-line chat room called the Legisi Forum.

c. Even though Gagnon engaged in the promotion of the Legisi Program, he has never been associated with a registered broker-dealer, and had never been registered with the Commission as a broker or dealer in any capacity.

d. In exchange for his promotion of the Legisi Program, Gagnon received approximately \$3,613,259.00 from McKnight between January 29, 2006 and April 14, 2008. Gagnon did not disclose to Legisi investors his agreement with McKnight about

receiving 50% of Legisi's profits. He only advised investors that he received a referral fee for amounts invested through the Mazu website.

e. The Legisi Program was a Ponzi scheme.

f. No valid registration statement was filed with the Commission in connection with the offer and sale of the Legisi Program investment contracts.

g. Gagnon never inquired into the financial status of the Legisi investors, nor did Gagnon provide the investors any financial information about the program.

h. Gagnon misrepresented the legitimacy of the Legisi Program, describing it as one he endorsed after thorough investigation and personal investment. On the Mazu website, Gagnon wrote, "After having analyzed thousands of business opportunities, I can tell you that this is literally the greatest I have ever seen." In a Mazu Business Pack, Gagnon wrote, "Legisi is a sophisticated loan program" and that "Legisi is the only genuine high yield passive income program that we at Mazu have ever found." Gagnon further wrote that "Mazu discovered Legisi and found it was so outstanding in many areas of simplicity and earning potential that we considered it was an ideal fit for our clients and associates."

i. In reality, Gagnon performed no due diligence concerning the profitability of the Legisi Program. He did not obtain or review any of McKnight's trading records, bank and brokerage account statements, or e-currency account records at any point prior to, or during, his promotion of Legisi through the Mazu website or Mazu promotional materials.

j. Gagnon knew, or recklessly disregarded warnings, that Legisi was both a HYIP [High Yield Investment Program] and a Ponzi scheme. He knew of no venture that McKnight had managed prior to Legisi. Gagnon admits that he had no knowledge about the finances of the Legisi Program; he had no knowledge of the investments McKnight was making, where he kept his money, or how McKnight was calculating profits or losses. Despite this lack of knowledge, Gagnon wrote of the Legisi Program on the Mazu website in 2007 "10 to 12.5% of your money per month with No Work and Little to No Risk!" and "Want to earn large monthly returns without the risk and without worrying about being scammed? CLICK HERE." Gagnon also represented that the investments made in the Legisi Program were profitable.

k. In reality, Gagnon did not actually know the results of the investments made by McKnight, and informed investors that the Legisi payments made to them were from profits generated from investments, without actual knowledge of the source of the money that McKnight paid to investors.

l. After the arrangement with McKnight ceased, Gagnon continued to offer investment contracts, purportedly to finance the purchase of resort properties and other real estate (“Real Estate Program”). Gagnon represented to investors that he and two partners had started a new company to invest in real estate.

m. Between August of 2007 and September of 2007, through the Real Estate Program, Gagnon raised approximately \$361,865.00 from approximately 21 investors. Gagnon used the Mazu website to solicit investors. Gagnon would send out an email with a link to the Mazu website, when the email message recipient clicked on the link, he or she would be taken to the website where Gagnon wrote about his new Real Estate Program.

n. Gagnon offered two investment options on the Mazu website and in emails to investors. He promised a 24% annual return on their investment, plus the return of their original investment, or with a minimum investment of \$10,000.00 a 200% annual return, plus the return of their original investment, payable in 14 months. He indicated that the Real Estate Program would generate “between 300% to 1,000% return in 18 to 24 months.” Gagnon told investors that the Real Estate Program would be 100% SEC compliant and that Wells Fargo Bank was monitoring the program.

o. No valid registration statement was filed with the Commission in connection with Gagnon’s offer and sale of the Real Estate Program investment contracts.

p. Between June 13, 2007 and September 17, 2007, Gagnon sent at least \$800,000.00, which included the \$361,865.00 in investor money, to accounts in the name of Trails Home LLC, which was controlled by Bryan Foster, Gagnon’s alleged partner.

q. Gagnon conducted no due diligence or investigation into Foster or Trails Home or the purported real estate properties before he began offering the Real Estate Program to investors.

r. He did not perform a background check of Foster or Trails Home’s financial or account statements; he simply relied on Foster’s representations without conducting any independent investigation into Foster’s background.

s. If Gagnon had performed due diligence, he would have discovered that Foster had been convicted of fraud—twice—before the Real Estate Program. When Gagnon learned that someone with the same name as Bryan Foster had been convicted of fraud, he accepted Foster’s representation that it was not him. Gagnon continued to offer the Real Estate Program to investors after Foster represented that he had not been convicted of fraud, even though Gagnon did no independent investigation to confirm Foster’s denials.

t. Ultimately the Real Estate Program lost at least \$256,865.00 of the investors’ money.

u. From at least April 30, 2009 through at least July 1, 2009, Gagnon conducted yet another fraudulent, unregistered offering of investment contracts (“Managed Forex Trading Offering”). Gagnon’s friend, Jeff Kinseth, was to use the investors’ money to trade in Forex in his own accounts.

v. No valid registration statement was filed with the Commission in connection with Gagnon’s offer of investment contracts from the Managed Forex Trading Offering.

w. Gagnon similarly solicited investors through the Mazu website in much the same way as he promoted the Legisi Program and the Real Estate Programs. Gagnon offered two investment options for the Managed Forex Trading Offering: each required a minimum investment of \$10,000.00. The first promised a monthly return of 2% paid quarterly. The second option offered an annual return of 30% return paid annually.

x. Gagnon represented that Kinseth was a successful Forex trader. Between April of 2009 and July of 2009, Gagnon stated on the Mazu website that Kinseth “has been doing very, very well trading Forex for the last couple of years” and that Kinseth was a “very competent trader.” In fact, Kinseth was a novice who had learned what he knew of Forex trading through self-study courses available on the Internet. Kinseth was never successful as a Forex trader, realizing losses of at least \$154,571.00 from July 17, 2008 through April 30, 2009.

y. Gagnon never reviewed Kinseth’s trading accounts or finances, and had not conducted any other due diligence into Kinseth’s finances or his trading results before he offered the Managed Forex Trading Offering on the Mazu website. If he had, he would have discovered that Kinseth only traded a fraction of the money entrusted to him for trading. For instance, Kinseth received approximately \$706,500.00 from Gagnon and others to trade in the Forex market, however he only sent \$242,600.00 to Forex trading accounts. Further, both before and during his promotion of the Managed Forex Trading Offering, Gagnon recklessly ignored several warning signs that Kinseth’s trading was not as successful as Gagnon claimed on the Mazu website. For instance, several checks that Kinseth wrote to Gagnon bounced. However Gagnon continued to represent that Kinseth was a successful Forex trader until at least July 2009 and did not review Kinseth’s trading records until January of 2010.

z. Gagnon continued to operate the Mazu website. In October and November of 2009, he offered investors a new opportunity for managed Forex trading, and claimed monthly profits averaging 10%. He explained that “I have a trader I represent in Europe that can trade your funds in a managed account.” Gagnon promised that investors in the European Trade Offer would experience “consistent monthly profits” and “very few losing trades.” Apparently, the European trader was “Juju,” who is Jjunju Kateregga, a Ugandan national residing in Finland. Gagnon promoted Juju’s trading prowess after

meeting him on the Internet, exchanging emails and talking to him on the phone “a few times.”

aa. As recently as April of 2010, Gagnon promised that details of yet another managed trading opportunity would be coming shortly. Gagnon promised that his trader “has averaged over 5% + to 8% per month for his clients (after his fee).”

bb. Gagnon’s gross pecuniary gain related to the Legisi Program, the Real Estate Program and the Managed Forex Trading Offering totaled \$4,754,512.21.

cc. Gagnon violated Sections 5(a) and 5(c) of the Securities Act by offering to sell and selling securities in the Legisi and Real Estate Programs, and offering securities in the Managed Forex Trading Offering, without filing a registration statement for any of the offerings and failing to satisfy requirements for an exemption to registration.

dd. Gagnon violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by making statements in connection with the Legisi and Real Estate Programs with the intent to deceive.

ee. Gagnon violated Section 17(b) of the Securities Act by publicizing the Legisi Program on his website and failing to fully disclose to investors that he would receive 50% of Legisi’s profits resulting from investments made through his website.

ff. Gagnon violated Section 15(a) of the Exchange Act by acting as a broker without being registered with the Commission as a broker or associated with a registered broker-dealer.

gg. Gagnon repeatedly violated federal securities laws, caused investors to suffer losses in excess of \$45 million, acted with a high degree of scienter, and showed no remorse for his conduct. Therefore, a permanent injunction is necessary to protect the investing public.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 210 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

For the Commission, by its Secretary, pursuant to delegated authority.

Elizabeth M. Murphy
Secretary