

# IGI downplaying links with Megafund

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BY JEFF BOUNDS | STAFF WRITER

A number of questions swirl around Addison-based International Galleries Inc. One that hasn't received much attention is what bankruptcy and court documents allege are the company's ties to a Flower Mound organization called Megafund Corp., which was run by Stanley Leitner, whom IGI has identified as its founder and past CEO.

The federal Securities and Exchange Commission sued Megafund, Leitner and two other defendants last summer, alleging they swindled about \$13.8 million out of

70 investors, including Christian ministries and other nonprofits, according to the SEC complaint.

The defendants told investors that they were pooling their money, then trying to profit through arbitrage — meaning exploiting price differences on the same or similar stocks, bonds, derivatives and other securities traded on the public markets, the SEC's complaint says.

Investors were lured with promises of 120% annual returns with no risk and with a portion of the profits being donated to charity, the SEC's suit says.

Megafund is currently the subject of an inquiry by the Federal Bureau of Investigation, according to Michael Quilling, whom a Dallas federal judge appointed at the SEC's behest as receiver of Megafund in order to oversee repayment of its debts.

Attempts to secure comment from Leitner and the FBI were unsuccessful.

Megafund's problems were the first major public-relations issue that arose for IGI, as they raised the question of whether IGI was tied into a business that was being accused in court of a swindling scheme.

"We became aware of (Megafund's problems) because our (bank)

accounts were frozen by the SEC," says Paul Myer, IGI's president and CEO. "They came in, looked at certain records, got all the bank account records and, in a matter of three days, said IGI was a party of no interest" to the SEC's probe.

## Cash transfers

After the SEC's suit was announced last year, IGI publicly distanced itself from Leitner. In an August 2005 press release, it said he had resigned as president of IGI in April 2004, was not an officer, director or shareholder of the business, and did not supply consulting or other services to it.

Megafund and IGI were separate entities without significant business ties, Myer said during a recent interview at his office.

However, interviews and various records indicate the two organizations did have some connections:

- Between July 14, 2004, and May 2, 2005, IGI and Megafund conducted a total of 17 cash transfers between themselves, according to Quilling. All told, according to data supplied by Quilling, International Galleries put a combined \$206,400 into an account controlled by Megafund, while Megafund reciprocated by injecting a total of \$800,413 in two International Galleries accounts. That means International Galleries wound up \$594,013 to the good, Quilling's data shows.

- Although IGI has said Leitner quit his job as its president in April 2004, old versions of the company's Web site ([www.igi-art.com](http://www.igi-art.com)) stored at Archive.org show Leitner was identified as IGI's CEO as late as Sept. 24, 2004. In January 2005, Leitner was listed only as "founder," with Myer bearing the titles of president and CEO, the archived Web pages say. That state of affairs remained through March 23, 2005, the last date for which stored versions of IGI's site are available.

- Leitner's name is listed as a personal guarantor for some \$70,000 in financing that IGI received from SBC Capital Services in November 2004, according to an exhibit to an Illinois court filing.

Of these three links between the entities, the cash transfers may wind up being the most controversial, as there is sharp disagreement about who owes what to whom. The cash payments are a big reason Quilling contends in court filings that Megafund holds "significant claims" against IGI.

"Those are the (money transfers) that we know of, that we have been able to identify so far," Quilling says. There "possibly" may be others that haven't surfaced, according to Quilling, who's president of the Dallas law firm Quilling Selander Cumiskey & Lownds PC.

Leitner has taken his Fifth Amendment right to not be compelled to present self-incriminating testimony, according to SEC filings, and Quilling has yet to ask Myer about the transfers under oath.

Myer, for his part, says IGI's books show Megafund owing IGI about \$16,000. "IGI didn't wind up with the money Megafund did," says Myer, who owns IGI through a holding company, MyerCo Inc. "What (Quilling) really wants to know is if Stan Leitner still owns the company and (if Quilling) can come take the

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assets out of it."

IGI officials say the cash transfers stem from the fact that although Leitner resigned from IGI in April 2004, he maintained an office at the company's Addison offices until roughly February 2005, during which time Leitner was launching Megafund.

Jan Leitner, whom Stanley identified to others as his ex-wife, had funded the genesis of IGI and was its sole shareholder until Myer bought out her interests in the spring of 2005, according to Myer.

While Leitner had an office at IGI, he ran up various expenses for which Megafund owed IGI money, including a car lease, according to IGI officials. That, they say, is why Megafund was paying them.

**Never on the payroll**

Robert Fridd, IGI's chief financial officer, says two Megafund employees were on the IGI payroll: an administrative type and a woman who was supposed to handle Megafund's accounting.

"Since we hadn't gotten set up with ADP (which does human-resources outsourcing), I just went ahead and put (the accountant) on IGI's payroll and charged her back" to Megafund, he says.

But the accounting person didn't work out, and so Fridd says he "kept track of transactions" for Megafund. He says he was never on the Megafund payroll and did not charge Megafund for his services "because I really didn't do all that much."

He adds that he started "washing his hands" of Megafund in March 2005, so it could function independently and he didn't have to deal with it anymore. Myer adds that he began pushing Fridd to "get away" from Leitner in January of that year, as he didn't want two companies operating out of the same facility.

As for IGI's Web site listing Leitner as its president and CEO in September 2004, Myer says IGI was growing like a weed that year, had a number of to-do items on its information-technology infrastructure and likely didn't get around to removing Leitner's name from the Web page.

Myer also says he does not know why Leitner's name wound up as personal guarantor for the SBC Capital financing.

Brian Dougherty, an attorney with Chicago-based O'Rourke Katten & Moody, which represents SBC Capital, says his client supplied about \$70,000 to finance the purchase of Web equipment by IGI. SBC Capital, a unit of what is now AT&T, sued IGI in December, claiming it is owed \$50,530, according to records.

Though IGI's contract with SBC Capital has a signature that purportedly is Leitner's, Dougherty says Leitner told him after Christmas 2005 that someone had in fact signed his name to the document without his knowledge.

"He said he was going to get an attorney, but he never did," Dougherty says. Since then, SBC has obtained a default order against Leitner, according to court records.

When the SBC Capital deal was being done he took the contract proposal to Leitner and told him Jan Leitner needed to do a personal guarantee, since SBC required it and she was the owner of the business, Myer says.

"So why it ended up with him on it, I don't know," he says. "Another (vice president) was handling that. I don't know why they left his name on versus Jan's."

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**NOT A PRETTY PICTURE:** Dallas artist JD Evans says IGI sold 650 prints of his painting 'Buffalo Soldiers,' but he hasn't been paid since August.

**IGI: Secondary market consisted mainly of IGI members**

FROM PAGE 14

rights to their originals for a 5% royalty fee.



Though some members collected the art themselves, many others tried to resell it in hopes of making a profit. Myer concedes that the secondary market for IGI artwork consisted largely of IGI members, and that art prices in that realm might not be matched in the open market.

"Am I going to take a piece of art that's increased in value in our world from \$200 to \$2,000 and go out into the world and get anyone else to see a \$2,000 value?" Myer said. "They might jump at it for \$400, because they see it's a sold-out edition."

OneBay, IGI giclées are priced at anywhere from 99 cents to several hundred dollars. Recently, a Dallas seller set the lowest starting bid at 99 cents for a piece called "Nostalgia" by Sergey Chernomoretz that IGI had valued at \$2,000. Another seller, located in the Northwest, is asking \$275 for an IGI print by artist Antoaneta Hillman.

**Unlimited distributorships**

In his friend-of-the-court brief in the two IGI lawsuits, FitzPatrick of Pyramid Scheme Alert took issue with several of the company's business practices. Among them were:

■ IGI's alleged claims that consumers could earn large incomes in art, even if they had no experience in it. According to the brief, IGI offered consumers "distributorships" to re-sell the company's art based on the premise the company could better promote its art to the public than competitors like art galleries, Web sites and gift shops could do for their wares.

"The multitude of (competing distribution) channels limits the power of any one channel ... in promoting the goods," FitzPatrick wrote. And IGI's claims that its members could sell large volumes of art, whose appeal is highly individual, "are unsupported by any experience in the field of distribution channels."

■ Too many distributorships. FitzPatrick's brief argues that art grows in value through limited or exclusive distribution, whereas IGI "offers unlimited numbers of distributorships and (encourages) all its distributors to recruit" as many new ones as possible.

That, the brief says, means each distributorship has fewer customers, more competition and reduced prices and profits. Encouraging distributors to bring in unlimited numbers of new ones "indicates that 'profit' is derived by other investors," instead of via art sales to customers. "This is a hallmark of a pyramid scheme disguised as a 'direct-selling' business," the brief argued.

Myer says nearly all direct-sales companies, such as Avon and Mary Kay, "have no territories and no limits or concentrations of distributors." Profits that IGI distributors made are linked to sales of products and services to consumers, and not to bringing in new distributors, he says.

■ IGI's compensation and financial incentives. According to FitzPatrick's brief, IGI had a hierarchy of ascending membership levels based mainly on how

many members an individual had recruited, rather than on how much art they sold.

And, citing an analysis of cash payouts garnered from the company's Web site, FitzPatrick's brief claimed that the top half of members received 96% of the payouts. "The median income of the top 1% is over \$68,000, (while) the median average of the bottom 99% is \$755."

Bankruptcy records show that during 2005, Myer received a total of \$721,464 in commissions through a complicated formula based on art sales, recruiting of new members, IGI's gross revenue, and his ranking at the top of the hierarchy of the company's salespeople.

"The incomes of the top are coming directly from the investment/purchases of those at the bottom," the brief says.

In an e-mail, Myer said he had not seen FitzPatrick's analysis. "The harder and longer one works at a program, the more money one makes," Myer wrote. "We have numerous examples of persons joining the program and out-earning those who came in earlier, simply because they worked harder. The ability to obtain that result is evidence of a legally designed plan."

The brief also noted that IGI's founder, Stanley Leitner, and a firm he controlled called Megafund Corp. were sued last July by the federal Securities and Exchange Commission. The SEC said Megafund involved a "high-yield investment program" that SEC court filings claim bilked investors out of \$13.8 million. (See related story on Page 16.)

Meanwhile, current and former IGI "members" offered varying opinions of their investments

in the company.

Hector Arroyo is one of several IGI members who told the *Business Journal* that IGI's presentation and member testimonials convinced them that the "opportunity to make money was there."

"They don't give you the details: what they do show is the profits," Arroyo said. "It makes you greedy."

He purchased \$5,000 in art but was unable to sell it or to add any referrals. But he doesn't fault IGI entirely. "I'm not a salesman," Arroyo said.

Elvira Bernal, a high-level member, said most of the people she recruited were successful. She continues to attend IGI update meetings.

"What we liked the most was that we weren't the only ones that triumphed; many of the people that we invited, the majority of the people, triumphed," she said. "It didn't matter that they didn't speak English. ... The opportunity was here for everyone."

Genoveva Cervantes said she turned a profit of about \$24,000 by earning commissions based on what her 28 recruits sold or bought from about May 2004 to October 2005. She is owed about \$1,000 in commissions and is a listed creditor in the bankruptcy proceeding.

While she was successful, Cervantes says seeing her less-capable friends struggling to recruit and sell the art was difficult.

"They didn't make any money, and they can't return their paintings to recover their money," Cervantes said. "I saw them trying so hard. I couldn't do it again."

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