

**JZ Knight and the Role of her Corporation's Non-Disclosure Agreement in  
Fraud and other Illegal and Unethical Business Activities**

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**“Silence is fraud's best friend. Word of mouth is fraud's worst enemy. Pass the word.”  
*Fraud Aid Inc.— A Fraud Victim Advocacy Non-profit***

David McCarthy is being sued in New Zealand by wealthy American businesswoman JZ Knight and her corporation JZK Inc., for exposing evidence of years of fraudulent, illegal, and unethical business activities. Like all of Knight's customers over the past twenty years, McCarthy had signed a secrecy contract, promising not to expose JZ Knight or her business activities.

David McCarthy is an ordinary husband and father in New Zealand, with few resources to fight a wealthy U.S. corporation with millions to spend on lawsuits. He relies on Legal Aid.

But he has mountains of evidence and documentation, to back up his words.

JZ Knight's primary business product is her professional advice on all matters, and particularly advice on serious financial matters. Some of her employees and associates also give professional advice, under Knight's corporate umbrella and connected businesses.

JZ Knight is a high school graduate with no evidence of any additional education or experience that would qualify her to give professional advice on any matter. Former customers and fraud victims state that they had believed Knight to be a very charismatic, genuine person who truly cared about them, and they had also believed Knight's claims that she was highly qualified to help them improve their lives and become happy, prosperous and financially independent.

I have collected a wide variety of external documentation which shows that JZ Knight's inducement claims to attend her events, listen to her advice, pay for her products, and invest in her businesses have long been based on fabricated credentials, plagiarism, and outright lies.

I also have external documentation that some of JZ Knight's key employees and associates, who have also made claims and given advice under the JZK corporate banner, have also fraudulently induced JZK customers based on fabricated credentials and lies. At least two have committed perjury to perpetuate their fabrications.

Many of JZ Knight's former customers and victims have stated that they lost their life savings by following Knight's advice, and the advice of her employees and associates, because they were unaware that their credentials were fabricated. Some lost their families. These former customers

are afraid to show anyone their evidence of Knight's fraudulent activities, because Knight sues and impoverishes those who try to expose her, because they have signed her secrecy contract.

David McCarthy was a former customer of JZ Knight's corporation from 1989 until 1995. Since 1993, JZ Knight has required all of her customers, including McCarthy, to sign a non-disclosure agreement—a secrecy contract—preventing them from exposing any of her fraudulent claims, trademark and copyright infringements, and other illegal and unethical activities.

JZ Knight is currently suing two of her former customers, Virginia Coverdale in the U.S., and Mr. McCarthy in New Zealand. Both are being sued for disseminating evidence in 2012 that their NDA contracts forbade them to share. Knight's lawsuit against Coverdale has been going on since November 2012. As at June 28, 2013, JZK Inc. reported that the Coverdale lawsuit alone had cost them \$715,000 in seven months—averaging \$100,000 per month.

Since this U.S. case is ongoing, it's reasonable to estimate that the Coverdale lawsuit has cost Knight over \$1.4 million so far, with a long way to go. Thurston County Superior Court Judge Gary Tabor ruled against Coverdale's Motion for Summary Judgment on June 28, 2013, and in favor of JZK's Motion for Summary Judgment. Coverdale is currently appealing the decision.

A key factor in Judge Tabor's decision was that Coverdale's attorney did not show evidence of fraud, within the context of the nine-element fraud standard set by the U.S. Supreme Court.

David McCarthy's lawsuit has been going on for about a year. Because JZ Knight's case against McCarthy is very similar to her concurrent case against Coverdale, it's reasonable to assume that Knight's U.S. legal expenses against McCarthy are equivalent to her expenses against Coverdale. However, Knight needed to hire a New Zealand law firm to sue McCarthy, as well as her U.S. lawyers—so McCarthy's lawsuit could easily cost JZ Knight millions of dollars, which she appears to be more than willing to spend.

Neither of these two former customers has any money to fight her back.

But Mr. McCarthy has a stockpile of hard evidence and documentation, to back up his case.

JZ Knight has already won a judgment against Virginia Coverdale for \$600,000 and counting. Coverdale is an unemployed single mother who is facing foreclosure of her home. She is represented by a young *pro bono* attorney, who simply can't keep up with Knight's two powerful Seattle law firms, with millions of dollars at their disposal.

JZ Knight has made it clear that she intends to punish McCarthy in the same way—and any other former customers and victims who dare to show evidence of her fraud and other crimes.

David McCarthy is a husband and father with limited income and resources. He is dependent on Legal Aid to fight JZ Knight, her millions, and her legion of power lawyers.

McCarthy is simply doing what he believes to be right—reporting past crimes, and trying to prevent future ones. He knows he is sitting on a mountain of documentation and other evidence that supports his statements about Knight and her business. He just needs a lawyer who is willing to look at it, and use it in his defense.

Ironically, the millions of dollars JZ Knight spends on lawsuits to silence and impoverish her former customers, she got by defrauding them first. The very money that she fights them with, she took from them in the first place, through fraudulent claims.

Somehow, that just doesn't seem right.

But she will keep doing it, as long as she keeps winning in court.

The following is a partial list of verifiable external evidence sources. Each provides a piece of proof for McCarthy's statement of defense: that JZ Knight uses her secrecy contract to shield fraudulent inducement by her and her business associates, along with other illegal and unethical activities like perjury, securities fraud, tax fraud, copyright infringement, trademark infringement, plagiarism, defamation, and more. I have backed up each of his statements with a detailed narrative explanation and analysis, which I will be happy to provide.

Here is a partial list of verifiable sources of external evidence for JZ Knight/JZK's fraudulent, illegal, and unethical business activities—much more is currently being researched and verified:

- A) Written statement by 3M Inc.'s Corporate Public Relations Manager Jacqueline Berry
- B) Written statement by Nike Inc., and ongoing correspondence and conversations with Jenny Loth from Nike's Corporate Legal Department, Trademark Office
- C) Ongoing written and phone correspondence with Melissa Ball from the Legal Office of the U.S. Treasury's CDFI New Markets Tax Credit Program
- D) Written statement from Laura Reeve, corporate representative of *The Secret* (filmmakers and publishers)
- E) Written statement from Dr. Thomas Krise, President of Pacific Lutheran University in Tacoma, WA, USA
- F) Written statements and correspondence from Dr. Ray Frey, head of the Physics Department of the University of Oregon, in Eugene, OR, USA
- G) Written statement from Dr. Basil Hiley, London physicist and retired professor from the University of London's Birkbeck College, in London, England
- H) Documentation of 1997 academic credentials of seventeen scholars
- I) Documentation of a 2005 Irish Government Special Investigation, *The Ferns Report*

- J) Transcripts from the Irish Senate hearing of November 10, 2005, with statements by Irish Senator Mary Henry, M.D.
- K) U.S. Federal Court testimony from the District of Vermont, from the August 19, 2013 sentencing hearing (\$28 million investment fraud) of Lou Soteriou in *U.S. v Soteriou*, by the following: Lou Soteriou, Mac Parker (both former RSE students), and Robert Hoffman (former JZK Inc. Chief Financial Officer and registered corporate agent, as well as officer of *RSE International, Inc.*, and former RSE student)
- L) Thurston County, WA, USA, Superior Court testimony by JZ Knight in *JZ Knight, Inc. v Whitewind Weaver et al*, September 9, 2008
- M) Thurston County, WA, USA, Superior Court testimony by John Michael Wright in *JZK Inc. v Coverdale*, November 13, 2012
- N) Written statement by Kathryn Kay of the California State Board of Accountancy, Sacramento, CA, USA
- O) Written statement by Kirsten Donovan of the Washington State Board of Accountancy, Olympia, WA, USA
- P) Written statements from Sammy Berg RS, Senior Environmental Health Specialist, Food and Environmental Services Section, Thurston County Public Health and Social Services Department, Olympia, WA
- Q) Phone conversations and verbal statements by Kellie Purce-Braseth, Dean of College Relations, South Puget Sound Community College, Olympia, WA, USA
- R) Written and phone correspondence with Michael Drescher, U.S. Deputy Prosecuting Attorney, District of Vermont
- S) Transcripts from *The Morning of the Magicians*, copyright 1960, Editions Gallimard

More will be coming, along with supporting narratives and analysis. In addition to research on fraud, infringements, etc, I am currently working with Bobby May, Thurston County Fire Marshal, and Mike Kain, manager of the Thurston County Building Department, on fire code and other safety issues at RSE.

## **Background Criteria for David McCarthy's Fraud Defenses**

### **The Critical Role of Business Documentation -**

Appropriate documentation is necessary to reasonably ensure integrity and honesty in business.

Appropriate documentation needs to match the transaction. You don't buy a house with a cash register receipt; and you don't buy a Coke with a thirty-page contract.

**When a business consistently uses inappropriate documentation, red flags are raised about reliability, integrity and honesty.** Such red flags make it critical for stakeholders to investigate that business's claims and transactions.

### **The Legitimate Role of the Non-Disclosure Agreement in Business –**

Non-disclosure agreements (NDAs) fill a critical need in many businesses, to protect assets and investments. For instance, Research and Development departments in high-tech and pharmaceutical industries need to protect their work, particularly when significant resources and time are dedicated. Creative business ventures like music recordings and films need to protect their investments and rights, during development and production.

NDAs are reasonable and appropriate business documents when they protect legitimate work performed by qualified participants.

**Reasonable assurance that an NDA is legitimate and NOT hiding fraudulent, illegal, and/or unethical activity is provided when the contract maker –**

- (1) is capable and qualified to produce or provide something with inherent value that justifies the secrecy
- (2) is recognized by reputable outsiders and respected authorities
- (3) actually produces or provides something of potential inherent value
- (4) documents progress and results, and provides this documentation to third parties, when appropriate, and
- (5) provides sufficient evidence to stakeholders that the secrecy remains necessary for completion and success of the project or service.

If these factors aren't in place, there is high risk that an NDA was not formed for legitimate and/or legal purposes.

### **NDAs Can Be Red Flags for Fraud, Infringement, and Illegal Activities –**

**NDAs are also used for illegitimate purposes, such as**

- (1) consumer, securities, and/or tax fraud,
- (2) trademark infringement,
- (3) copyright infringement, and
- (4) other illegal and unethical activities.

Combined together, the –

- (1) “secrecy” aspect of an illegitimate NDA, plus
- (2) the monetary consideration required by the contract

can give fraud victims the belief that they are receiving something of significant value, that is not available to the average person.

For instance, illegitimate NDAs have been used by private “investment clubs” that pretend to provide dues-paying members with “insider information” that is not available to other investors. These clubs’ phony investment advisors would convince members that regular stockbrokers and financial analysts were either ignorant of these great investments, or lying about them and keeping them all to themselves. Many people have lost their savings to these scams, which are frequently protected by NDAs.

Law enforcement agencies typically have few resources to devote to white collar crime, no matter how much evidence is available. When relief is sought, it is usually through civil action.

**Charismatic personalities, and people who can easily manipulate trust and fear, are often capable of getting victims to set aside their normal and reasonable skepticism, and accept the terms of an illegitimate NDA in spite of the red flags.**

**The secrecy aspect of an illegitimate NDA, including the threat of impoverishment through legal action, will frequently prevent victims from reporting any fraud or illegal activity—or even from getting outside opinions based on reasonable and objective criteria, to verify the integrity of the information and claims that are protected by the NDA.**

**The Critical Role of the Whistleblower in Revealing Fraud, Infringements, and other  
Illegal Activities Protected by Illegitimate NDAs –**

There are few objective standards that clearly define legitimate vs. illegitimate uses of the NDA.

As such, civil and criminal legal action can favor crooks and fraudsters who protect themselves with cleverly worded NDAs, especially in those cases where there is little verifiable external documentation—or where the statute of limitations has passed for consumer and/or securities fraud, or other illegal acts.

Talented crooks are usually very good at limiting external documentation that could reveal their activities—just as they are very good at using the courts to uphold an illegitimate NDA, threatening and punishing victims who would otherwise reveal the fraud and other crimes.

**Fraud and other illegal activities hidden by NDAs are nearly impossible to detect, without the actions of a *whistleblower*—an insider like David McCarthy who is willing to risk being**

**sued or otherwise punished to reveal fraudulent, illegal and unethical actions that have been kept secret by the NDA.**

Both public and private fraud investigators rely heavily on whistleblowers. Whistleblowers fill a critical role in crime fighting and prevention.

Unfortunately, whistleblowers like David McCarthy frequently pay dearly for their ethics and courage. In spite of laws to protect them, many whistleblowers are punished in some way—mostly because they are up against someone with a lot more money and resources for legal action.

### **Beating Back the Whistleblower -**

A frequent tool used against whistleblowers is the broad brush attack against their defense—like in David McCarthy’s case. The whistleblower is hit back with a broad brush, because he isn’t exactly sure what the illegal and unethical activities are, specifically—he just knows that things aren’t on the up-and-up.

Like most whistleblowers, David McCarthy believed that JZK’s business practices had serious flaws. He believed that fraud and other illegal activities were being covered up by JZK’s NDAs—and specifically the “Conditions of Participation” contract that he and all other JZK customers were required to sign.

Because David is a music composer and not a professional fraud investigator, he didn’t know specifically how to go about researching for fraud and other illegal activities. He needed help, but he didn’t have the money to pay for a professional investigator.

At the time that he wrote his original statement of defense for *JZ Knight/JZK v McCarthy*, David didn’t know that my *pro bono* help was available. His original statement of defense would have been different, if he had known.

I love music, and I can usually tell when musical performers make bad mistakes. However, I seldom know exactly what they did wrong—only that it just didn’t sound right. That’s because I’m not a music composer like David McCarthy.

In the same way, David McCarthy should not be further punished because he isn’t a professional fraud investigator, and therefore didn’t have the necessary evidence and documentation to use fraudulent inducement/fraud and misrepresentation and other available defenses, in the early stages of the lawsuit.

I have spent the last year researching JZ Knight and JZK Inc. for fraud and other illegal and unethical activities. Besides violating both U.S. and New Zealand statutes against business fraud, I have also determined that JZK's fraudulent activities met the nine elements of common law fraud, as established by the U.S. Supreme Court. According to my research, it appears that these nine elements have also been used as a standard in New Zealand contract law, as well.

I have a vast amount of verifiable research, analysis, and external documentation and evidence that validates David McCarthy's statements about fraud, and other illegal and unethical activities by JZ Knight and JZK Inc. I am continuing my research and analysis, and I am continuing to request and receive more external documentation. In some cases, it can take months for a single document to arrive, after my request. That is one big reason why time is of the essence, in determining whether my work will be used in David McCarthy's defense in *JZ Knight/JZK Inc. v McCarthy*.

I will be happy to send any and all of my research, analysis, and documentation—as well as inform you of the status of my ongoing research.

David McCarthy's existing statement of defense is very subjective, and has proven to be very weak and ineffective in similar lawsuits, like *JZK v Coverdale*. I believe that solid, verifiable, objective evidence of fraud and other illegal and unethical activities by JZK will provide an excellent basis for David's defense.

### **RSE May Soon Be Identified as an official U.S. Hate Group by the SPLC -**

On a side note—I have been working with the Southern Poverty Law Center (SPLC) since I first contacted them a year ago, about JZ Knight's videotaped hate speech at RSE. The SPLC is a U.S. non-profit organization that publicly identifies U.S. hate groups and their leaders, based on specific criteria. I have been communicating with the SPLC's West Coast representative in the last few months, and my husband Steve gave her videos and other evidence of JZ Knight's hate speech. She flew here last weekend, and we had a long meeting.

Based on the evidence and research given to her, she told me that she believes that she has sufficient information to give to the SPLC national executive committee, who in turn makes the decision to identify a new U.S. hate group. Although the SPLC usually makes their announcement identifying new hate groups in December of each year, she believes that she may be able to convince the SPLC executive committee to publicly identify RSE as an official U.S. hate group within the next few months, prior to David's trial.

If she is able to do that, it will definitely help David's defense in the area of public policy. Identification as an official hate group by the SPLC would be an objective standard set by a



recognized national organization, rather than a subjective personal opinion that JZK has accused David (and others) of having, when it comes to JZ Knight's hate speech.

David has told me that he believes that there is a law in New Zealand prohibiting hate speech from being broadcast into the country.

Please let me know if, in your opinion, there is any way that I can help with David's defense. I know that is David's wish. I will be happy to send you information about my professional credentials and experience, as well.

Thank you.

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