

1 **BOUTIN GIBSON DI GIUSTO HODELL INC.**

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16 Receiver of Defendants Secure Investment Services, Inc.,
17 American Financial Services, Inc., and Lyndon Group, Inc.

18 UNITED STATES DISTRICT COURT
19 EASTERN DISTRICT OF CALIFORNIA
20 SACRAMENTO DIVISION

21 SECURITIES AND EXCHANGE COMMISSION,

22 Plaintiff,

23 v.

24 SECURE INVESTMENT SERVICES, INC.,
25 AMERICAN FINANCIAL SERVICES, INC.,
26 LYNDON GROUP, INC., DONALD F. NEUHAUS,
27 and KIMBERLY A. SNOWDEN,

28 Defendants.

Case No. 2:07-cv-01724 LEW CMK

NOTICE OF FILING OF RECEIVER'S
PRELIMINARY REPORT PURSUANT
TO COURT ORDER AND L.R. 6-
232(e)(1)

TO ALL INTERESTED PARTIES AND THEIR COUNSEL OF RECORD:

Please take notice that Michael J. Quilling, the Receiver appointed in these proceedings, ("Receiver"), on this date has filed the attached Preliminary Report of Receiver pursuant to order of this Court and L.R. 6-232(e)(1).

NOTICE OF FILING OF RECEIVER'S PRELIMINARY REPORT
PURSUANT TO COURT ORDER AND L.R. 6-232(e)(1)

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Respectfully submitted,

BOUTIN GIBSON DI GIUSTO HODELL INC.

Dated: November 28, 2007

By /s/ Maralee MacDonald
Maralee MacDonald
Attorneys for Receiver of Defendants
Secure Investment Services, Inc.,
American Financial Services, Inc., and
Lyndon Group, Inc.

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11 EASTERN DISTRICT OF CALIFORNIA
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13 SECURITIES AND EXCHANGE COMMISSION,

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17 AMERICAN FINANCIAL SERVICES, INC.,
18 LYNDON GROUP, INC., DONALD F. NEUHAUS,
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19 Defendants.

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RECEIVER'S PRELIMINARY
REPORT

20
21 TO THE HONORABLE RONALD S.W. LEW, UNITED STATES DISTRICT JUDGE:

22 COMES NOW, Michael J. Quilling, the Receiver appointed in this case and, pursuant to
23 Paragraph 9 of the Court's Order of August 24, 2007 [Dkt. No. 27] and Local Rule 66-232(e)(1),
24 submits the following report:

25 **I. GENERAL OVERVIEW**

26 1. Secure Investment Services, Inc. ("SIS") is the latest in a series of companies
27 owned and operated by Donald F. Neuhaus ("Neuhaus") through which fractionalized interests
28 in the death benefits of insurance policies covering the lives of third parties were sold to

RECEIVER'S PRELIMINARY REPORT
Page 1

1 individual investors. Based on information currently available to the receiver, it appears that
2 Neuhaus began conducting business under the name of Cash for Life and thereafter utilized
3 entities known as Empire Business Group, American Financial Services, Inc., and the Lyndon
4 Group, Inc., as part of his business program.¹ In essence, investors were promised, in varying
5 fashion, that their money invested would be used to (1) buy the fractionalized interests, (2) be
6 used, in part, to fund company operations, (3) pay commissions, and (4) be used, in part, to pay
7 premiums on the particular policy until the death of the insured.

8 2. As an added inducement for investors to invest, and in order to enhance the
9 alleged fail proof nature of the investment, most of the insurance policies were "bonded." The
10 bonding component required that SIS purchase a bond from a bonding company which would
11 obligate the bonding company to pay the death benefit on a date certain (usually tied to the life
12 expectancy of the insured plus some additional time period), even if the insured had not died by
13 that date. Thereafter, in theory, the bonding company would then own the policy and would be
14 obligated to pay the premiums until the death of the insured, at which time the bonding company
15 would collect the entire death benefit. In exchange for issuing such a bond, the bonding
16 company would be paid a hefty commission/premium. However, virtually regardless of how
17 much commission/premium was paid to the bonding company, the transaction made no financial
18 sense whatsoever and, not surprisingly, to date, the Receiver has been unable to find one single
19 bonding company involved in the industry which is legitimate or which has any financial
20 wherewithal whatsoever. By way of example, one of the bonding companies used by SIS was
21 International Fidelity and Surety Ltd., an entity which is known by the Receiver to be a complete
22 scam and which never had any real bonding capacity. Although the Receiver has not yet been
23 able to determine the *bona fides* of the other bonding companies utilized by SIS (including
24 Provident Capital and Indemnity, Ltd. of Costa Rica), the Receiver is extremely doubtful as to
25 whether any of them are legitimate but, when time constraints allow, will undertake whatever
26 due diligence is financially reasonable.

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28 ¹ In that the business affairs of these companies have been hopelessly commingled, for the purposes of this Report
they will be collectively referred to as SIS.

1 3. Unfortunately, and SIS is no exception, most companies involved in the business
2 of selling fractionalized interests in viaticals/life settlement contracts, almost never set aside
3 adequate funds to cover premiums for the required period of time. Accordingly, such companies
4 represent financial train wrecks waiting to happen, and are only able to survive so long as new
5 investors continue to invest funds so as to allow the company to cover obligations owed to prior
6 investors. In that regard, the company operates as a classic ponzi scheme. Such was clearly the
7 case as to SIS, its predecessors and related entities.

8 4. Based upon his substantial experience in the industry, and in anticipation that the
9 Temporary Order Appointing Receiver would be made permanent, the Receiver made the
10 decision very early on to cease all business operation of SIS and its related entities. Set forth
11 below is a description of a series of activities undertaken by the Receiver in that regard.

12 **II. RECEIVER ACTIVITIES**

13 Offices/Books and Records

14 5. Historically, SIS has conducted its business operations in Redding, California, out
15 offices located at 2875 Churn Creek Road, Redding, California 96002. All of the company's
16 books and records known to the Receiver were located at these offices other than those in the
17 possession of the SEC and/or the criminal authorities (the Receiver has access to these records
18 upon request). Various items of furniture and equipment of nominal value were also located in
19 the offices. When the Receiver closed the offices he sold various items of furniture for an
20 aggregate of \$1,350.00. The office lease has been terminated by the Receiver effective as of
21 November 30, 2007. In connection with the early termination, the Receiver has paid all monthly
22 rent due to the landlord through November 30, 2007. In exchange, the landlord agreed to waive
23 any further amounts owed under the office lease. The Receiver has also allowed trade vendors
24 who had leased equipment (i.e. copiers, etc.) to SIS to obtain possession of that equipment. All
25 company mail is being forwarded to the Receiver. During the week of October 22, 2007, all
26 books, records and computers of SIS were boxed and shipped to Dallas, Texas where the
27 Receiver has leased a small office in his building in which to store and maintain the books and
28 records during the course of these proceedings.

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Employees

6. At the time the Receiver was appointed, SIS had 4 employees including Neuhaus and his daughter Kimberly Snowden. In that the business operations of SIS were terminated effective at the time the Receiver was appointed, no additional funds were accepted by the Receiver from investors, and each of the employees has been terminated.

Bank Accounts

7. At the time the Receiver was appointed, SIS maintained three bank accounts at Wells Fargo Bank. Set forth below is a schedule of the accounts closed by the Receiver and the amounts forwarded to the Receiver by the financial institution. All funds from the accounts were deposited by the Receiver into his receivership account at Sovereign Bank in Dallas, Texas.

<u>Account Name</u>	<u>Account Number</u>	<u>Closing Balance</u>
Secure Investment Services	9686852360	\$417,551.07
Secure Investment Services	9686852378	\$ 21,957.22
Secure Investment Services	8326514588	\$ 269.95
TOTAL		\$439,778.24

Viaticals/Life Settlement Contracts

8. At the time the Receiver was appointed, the primary assets of SIS consisted of the insurance policies in the portfolio. Attached hereto as Exhibit "A" is a schedule which sets forth various information as to each policy.² As indicated on the schedule, ownership of 21 of the policies is in the name of entities which are the subject of these proceedings. Fourteen (14) of the policies are in the name of Donald/Linda Neuhaus, ownership of which they have agreed to transfer to the Receiver pursuant to a settlement agreement [Dkt. No. 72]. The remainder of the 17 policies are in the name of other entities or multiple individuals. The Receiver is in the

² In order to continue to protect the identity of the insured from those who may be interested in their early death, the Receiver will, during this report and throughout these proceedings, use an identifier comprised of the first three letters of the last name and the first letter of the first name. John Smith = SMI -- J. If the policy covers two individuals, John and Sally Smith, the identifier is SMI -- J&S. If there are multiple policies on the insured(s) a number designation follows -- SMI -- J&S(1).

1 process of addressing these ownership issues. This summary was prepared by the Receiver
2 based upon information currently available to him. To summarize the schedule, there are
3 currently 52 known policies having a death benefit value of approximately \$53,728,276.00.

4 9. As indicated on Exhibit A, two of the policies have matured meaning that the
5 insureds have died. The Receiver is in the process of submitting paperwork to the insurance
6 companies to obtain the death benefits.

7 10. The single biggest challenge facing the Receiver is to find a way to pay the
8 premiums on the policies while the insureds are alive. Prior to the appointment of the Receiver,
9 there was insufficient funds set aside by SIS to pay premiums due under each policy. Since his
10 appointment, the Receiver has been in the process of obtaining complete and accurate premium
11 information as to all the policies at a very nominal cost. During September, October and
12 November 2007, the Receiver paid \$477,611.09 of premiums on the policies. The premium
13 obligation for December 2007 is approximately \$77,300.00.

14 11. In an effort to prepare for the inevitable depletion of cash available in the
15 receivership estate to pay premiums, as an emergency measure, the Receiver sought and obtained
16 Court approval [Dkt. No. 57] to obtain a line of credit to be secured by all of the policies, which
17 have been pooled by Order of the Court [Dkt. No. 56]. In that the \$200,000 quickly proved to be
18 insufficient, Sovereign Bank agreed to increase the line of credit to \$500,000. The bank has also
19 agreed to increase the line of credit to \$3,000,000 once the Receiver is able to provide accurate
20 policy information. The Receiver will seek Court approval for these actions in the near future.
21 The Receiver does not anticipate any problems in the line of credit being implemented. In short,
22 there is no danger of the policies lapsing in the foreseeable future.

23 **Other Assets**

24 12. Other than the assets set forth above, there are no other known physical assets
25 belonging to SIS.

1 **Investor Claim Liabilities**

2 13. The primary liabilities of SIS are the investor claims. Given the fact that the
3 claims process has only just begun³, the exact amount of claims is not yet known. However,
4 based upon the records of SIS and information currently available to the Receiver, there appears
5 to be approximately 660 investors and the total amount of money invested is approximately
6 \$31.1 million. Those claimants expected to receive a total of approximately \$51.8 million of
7 death benefits. As of November 26, 2007, 202 claims have been submitted to the Receiver.

8 **Other Liabilities**

9 14. Based upon information available to the Receiver as of this date, there appear to
10 be unpaid invoices owed to various trade vendors, service providers and lawyers. Due to time
11 constraints, the Receiver has not yet been able to ascertain these amounts. However, B claim
12 forms have been sent to each potential claimant.

13 **Employment of Professionals**

14 15. The Receiver has retained National Viatical, Inc. to track and manage the
15 insurance policies for \$50.00 per policy per month [Dkt. No. 53]. He has also retained his law
16 firm, Quilling, Selander, Cummiskey & Lownds, P.C., to act as his counsel [Dkt. No. 54] and
17 Boutin, Dentino, Gibson, Di Giusto Hodell, Inc. to act as his local counsel [Dkt. No. 55].

18 **Settlement with Donald Neuhaus**

19 16. The Receiver has negotiated and obtained Court approval of a settlement
20 agreement with Neuhaus [Dkt. No. 72]. The major components of the agreement are that (1)
21 Neuhaus and his wife will transfer ownership of all insurance policies held in their name to the
22 Receiver and (2) possession of their \$1,400,000 house and an automobile will be sold by the
23 Receiver which he is in the process of doing at this time. Neuhaus is being very cooperative
24 with the Receiver.

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28 ³ On October 29, 2007, the Court entered an Order [Dkt. No. 73] approving claim procedures. As of November 26, 2007, the Receiver has mailed 661 claim forms to potential claimants.

Financial Information

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2 17. As of November 26, 2007, the Receiver has \$57,493.24 on deposit at Sovereign
3 Bank. \$149,000 is owed against the line of credit. In addition to the amounts received by the
4 Receiver as a result of the account closures set forth above (para. 7) and the funds from sale of
5 furniture (para. 5), the Receiver has also recovered \$65,103.00 of escrow funds at Pacific
6 Northwest Title and \$8,537.90 from Millennium Trust Co.

7
8 **Receiver's Website**

9 18. In order to establish a cost effective and informative way of communicating with
10 the claimants, the Receiver has established a website, www.secreceiver.com to allow them to
11 monitor these proceedings. All activities of any importance are reported there.

12 **III. CAVEATS**

13 19. Due to time constraints, the Receiver has necessarily focused on matters that he
14 considered to be top priority, i.e., the offices of SIS, the insurance policies and a premium
15 funding solution. Now that those matters have been addressed, the Receiver will focus on items
16 of lesser importance.

17 20. The Receiver has only had 95 days of investigation time, including holidays and
18 weekends, to investigate the affairs of SIS. Accordingly, this Report, as additional information is
19 acquired and after the Accounting is prepared, could change in whole or in part. No person
20 should rely on any portion of this Report other than for basic information that is believed to be
21 true as of this date. Nothing in this Report shall constitute an admission by the Receiver and this
22 Report is expressly subject to change.
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DATED: November 28, 2007

Respectfully submitted,

/s/ Michael J. Quilling

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LOWNDS, P.C.

EXHIBIT A

VIATOR	CARRIER	POLICY #	FACE AMOUNT	DEATH BENEFIT	ACCUMULATED CASH VALUE	CASH SURRENDER VALUE	TYPE OF POLICY	INSURED 1 AGE	INSURED 1 DOB	INSURED 2 AGE	INSURED 2 DOB
Secure Investment Services, Inc.											
CLAH	Mass Gen / Conisco Life	10UL042809	400,000.00	400,000.00	88,383.40 (01/29/07)		Universal	82	02/02/25		
FRI-W&O	New England Financial / MetLife	12005641	2,300,000.00	2,300,000.00		46,595.81	Universal	76	06/08/31	72	05/30/35
MOOR (1)	Jefferson Pilot	JF5507515	500,000.00	500,000.00	4,994.54		Universal	78	03/30/29		
PER-T&E	Travelers	7430001	5,000,000.00	5,000,000.00	66,458.78		Universal	84	07/14/23	77	02/03/30
JER-E (1)	Travelers / MetLife	7143527	1,000,000.00	1,000,000.00		27,116.90	Universal	77	04/17/30		
JER-E (2)	Confidential Assurance Company	87027195	1,250,000.00	1,247,278.30		89,107.00	Universal	77	04/17/30		
JER-E (3)	Travelers / MetLife	7103849	1,025,000.00	1,025,000.00		20,736.35	Universal	77	04/17/30		
JER-E (4)	William Penn	0700024819	1,000,000.00	lapsed			Universal	77	04/17/30		
MOOR (2)	Jefferson Pilot	JF5507516	500,000.00	500,000.00	4,994.54		Universal	78	03/30/29		
			12,975,000.00	11,972,278.30							
American Financial Services, Inc.											
RIC-J (1)	United of Omaha	BU1099709	750,000.00	750,000.00		20,752.65	Universal	79	01/27/28		
RIC-J (2)	United of Omaha	BU1099720	250,000.00	250,000.00	2,612.68		Universal	79	01/27/28		
SHU-A&H (1)	Sun Life Financial	020070476	1,000,000.00	1,000,000.00		75,937.87	Universal	89	02/24/18	85	04/07/22
MAN-S	Security Mutual	1289095	2,000,000.00	2,000,000.00	43,097.05		Universal	73	10/24/34		
			4,090,000.00	4,000,000.00							
Lyndon Group, Inc.											
BAU-R&L (1)	Pacific Life Ins Co	1A22591089	1,000,000.00	617,545.50		72,856.45	Whole	81	07/21/26	79	12/31/27
BER-E&B (1)	America Financial / Commonwealth Annuity	LOS1178300	458,770.00	458,770.00		8,621.44	Universal	deceased	DOD 08/06/03	84	08/24/23
HAN-G&R	IDS Life Insurance	90905914455	1,400,000.00	1,400,000.00		11,788.85	Universal	unknown		unknown	
KEUP	Pacific Life	VF51323970	1,000,000.00	1,000,000.00	6,474.03		Universal	64	05/25/43		
BAU-R&L (2)	Corn Gen Life / Lincoln Life	2025772	1,274,058.23	959,483.88		71,966.82	Whole	81	07/21/26	79	12/31/27
BER-E&B (2)	America Financial / Commonwealth Annuity	LS3988800	447,019.00	447,019.00	5,304.68		Universal	deceased	DOD 08/06/03	84	08/24/23
ELK-H	New York Life	44658205	500,000.00	434,020.40		37,964.08	Whole	64	02/18/43		
			6,079,845.23	5,307,838.58							

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WATOR	CARRIER	POLICY #	FACE AMOUNT	DEATH BENEFIT	ACCUMULATED CASH VALUE	CASH SURRENDER VALUE	TYPE OF POLICY	INSURED 1 AGE	INSURED 1 DOB	INSURED 2 AGE	INSURED 2 DOB
Donald Neuhaus											
ARM-A	Empire General	00071634	250,000.00	250,000.00		n/a	Term	unknown			
BON-H&P	West Coast Life Ins Co	ZUA374355	4,000,000.00	4,000,000.00	11,761.94	n/a	Universal	81	04/16/26	81	11/11/26
JOH-H	MetLife	988951314UM	500,000.00	500,000.00		51,887.58	Universal	70	02/04/37		
QU-W (1)	United of Omaha	BU1060089	500,000.00	500,000.00		n/a	Term	75	10/17/32		
QU-W (2)	United of Omaha	BU1063056	500,000.00	500,000.00		n/a	Term	75	10/17/32		
SCH-T	Banner Life	17B154899	200,000.00	200,000.00		9,217.07	Universal	92	12/10/14		
SIL-I	MetLife	957100763E2	804,866.38	618,746.19		115,142.13	Whole	73	04/23/34		
SLE-K (1)	John Hancock Mutual Life	UL00256941	666,666.00	666,666.00		981.80	Universal	91	04/18/16		
SLE-K (2)	John Hancock Mutual Life	UL00257151	666,666.00	666,666.00		8,750.85	Universal	91	04/18/16		
SLE-K (3)	New York Life	62782845	1,000,000.00	1,000,000.00		4,868.04	Universal	91	04/18/16		
SLE-K (4)	New York Life	62782843	1,000,000.00	1,000,000.00		4,868.04	Universal	91	04/18/16		
VIN-M	Conseco	1080251095	100,000.00	100,000.00			Universal	unknown			
FRE-K	Allstate	763605186	50,000.00	51,708.95		1,706.95	Universal	unknown			
			10,238,198.38	10,053,787.14							