

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

**SECURITIES AND EXCHANGE
COMMISSION,**

Plaintiff,

vs.

**ABC VIATICALS, INC.,
C. KEITH LAMONDA,
and JESSE W. LAMONDA, JR.,**

Defendants

and

**LAMONDA MANAGEMENT FAMILY
LIMITED PARTNERSHIP,
STRUCTURED LIFE SETTLEMENTS, INC.,
BLUE WATER TRUST,
and DESTINY TRUST**

Relief Defendants.

RECEIVER'S AMENDED STATUS REPORT,
PROPOSED INTERIM DISTRIBUTION, AND REQUEST FOR HEARING
(For The Period Ending October 31, 2010)

Michael J. Quilling, the court-appointed Receiver in this case, (“Receiver”) files this interim report to summarize the receivership estate’s finances, to update the Court about pending litigation, to recommend an interim distribution to the investors, and to request a hearing about the proposed distribution plan. In support, he would respectfully show as follows:

I. Receivership Assets

From November 17, 2006, to October 31, 2010, the receivership estate has collected \$63,386,365.16 in receipts and paid \$41,731,131.99 in disbursements. A detailed schedule of

those receipts and disbursements is attached as Exhibit 1. As explained more fully below, the Receiver has already sold most of the estate's valuable assets but continues to manage others in hopes they will eventually sell. At this point, the primary thing preventing the Receiver from closing this estate is the progress of pending litigation which he cannot control.

A. ABC's Life Insurance Policies

Before going into receivership, ABC Viaticals, Inc. ("ABC") acquired life insurance policies on elderly insureds and sold fractional interests in those policies to investors. It described the investment as a "bonded" life settlement policy, meaning each insurance policy was supposed to have a bond that would pay the policy's face value if the insured lived beyond a certain date.

Following his appointment, the Receiver took possession of 55 life insurance policies owned by ABC and related entities. Those policies had a combined death benefit of \$236 million and annual premium obligations exceeding \$10 million a year. Although ABC's trustee / escrow agent was supposed to set aside nearly \$20 million in premium reserves, the premium escrow account only contained \$280,146.14 when the Receiver was appointed.

Without enough cash to pay premiums, the Receiver secured a \$20 million line of credit from Sovereign Bank. (Orders [Doc. Nos. 18, 32, 66, 117, 121, 147].) The line of credit allowed him to keep paying premiums on all the policies, which he had to do in order to collect death benefits in the event any of the policies matured.¹ The Receiver also hired National Viatical, Inc. ("NVI") to reduce the periodic premiums as much as possible, oversee timely payment of those premiums, and monitor the policies for maturities.

¹ A life insurance policy "matures" when the insured dies and the insurance provider pays the death benefit to the Receiver.

Unfortunately during the next two years none of the 55 policies matured. As a result, the Receiver drew nearly \$17 million on his line of credit without generating any income from the policies. Instead of continuing to borrow money, he filed a motion to sell the policies. (Motion to Sell All Insurance Policies [Doc. No. 146].) Following a two-day evidentiary hearing and court-supervised auction, this Court authorized Settlement Group, Inc. to buy the policies for \$33.5 million and to reimburse the Receiver for \$2.6 million in premiums he paid between July 1, 2008, and the time of the auction. (Order [Doc. No. 179].) After paying back the bank's line of credit and a break-up fee to a previous bidder, the Receiver recovered approximately \$18 million in net proceeds from the sale of ABC's life insurance policies.

B. ABC's Bank Accounts

Immediately after he was appointed, the Receiver closed ABC's bank accounts and placed the following funds in interest bearing accounts under his control:

<u>Account Name</u>	<u>Acct. No.</u>	<u>Amount</u>
Erwin & Johnson - ABC Escrow Account (BOA)	0057-8330-5331	3,986,694.37
ABC Viaticals, Inc. (BOA)	0057-4309-1180	33,850.38
ABC Viaticals, Inc. (Banco Popular)	450000295	10,055.57
Erwin & Johnson - ABC Management Account (BOA)	0057-8330-5292	63,519.05
Erwin & Johnson - ABC Premium Escrow (BOA)	0057-8330-5328	280,146.14
Erwin & Johnson - ABC Maturity Account (BOA)	0057-8330-5344	13,724.83
LaMonda Management FLP (BOA)	0047-7222-9364	89,438.17
Erwin & Johnson - SLS Escrow Account (BOA)	0057-8191-6696	343,734.90
Structured Life Settlement (BOA)	0057-4308-9781	82,452.66
Total:		4,903,616.07

C. LaMonda's Assets

1. Home In Kissimmee, Florida

LaMonda diverted over \$1,425,000 from ABC to make repairs and improvements to his personal home in Kissimmee, Florida. The Receiver entered into a Settlement Agreement with

LaMonda that imposed an equitable lien upon the property in that amount. (Settlement Agreement [Doc. 71-2].) That agreement also allowed the Receiver to pay the mortgage and maintain the property “[s]o long as the Receiver, in his discretion, deems it proper . . .” (*Id.*) Aside from the Receiver’s lien, that property was already subject to three mortgages and a restitution lien in favor of the U.S. government stemming from LaMonda’s criminal prosecution in Florida.

When the Receiver negotiated the Settlement Agreement he believed the house was worth approximately \$2 million. However, the general state of the economy and the poor condition of the property ultimately proved that belief to be wrong. Based upon the assumption of all parties that the house was worth \$2 million, the Receiver worked out an agreement among the mortgage holders where he would maintain the property, sell it, pay off the mortgages, and realize a modest return to split with the U.S. government authorities from LaMonda’s criminal case. As detailed in Exhibit 1, the Receiver has spent \$223,933.52 to maintain the property through October 31, 2010.

For about a year the Receiver listed the property for sale at \$1.5 million and received no offers. Eventually, the Receiver located a buyer willing to pay \$1 million and he accepted that offer. LaMonda, however, refused to sign the deed or cooperate with that sale because he is trying to extort 25% of the Receiver’s recovery from the Goldenberg life insurance policy (which amounts to \$781,853.12) in exchange for signing off on the sale.² Obviously the Receiver will never pay LaMonda such a large sum that he is not due.

The Receiver, therefore, had no choice but to file a lawsuit in Osceola County, Florida, to foreclose his \$1,425,000 lien so he could gain legal title to the property and remove LaMonda from the sale process. He prevailed in that action and LaMonda has now appealed to the Florida

² The Goldenberg life insurance policy is discussed more fully below at Section I(D).

Fifth District Court of Appeals. The parties have been awaiting a decision since September 30, 2010. The Receiver expects LaMonda to exhaust his appeals and delay the foreclosure as long as possible.

If this matter is not resolved soon, the Receiver may have to abandon his interest in the Kissimmee house because the costs of litigating the foreclosure and maintaining the property could exceed any possible recovery. In that event, one or more of the mortgage holders will foreclose their liens and take ownership of the property.

2. Condominium In Fort Lauderdale, Florida

The Receiver also took possession of LaMonda's condominium in Fort Lauderdale, Florida. It is in a building with other units listed for sale but not selling at any price due to the current real estate market. The Receiver, therefore, has allowed LaMonda's wife to continue living in the condominium so long as she pays the maintenance costs and real estate taxes. He hopes the real estate market will eventually turn favorable enough that he could sell the property for a worthwhile recovery.

3. Other Assets Seized From LaMonda

Pursuant to the Settlement Agreement, the Receiver also took possession of two houses located in Missouri and Georgia and eight vehicles. As detailed in Exhibit 1, those assets were sold according to orders of this Court for a total of \$373,700. (Orders [Doc. Nos. 79, 80, 84, 88, 92, 99, 103, 106, 112, and 113].)

D. Recovery From David Goldenberg's Life Insurance

Before going into receivership, ABC purchased numerous bonds from a company called International Fidelity & Surety, Ltd. ("IFS"). Immediately after his appointment, the Receiver interviewed a former officer of IFS and obtained extensive bank records exposing the company

as a sham run by the two individuals who sold IFS bonds in the United States—David Goldenberg and Mark Wolok. On March 6, 2007, the Receiver filed a lawsuit against IFS, Goldenberg, and Wolok for breach of contract and fraud.

During the course of that litigation, Goldenberg committed suicide. Working with criminal authorities in California, the Receiver discovered that Goldenberg left behind a life insurance policy payable to one of his companies. After extensive negotiations with the Goldenberg family, the Receiver managed to recover the full \$3,127,412.48 death benefit from that policy.

LaMonda later claimed he should be entitled to 25% of that amount based upon “assistance” he supposedly provided. LaMonda’s claim is completely bogus. The Receiver knew of his claim against IFS from the day he was appointed and was solely responsible for investigating the company and gathering the evidence that proved it was a sham. The Receiver filed his lawsuit on March 6, 2007—only 110 days after being appointed. (Compl. [Doc. No. 1], No. 3:07-cv-0421-P.). When Goldenberg committed suicide on October 15, 2007, it was the Receiver who discovered the life insurance policy and who immediately began negotiating with Goldenberg’s family for the death benefit proceeds. All of this was done without the Receiver ever asking for or receiving LaMonda’s assistance. In fact, the Receiver never even met with LaMonda and his counsel until December 5, 2007—a full nine months after filing the IFS lawsuit and several weeks after Goldenberg’s death. The Receiver even told LaMonda at that meeting that there was no “assistance” he could provide in connection with the IFS lawsuit and nothing would be paid in that regard under the Settlement Agreement.

This Court has already denied LaMonda’s first motion seeking a 25% payment from the Goldenberg life insurance policy. (Order [Doc. No. 282].) That decision is on appeal to the

Fifth Circuit Court of Appeals. Nevertheless, LaMonda has now filed a separate complaint asking for declaratory judgment that the Receiver must pay LaMonda for “assistance” he supposedly provided in recovering “\$3.2 million from various assets and lawsuits.” (Compl. [Doc. No. 1] at 13-14, No. 3:10-CV-1190-P-BH.) The Receiver believes this is just more frivolous litigation designed to disrupt the receivership proceedings, drain money from the estate, and extort money in return for LaMonda’s cooperation in selling the house in Kissimmee, Florida.

E. Pending Litigation

1. C. Keith LaMonda / LaMonda’s House in Kissimmee, Florida

The Court has resolved all of the SEC’s claims against LaMonda and he is now terminated as a party in this case. LaMonda, however, recently filed a series of motions trying to gain influence over the receivership proceedings. First he asked to represent himself and to continue appearing in this case as though he were a party. Then he asked that the Receiver account for the assets collected with his supposed “assistance.” The Receiver believes that both motions were frivolous and that the Court correctly denied them. (Order [Doc. 282].) LaMonda is now appealing those rulings to the Fifth Circuit Court of Appeals even though the Magistrate Judge determined that “the appeal is not taken in good faith.” (Recommendation [Doc. 285].) The Receiver has no doubt LaMonda will pursue his appeal as far as possible in an effort to disrupt these proceedings and extort funds from the Receiver.

The Receiver also has a judgment in Osceola County, Florida, that forecloses his \$1,425,000 equitable lien on LaMonda’s house in Kissimmee. LaMonda has appealed that decision to the Florida Fifth District Court of Appeals and the parties are awaiting a decision.

Again, the Receiver expects LaMonda will exhaust his appeals to delay foreclosure as long as possible.

LaMonda also recently filed a separate complaint asking for the following declaratory judgments: (1) that the Receiver has unlawfully foreclosed the \$1,425,000 lien against the house in Kissimmee; (2) that the Receiver has failed to pay expenses in connection with that house; (3) that the Receiver has removed LaMonda's spouse from that house and improperly listed it for sale; and (4) that the Receiver has failed to pay LaMonda for "assistance" he supposedly provided in recovering "\$3.2 million from various assets and lawsuits." (Compl. [Doc. No. 1], No. 3:10-CV-1190-P-BH.) This newest lawsuit just duplicates the exact issues already pending before the Fifth Circuit Court of Appeals and the Florida Fifth District Court of Appeals. It is frivolous litigation designed to drain money from the receivership estate.

2. Albatross / DMH Stallard / Christopher John William Stenning

ABC represented that its investments were "bonded" life settlements, meaning each policy had a bond that was supposed to pay an amount equal to the policy's face value if the insured lived beyond a certain date. Upon being appointed, the Receiver took possession of 55 policies from ABC. Of those, 19 policies with a combined face value exceeding \$82.3 million were supposedly backed by bonds issued by an Italian company called Albatross Invest S.p.a. ("Albatross"). Before going into receivership ABC paid more than \$9.7 million for Albatross bonds backing those and other policies.

In connection with purchasing those bonds, ABC hired a law firm in the United Kingdom called DMH Stallard ("DMHS") to conduct due diligence into Albatross and confirm that the company had the financial resources to pay its bond obligations. That investigation was handled by a partner at DMHS named Christopher John William Stenning ("Stenning"). At the time,

ABC's primary concern was that Albatross had been touting its financial strength through letters of credit from HSBC and Banca di Roma that proved to be forgeries.

Between November 2005 and March 2006, Stenning visited Italy and made inquiries to determine: (1) whether Albatross was a legitimate bonding company; (2) whether Albatross's new letter of credit from Unicredit Xelion bank ("Unicredit") was valid; (3) whether a Unicredit employee named Rafael Tazza had authority from Unicredit to guarantee payment of Albatross's bonds; and (4) whether a supporting legal opinion from an Italian lawyer named Avv. Coluccio was legitimate and correct. Stenning stated his inquiries also included any other questions he thought were appropriate. On March 2, 2006, he issued an opinion letter on behalf of DMHS concluding that both Albatross's and Unicredit's obligations to ABC were valid and enforceable.

Upon being appointed, the Receiver hired Studio Legale Sutti as his Italian counsel to investigate Albatross and determine whether the \$82.3 million of bonds it issued to ABC had any value. The Receiver discovered that at least one of Albatross's principal officers had a criminal record and that Unicredit said its support letters to Albatross were forgeries. The Receiver then filed a criminal complaint asking the Italian government authorities to seize Albatross's assets. The Italian government investigated Albatross, determined it was an insolvent criminal enterprise, and has placed it in insolvency proceedings in Italy. The Receiver filed a claim in those proceedings to recover the funds that ABC paid in connection with its Albatross bonds. Mysteriously, the Italian court denied ABC's claim as untimely and not supported by the evidence. The Receiver has decided not to appeal that decision since it is now clear that any potential distribution from Albatross's estate would be greatly outweighed by the expense of pursuing an appeal in Italy.

The Receiver also hired Blake Laphorn as his counsel in the United Kingdom in order to file a lawsuit there against DMHS and Stenning. Although he considered filing that action in the United States, his counsel in the United Kingdom advised that doing so could present problems when it comes to enforcing and collecting a judgment against DMHS and its malpractice insurance carrier. Since the Receiver believes he has a meritorious claim that is covered by DMHS's malpractice policy, he decided to file the lawsuit in the High Court of Justice Chancery Division in London. His lawsuit alleges that DMHS and Stenning breached their retainer agreement and their common law duty of care by failing to discover: (1) that Albatross was a sham company issuing fraudulent bonds; (2) that Albatross lacked the assets to meet its bond obligations to ABC; (3) that Rafael Tazza did not have authority to bind Unicredit to the guarantees that supposedly backed the Albatross bonds; and (4) that Albatross had no good reason for touting its financial strength through other support letters already known to be forgeries. The Receiver claims DMHS and Stenning are liable for \$5,578,000 that ABC paid to Albatross after relying upon their due diligence and opinion letter. Trial is expected to be scheduled in London sometime between November 2011 and March 2012. The Receiver will continue trying to resolve that matter through settlement if possible.

Consistent with local procedures to deter frivolous lawsuits, DMHS and Stenning have asked the Receiver to post security to cover their expected costs and attorneys fees. The Receiver is exploring his options and will ask this Court for approval before he posts any such form of security.

3. Erwin & Johnson LLP and Christopher R. Erwin

The Receiver, through his special counsel Borod & Kramer (n/k/a Kramer & Crone) filed a lawsuit in this court against Erwin & Johnson LLP and its principal agent, Christopher R.

Erwin, (collectively, "E&J") for breaching their trust agreement with ABC. The trust agreement required E&J to set up escrow accounts with enough money to pay premiums through each policy's bond maturity date. If E&J had properly done so, those accounts would have held nearly \$20 million when the Receiver was appointed. Instead E&J had only one premium escrow account containing \$280,146.14. The Receiver has sued E&J for the difference.

E&J filed a third-party complaint against Mills, Potoczak & Co. ("Mills Potoczak") which was ABC's previous trustee. E&J claims that at least part of the premium escrow deficit occurred while Mills Potoczak was in charge. Mills Potoczak says it resigned precisely because ABC refused to fund the premium escrow accounts correctly.

E&J also filed a third-party complaint against DMHS and Stenning alleging that they somehow contributed to the premium escrow deficit. The Court has denied their motion to dismiss for lack of jurisdiction and denied in part their motion to dismiss for failure to state a claim. (Orders [Docs. 142, 152], No. 3:07-CV-1153-P.) As a result, DMHS and Stenning will remain third-party defendants in this case although they have not yet participated in any written discovery or document production. The reality is that the joinder of Mills Potoczak, DMHS, and Stenning have greatly expanded the scope of discovery in this case and increased the number of fact witnesses and experts that will be designated and deposed. A scheduling and settlement conference occurred on January 3, 2011, and the Receiver hopes to quickly conclude written discovery and document production so the parties move on to designating experts and conducting depositions. The parties will file a joint status report by January 18, 2011, that sets out the status of settlement negotiations and requests a trial date.

4. Jason Sun

Jason Sun received commissions for bringing Taiwanese investors into the ABC investment scheme. The Receiver filed a motion to disgorge Sun's commissions but then engaged Sun in lengthy document production and settlement negotiations. Since the parties have not reached an acceptable agreement, the Receiver intends to renew his motion seeking judgment against Sun.

II. Receivership Expenses

A. Expenses to Monitor/Manage the Assets

The vast majority of the expenses spent by the Receiver to date relate to maintaining the portfolio of 55 life insurance policies. From November 17, 2006, to October 31, 2010, the Receiver paid the following amounts in connection with those policies:

<u>Description</u>	<u>Amount</u>
Management of policies by NVI	78,807.75
Premiums to insurance companies	16,620,561.58
Interest and loan fees to the bank	1,076,307.27
Portfolio Valuation/Actuarial	31,851.25
Break-up fee to the original highest bidder	1,000,000.00
Total:	18,807,527.85

In the aggregate these fees total 29.67% of the amount recovered to date by the Receiver.

B. Professional Fees

From November 17, 2006, to October 31, 2010, the Receiver has paid \$4,746,410.47 to retained professionals. In the aggregate these professional fees total 7.49% of the amount recovered to date by the Receiver. Below is a summary of the work done by each firm and the professional fees paid to them.

1. QSCL

Quilling Selander Cummiskey & Lownds, P.C. ("QSCL") is a law firm in Dallas, Texas, that employs the Receiver and his attorneys, paralegals, legal assistants, and claim analysts who have handled the numerous complex issues involved in this case.³

Among many other things, the attorneys and staff at QSCL provided assistance to the Receiver by: (a) identifying and taking control of assets from ABC and LaMonda, including real estate, vehicles, and the portfolio of 55 life insurance policies; (b) overseeing the management and sale of real estate and other property seized from LaMonda; (c) overseeing management of the 55 life insurance policies and making the critical decisions relating to each of those policies; (d) conducting due diligence and gathering the records necessary to sell the policies to potential bidders; (e) marketing the life insurance policies for sale; (f) overseeing the procedures that resulted in an initial stalking-horse bidder; (g) conducting the two-day evidentiary hearing that resulted in the final bid and sale of the life insurance policies; (h) acquiring the bank records that showed how ABC and LaMonda spent investor money; (i) investigating IFS, Goldenberg, Wolok and determining the Receiver's claims against them; (j) investigating Chris Erwin and E&J and determining the Receiver's claims against them; (k) investigating DMHS and Stenning and determining the Receiver's claims against them; (l) investigating Jason Sun and determining the Receiver's claims against him; (m) meeting with numerous investors and investor representatives located in the U.S., Puerto Rico, and Taiwan; and (n) developing the claims process and handling the communications and investigation needed to recommend approval or disapproval of nearly 4,000 claims.

³ Since the Receiver filed his last fee application, QSCL has changed its name to Quilling Selander Lownds Winslett & Moser, P.C.

Through October 31, 2010, the receivership estate paid QSCL \$2,572,148.93 and is still holding \$236,803.65 as the court-ordered holdback. Assuming the holdback is eventually approved, the total fees paid to QSCL equate to 4.43% of the amount collected by the Receiver.

2. Munsch Hardt

Munsch Hardt Kopf & Harr, P.C. ("Munsch Hardt") is a law firm based in Dallas, Texas, that employs the Examiner and his attorneys and legal assistants who handled various issues that affected the investors' interests. (Order Appointing Examiner [Doc. No. 12].) Among many other things, the attorneys and staff at Munsch Hardt have provided valuable input and assistance on the investors' behalf by: (a) serving as the primary point of communications with all investors; (b) meeting with numerous investors and investor representatives located in the U.S., Puerto Rico, and Taiwan; (c) consulting with the Receiver on the claims and distribution process to ensure that investor concerns are taken into account; (d) advising the Receiver of various problems raised by investors and overseeing orderly and fair resolutions of them; (e) thoroughly examining financial records to help determine the prior expenses and expected value of ABC's portfolio of 55 life insurance policies in anticipation of sale; (f) ensuring the portfolio of life insurance policies was thoroughly marketed to prospective purchasers; and (g) consulting and advising the Receiver on litigation decisions to ensure they will result in a net recovery for the estate.

Through October 31, 2010, the receivership estate paid Munsch Hardt \$1,090,750.44, which includes \$56,996.70 in holdbacks the Court authorized to be paid. (Orders [Doc. Nos. 181, 182, 213, 139].) The receivership estate is still holding \$33,459.08 as the court-ordered holdback. Assuming the holdback is eventually approved, the total fees paid to Munsch Hardt equate to 1.77% of the amount collected by the Receiver.

3. Borod & Kramer

Borod & Kramer, P.C. ("B&K") is a law firm in Memphis, Tennessee, that the Receiver retained as his special counsel for pursuing litigation against defendants located in the United States.⁴ Among other things, the attorneys and staff at B&K provided assistance to the Receiver by: (a) conducting the two-day evidentiary hearing that resulted in the final bid and sale of the life insurance policies; (b) overseeing litigation against IFS, Goldenberg, Wolok and negotiating the settlement that paid death benefits from Goldenberg's life insurance policy to the receivership estate; and (c) overseeing litigation against Chris Erwin and E&J and their cross-claims against Mills Potoczak, DMHS, and Stenning.

Through October 31, 2010, the receivership estate paid B&K \$119,166.39 and is still holding \$12,716.86 as the court-ordered holdback. Assuming the holdback is eventually approved, the total fees paid to B&K equate to 0.21% of the amount collected by the Receiver.

4. LSSM

Litzler, Segner, Shaw & McKenney LLP ("LSSM") is an accounting firm in Dallas, Texas, that the Receiver retained to provide forensic accounting, financial accounting, and tax services. Among other things, the accountants and staff at LSSM provided significant assistance to the Receiver by: (a) preparing summaries of ABC's, E&J's, and LaMonda's accounts that show how investor money was spent; (b) providing the analysis to prove that ABC was an insolvent Ponzi scheme; (c) calculating the amount that ABC's premium escrow account was underfunded at all points in time; and (d) providing financial accounting and tax services to the receivership estate that tracks its income and expenses.

⁴ Since the Receiver filed his last fee application, B&K has changed its name to Kramer & Crone, PLC.

Through October 31, 2010, the receivership estate paid LSSM \$524,870.44 and is still holding \$56,482.88 as the court-ordered holdback. Assuming the holdback is eventually approved, the total fees paid to LSSM equate to 0.92% of the amount collected by the Receiver.

5. Tom Tong

Tong & Sung P.C. ("T&S") is a law firm in Houston, Texas, that the Receiver retained to provide translation services for communicating with the Taiwanese investors. Among other things, the attorneys and staff at T&S provided assistance to the Receiver by: (a) serving as the primary point of communications with the thousands of Taiwanese investors and sales agents who have an interest in this lawsuit; (b) translating the numerous inquiries from investors and the responses by the Examiner, Receiver, and SEC; (c) translating investor updates, important pleadings filed in this lawsuit, and explanations that appear on the Examiner's and the Receiver's websites; and (d) providing translation services during meetings with investors from Taiwan.

Through October 31, 2010, the Receiver paid T&S \$157,299.93, which includes \$13,339.10 in holdbacks the Court authorized to be paid. (Order [Doc. No. 223].) The total fees paid to T&S equate to 0.25% of the amount collected by the Receiver.

6. Blake Laphorn

Blake Laphorn is a law firm based in London that the Receiver retained to pursue litigation in the United Kingdom against DMHS and Stenning. Among other things, the attorneys and staff at Blake Laphorn have provided substantial assistance to the Receiver by: (a) assisting in the investigation of DMHS, Stenning, and Albatross and gathering information about them from other parties located outside the United States; (b) determining what claims the Receiver has against DMHS and Stenning; (c) advising the Receiver about the realities of litigation, collection, and settlement in the United Kingdom; (d) preparing the extensive claim of

particulars against DMHS and Stenning and filing it to initiate the lawsuit; and (e) handling the burdensome pre-suit and discovery procedures required in the United Kingdom.

The Receiver retained Blake Laphorn intending to file the lawsuit against DMHS and Stenning in an expedient and inexpensive manner. The realities of litigating in the United Kingdom, however, demand a great deal more investigation, analysis, and proof of each allegation before filing suit than is required in the United States. That substantial but necessary work has been done. Through October 31, 2010, the Receiver paid Blake Laphorn \$226,914.49 that, in his estimation, was necessary to proceed with his \$5,578,000 claim against DMHS and Stenning. The Receiver paid those fees without a holdback because Blake Laphorn does not work under that arrangement and always insists upon full payment. The Receiver will be filing a motion to approve Blake Laphorn's fees paid to date. The total fees paid to Blake Laphorn equate to 0.36% of the amount collected by the Receiver.

7. Studio Legale Sutti

Studio Legale Sutti ("Studio Legale") is a law firm based in Italy that the Receiver retained to investigate Albatross and pursue claims in Albatross's insolvency proceedings in Italy. Among other things, the attorneys and staff at Studio Legale have provided assistance to the Receiver by: (a) assisting in the investigation of Albatross and gathering information about it from documents and other parties located in Italy; (b) preparing a report about Albatross, its finances, various litigation pending against it, and its principal officer's criminal record; (c) filing claims to recover money through criminal proceedings and insolvency proceedings in Italy; (d) monitoring those proceedings and advising about the expected recovery that will be distributed to claimants; and (e) translating important documents supporting the Receiver's claims against DMHS and Stenning.

Through October 31, 2010, the Receiver paid Studio Legale \$13,546.82 without a holdback because the expenses were relatively small and Studio Legale also insists upon full payment. The Receiver will be filing a motion to approve Studio Legale's fees paid to date. The total fees paid to Studio Legale equate to 0.02% of the amount collected by the Receiver.

8. Lowndes Drosdick

Lowndes, Drosdick, Doster, Kantor & Reed, P.A. ("Lowndes Drosdick") is a law firm based in Florida that the Receiver retained to handle specialized real estate litigation involving LaMonda's house in Kissimmee, Florida. Among other things, the attorneys and staff at Lowndes Drosdick have provided assistance to the Receiver by: (a) advising him about his options to proceed with litigation against the Kissimmee house under Florida law; (b) filing the lawsuit in Florida that foreclosed the Receiver's equitable lien against the Kissimmee house; and (c) responding to LaMonda's pleadings and his appeal of the foreclosure judgment.

Through October 31, 2010, the Receiver paid Lowndes Drosdick \$41,713.03 that, in his estimation, was necessary to foreclose his lien in an expedited manner. He paid that amount without a holdback because the work was limited and the expenses were relatively small. The Receiver will be filing a motion to approve Lowndes Drosdick's fees paid to date. The total fees paid to Lowndes Drosdick equate to 0.07% of the amount collected by the Receiver.

**III.
Investor Claims & Interim Distribution**

The Receiver has reviewed all investor claims received to date and made his recommendations that the Court allow, disallow, or adjust each one. All of the claims have been resolved by Court orders. In summary, the Court has allowed 3,897 claims against the receivership estate totaling \$115,901,079.36. (Orders [Doc. Nos. 141, 144, 149, 160, 177, 199, 209, 212, 271, 253, 272, 274, 276].) A schedule of those allowed claims is attached as Exhibit 2.

Although the Receiver is still trying to recover more assets for the receivership estate through litigation, he believes he has enough money to make a meaningful interim distribution to the investors. He, therefore, asks for authority to make a \$15 million *pro rata* interim distribution to all of the allowed claimants. A \$15 million distribution would pay 12.94% of the total allowed claims, meaning each investor would receive 12.94% of his or her allowed claim at this time and perhaps more in the future after all the pending litigation and asset sales are concluded. This distribution amount is calculated as follows:

$$\begin{array}{rcl} \frac{\text{Amount to be Distributed}}{\text{Total Allowed Claims}} & = & \text{Distribution Percentage} \\ \\ \frac{\$ 15,000,000.00}{\$115,901,079.36} & = & 12.94\% \end{array}$$

The schedule attached as Exhibit 2 shows the exact amount each approved claim would receive through this interim distribution.

The Receiver anticipates significant costs in making this interim distribution given the large number of claims and the fact that most checks will go to claimants in Taiwan and others will go to Puerto Rico. Based on past experience from other cases involving thousands of investors, unforeseen problems are sure to arise. By way of example, a significant number of checks always come back undelivered even though investors are supposed to contact the Receiver when they change addresses. Often the actual claimants have died and the Receiver has to locate and verify the estate administrator who can receive payments. Some claimants try altering the names or amounts on their checks in an effort to commit bank fraud. Finally, even when there are no problems with any claims, an interim distribution always brings a lot of telephone calls from investors who want a personal explanation about their claim, the amount of their check, the status of the case, and how much they can expect from the next distribution.

Obviously the Receiver and Examiner do their best to answer all those questions both through the website and in a letter that is sent with the checks, but there are always investors who will make further inquiries by phone. Taking all this into consideration along with check printing costs, postage, and the professional time required for claim analysts to address these issues, the anticipated costs are expected to be around \$150,000.

Recent activity also suggests that theft and fraud could be potential problems. The Receiver has identified at least 66 separate instances where Taiwanese investors and their sales agents were both trying to assert ownership of the same approved claims. Each of those cases has been resolved but many Taiwanese investors insist that their top priority is to ensure that checks are distributed securely, privately, and with procedures in place to verify each recipient's identity.

With that in mind, the Receiver has worked out some proposed procedures with the Examiner and investor representatives. Originally he planned to send all checks to one investor representative that he trusted to personally oversee distribution. Ultimately, however, that person decided she did not want that much responsibility. The Receiver now intends to hire a well-respected law firm in Taiwan that can distribute checks in a way that prevents fraud and abuse.

As a first step, the Receiver proposes mailing a notice to all Taiwanese claimants that explains the following:

1. The notice will provide the address for a Chinese-language website listing each claimant's name and approved claim number. All claimants should locate their names on that list, confirm the English transliteration that will appear on their checks, and take note of the

claim number assigned to them. Any claimants that notice a problem with their names or claim numbers will be instructed to promptly contact the Receiver or Examiner to resolve it.

2. The notice will provide the date and location for claimants to start appearing at the law firm to receive their checks.

3. The notice will explain that claimants must personally appear at the law firm, provide their claim number, present a government-issued photo identification (which will be photocopied), and sign a verification that they received their check.

The law firm will regularly report to the Receiver's claim analysts about checks distributed each day. This will allow the claim analysts to compare those names and amounts against the debits posted on the Receiver's bank account.

Although these procedures are detailed, the Receiver believes they are necessary safeguards given the complexity of the task and the concerns stated by the Taiwanese investors.

IV. Conclusion

The Receiver asks this Court to approve this interim status report and, if necessary, to set a hearing and then enter an order authorizing him to make a \$15 million interim distribution to the approved claimants consistent with Exhibit 2. He also asks for such other and further relief, general or special, at law or in equity, to which he may otherwise be entitled.

Respectfully submitted,

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ATTORNEYS FOR RECEIVER

CERTIFICATE OF CONFERENCE

I hereby certify that prior to the filing of this motion, I contacted counsel for the SEC and the Examiner and they agree to the relief requested.

/s/ Michael J. Quilling
Michael J. Quilling

CERTIFICATE OF SERVICE

A copy of this pleading was served on all interested parties through the Court's electronic filing system and by U.S. Mail to:

C. Keith LaMonda
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/s/ Michael J. Quilling
Michael J. Quilling