

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

Michael J. Quilling,
a United States Citizen

Plaintiff,

V.

Gary McDuff,
State of Texas citizen

Defendant.

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Civil Action No. 3:06-C V-0959-L (BD)
ECF

Referred to the U.S. Magistrate Judge

NOTICE OF SANCTION

NOTICE OF SANCTION

Comes now Gary McDuff making a special visitation in the jurisdiction of the UNITED STATES DISTRICT COURT, FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION, in restricted appearance, without waving any rights, remedies, or defenses.

NOTICE OF SANCTION

I hereby present to Michael J. Quilling, a United States Citizen, this NOTICE OF SANCTION for errors contained in your declaration of October 20, 2006, which you presented to the UNITED STATES DISTRICT COURT. I hereby grant you twenty (20) days, until May 10, 2007, to correct the following errors in your declaration. Your failure will incur a set certain penalty of three hundred thousand (300,000.00) U.S. dollars or their equivalent.

ERRORS

You, Michael J. Quilling declared in item 1:

“I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance

with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

1. This Declaration is offered in support of the Motion for Summary Judgment and Brief in Support, filed simultaneously herewith.”

Correction #1: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black’s Law Dictionary defines “personal knowledge” as “[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said.” Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 2:

“I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

2. My name is Michael J. Quilling. I am a shareholder with the law firm of Quilling, Selander, Cummiskey & Lownds, P.C. and an attorney licensed to practice in the State of Texas.”

Correction #2: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Your personal information is not a material fact of Megafund Corporation or the Lancorp Financial Group, LLC. Black’s Law Dictionary defines “personal knowledge” as “[k]nowledge

gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 3:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

3. On July 1, 2005, the Securities and Exchange Commission ("SEC") initiated SEC v. Megafund Corporation, et al., Civil Action No. 3:05-CV-1328-L (N.D. Tex.) (the "Receivership Proceeding"). In its Complaint the SEC alleged that Stanley A. Leitner ("Leitner"), the director of Megafund Corporation ("Megafund"), falsely promised investors a 10% monthly return on investments and then diverted their money towards various personal and undisclosed expenses. Complaint [Dkt. No. 1] at ¶¶ 17, 20 (3:05-CV-1328)."

Correction #3: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 4:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance

with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

4. In connection with that lawsuit, the SEC sought to have a receiver appointed for the defendants and relief defendant in that case. The Court appointed me as Receiver for Megafund, Leitner, and others and I have since continued to function in that capacity. Order Appointing Temporary Receiver [Dkt. No. 9], as amended July 19, 2005 [Dkt. No. 36] (3:05-CV- 1328).”

Correction #4: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black’s Law Dictionary defines “personal knowledge” as “[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said.” Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 5:

“I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

5. In January 2006, the receivership was expanded to include Lancorp Financial Group, LLC and Lancorp Financial Fund Business Trust (collectively, "Lancorp"). The Court appointed me as Receiver for those entities and I have since continued to function in that capacity. Agreed Order Expanding Receivership and Appointing Receiver [Dkt. No. 84], as amended March 1, 2006 [Dkt. No. 98] (3:05-CV-1328).”

Correction #5: The Truth is Michael J. Quilling, you are not a competent first hand

nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 6:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

6. As Receiver, I have investigated the businesses, transactions, assets, liabilities, books, and records of Leitner, Megafund, and Lancorp. I have also interviewed witnesses, taken depositions, and reviewed all available documents concerning their underlying investment programs."

Correction #6: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 7:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

7. That investigation has caused me to conclude that Leitner operated a Ponzi scheme and fraudulent investment program through Megafund, an entity under his sole direction and control. Leitner relied on friends and associates to solicit investors for Megafund in exchange for commissions or other compensation. The investors sent money to Megafund's accounts at Wells Fargo Bank and SouthTrust Bank. Leitner assured investors that their funds would be sent to a "Trader" to execute various trades on their behalf and that their principal investments were never at risk. Megafund, however, was not a licensed securities broker and was never operated in a manner consistent with Leitner's representations. Instead, as investors sent their money to Megafund, Leitner fraudulently diverted large amounts as Ponzi payments to earlier investors."

Correction #7: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 8:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance

with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

8. Account records confirm that Megafund operated as a classic Ponzi scheme. A Ponzi scheme exists where money from new investors is used to pay "profits" to earlier investors, without the operation of an actual revenue-producing business. The Receiver has taken possession of Megafund's account records at Wells Fargo Bank and SouthTrust Bank, where Leitner received all known investor contributions. These account records are voluminous so the Receiver's accountant has prepared spreadsheet summaries attached as Exhibits "1" and "2", which are fully incorporated for all purposes. These bank records clearly establish that: (1) investor funds constituted virtually all of Megafund's revenue; (2) those funds were commingled and used for expenses not related to any legitimate investment; and (3) any investment "returns" to earlier contributors were actually Ponzi payments from the commingled funds of later contributors."

Correction #8: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 9:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance

with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

9. Gary McDuff was one of Leitner's associates who helped solicit new investors into the Megafund investment scheme. According to Megafud records, McDuff introduced at least 100 investors to the Megafund and Lancorp investment schemes.”

Correction #9: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines “personal knowledge” as “[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said.” Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 10:

“I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

10. In conducting business with Megafund and Lancorp, McDuff acted in his individual capacity as well as d/b/a Secured Clearing Corp, First Global Foundation, and Southern Trust Co. (collectively "Defendant").”

Correction #10: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC.

Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 11:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

11. Defendant also helped create a separate investment vehicle called Lancorp. Defendant was centrally involved in Lancorp's affairs and, with the help of Robert Reese, recruited all of the investors who contributed money to Lancorp. Of the millions of dollars generated by May 2005, Lancorp sent \$9,365,000.00 to Megafund—making it Megafund's largest investor."

Correction #11: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 12:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

12. For his efforts, Defendant received \$304,272.58 as his share of Megafund's Ponzi payments to Lancorp. These funds were laundered through accounts held by MexBank and First Global Foundation, but at least \$240,000.00 were eventually forwarded to accounts managed by Defendant, his wife, and Robert Reese. In addition, Defendant used a significant portion of those funds to purchase the house at 1318 Minchen Drive in Deer Park, Texas."

Correction #12: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 13:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

13. Although Defendant went to great lengths to launder the \$304,272.58 through various accounts, I have reviewed account records that clearly trace those funds back to Defendant and his associates. The results of this investigation are summarized in the diagram attached as

Exhibit "3" and fully incorporated for all purposes. This diagram reflects information contained in the records of Megafund's Wells Fargo and SouthTrust accounts, Lancorp's Bank of America account, and various accounts maintained by Defendant and his associates through Cash Cards International ("CC"). These account records are voluminous so spreadsheet summaries are attached as Exhibits "4", "5", "6", "7", "8", and "9" and fully incorporated for all purposes."

Correction #13: The Truth is Michael J. Quilling, you are not a competent first hand nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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You, Michael J. Quilling declared in item 14:

"I, Michael J. Quilling, do hereby declare under penalty of perjury and in accordance with 28 U.S.C. § 1746, that the following is true and correct, that this declaration is made of my own personal knowledge, and that I am competent to testify as to the matters stated herein:

14. These records show that two payments totaling \$304,272.58 were wired according to Defendant's instructions as compensation for recruiting investors. Without question, both of these payments can be traced directly to the Ponzi scheme. Those funds, therefore, constitute either fraudulent transfers or proceeds therefrom that were, at all times, impressed with a constructive trust for the benefit of the defrauded investors."

Correction #14: The Truth is Michael J. Quilling, you are not a competent first hand

nor a personal knowledge witness of the following facts, as you are not a party in interest, only a temporary receiver investigating Megafund Corporation and the Lancorp Financial Group, LLC. Black's Law Dictionary defines "personal knowledge" as "[k]nowledge gained through firsthand observation or experience as distinguished from a belief based on what someone else has said." Your opinion fails to rise to the level of evidence, and your action has misled the Court. You are to correct your error and inform the court of your action.

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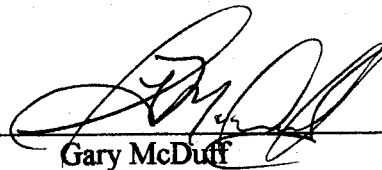
SIGNED this 20th day October 2006.

Signed /s/ Michael J. Quilling

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Presented this 20th of April 2007.

By



Gary McDuff

c/o 1314 Minchen Drive
Deer Park, Texas 77536

(Name and Address) Server Gloria Lobo, Notary 7446 Elbridge Deer Park, Texas 77536	FOR COURT USE ONLY
(Name and Address) Party Served Michael J. Quilling c/o The Bryan Tower 2001 Bryan Street, Suite 1800 Dallas, Texas 75201-3070	
<p align="center">PROOF OF SERVICE BY MAIL</p>	Number 7004 1350 0002 5075 9073

I the undersigned, state that I am over the age of eighteen years and not a party to the within action; that my business address is 7446 Elbridge, Deer Park, Texas 77536

that on the date set out below. I served a copy of the attached:

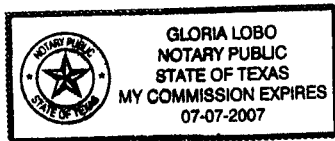
Notice of Sanction, dated April 20, 2007

served personally: Upon each party listed below by placing such a copy, enclosed in a sealed envelope with prepaid postage thereon, in the UNITED STATES mail at Deer Park, Texas, addressed to each party listed below.

Michael J. Quilling
 c/o The Bryan Tower
 2001 Bryan Street, Suite 1800
 Dallas, Texas 75201-3070

I declare under penalty of perjury under the laws of the United State of America and the Laws of the state of Texas, that the foregoing is true and correct.

Executed on April ²⁴20, 2007, at Deer Park, Texas.



By: Gloria Lobo
 Gloria Lobo, Notary

(Name and Address) Server Gloria Lobo, Notary 7446 Elbridge Deer Park, Texas 77536	FOR COURT USE ONLY
(Name and Address) Party Served Michael J. Quilling c/o The Bryan Tower 2001 Bryan Street, Suite 1800 Dallas, Texas 75201-3070	
PROOF OF SERVICE BY MAIL	Number 7004 1350 0002 5075 9080

I the undersigned, state that I am not a party to the within
 action; that my business address is 77536

that on the date set out below

NOTICE OF
 Civil Action No.

Original

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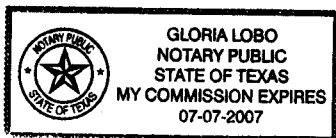
served personally: Upon each
 envelope with prepaid postage
 to each party listed below.

, enclosed in a sealed
 envelope, Deer Park, Texas, addressed

Michael J. Quilling
 c/o The Bryan Tower
 2001 Bryan Street, Suite
 Dallas, Texas 75201-3070

I declare under penalty of perjury under the laws of the United State of America and the Laws
 of the state of Texas, that the foregoing is true and correct.

Executed on April 20, 2007, at Deer Park, Texas.



By: Gloria Lobo
 Gloria Lobo, Notary

(Name and Address) Server Gloria Lobo, Notary 7446 Elbridge Deer Park, Texas 77536	FOR COURT USE ONLY
(Name and Address) Party Served QUILLING, SELANDER, CUMMISKEY, LWNDS, P.C. c/o The Bryan Tower 2001 Bryan Street, Suite 1800 Dallas, Texas 75201-3070	
<p style="text-align: center;">PROOF OF SERVICE BY MAIL</p>	Number 7004 1350 0002 5075 9097

I the undersigned, state that I am over the age of eighteen years and not a party to the within action; that my business address is 7446 Elbridge, Deer Park, Texas 77536

that on the date set out below. I served a copy of the attached:

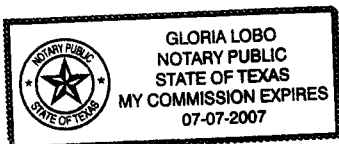
NOTICE OF NOTICE OF SANCTION, dated April 20, 2007
 Civil Action No. 3:06-C V-0959-L (BD) ECF

served personally: Upon each party listed below by placing such a copy, enclosed in a sealed envelope with prepaid postage thereon, in the UNITED STATES Deer Park, Texas, addressed to each party listed below.

QUILLING, SELANDER, CUMMISKEY, LWNDS, P.C.
 c/o The Bryan Tower
 2001 Bryan Street, Suite 1800
 Dallas, Texas 75201-3070

I declare under penalty of perjury under the laws of the United State of America and the Laws of the state of Texas, that the foregoing is true and correct.

Executed on April ²⁴ 2007, at Deer Park, Texas.

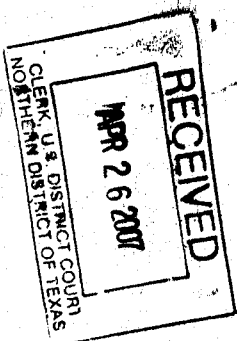


By: Gloria Lobo
 Gloria Lobo, Notary

Without prejudice
c/o 1314 Minchen Drive
Deer Park, Texas [77536]



Karen Mitchell, Clerk
United States District Court
1100 Commerce, Room 1452
Dallas, Texas 75242



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