

1 **BOUTIN GIBSON DI GIUSTO HODELL INC.**
Chris Gibson, SBN 073353
2 Maralee MacDonald, SBN 208699
555 Capitol Mall, Suite 1500
3 Sacramento, CA 95814-4603
(916) 321-4444
4

5 **QUILLING, SELANDER, CUMMISKEY**
& LOWNDS, P.C.
Michael J. Quilling (Tex. Bar No. 16432300) – Admitted Pro Hac Vice
6 D. Dee Raibourn, III (Tex. Bar No. 24009495) – Admitted Pro Hac Vice
Brent J. Rodine (Tex. Bar No. 24048770) – Admitted Pro Hac Vice
7 2001 Bryan Street, Suite 1800
Dallas, TX 75201
8 Telephone: (214) 871-2100
Facsimile: (214) 871-2111
9

10 Attorneys for Michael J. Quilling
Receiver of Defendants Secure Investment Services, Inc.,
American Financial Services, Inc., and Lyndon Group, Inc.
11

12 UNITED STATES DISTRICT COURT
13 EASTERN DISTRICT OF CALIFORNIA
14 SACRAMENTO DIVISION
15

16 SECURITIES AND EXCHANGE COMMISSION,

17 Plaintiff,

18 v.

19 SECURE INVESTMENT SERVICES, INC.,
AMERICAN FINANCIAL SERVICES, INC.,
20 LYNDON GROUP, INC., DONALD F. NEUHAUS,
and KIMBERLY A. SNOWDEN,

21 Defendants.

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

**MOTION FOR AUTHORIZATION
TO ABANDON THE SLE-K(3)
POLICY**

Date: June 30, 2008

Time: 9:00 a.m.

Judge: Hon. Garland E. Burrell, Jr.

22 TO THE HONORABLE GARLAND E. BURRELL, JR., UNITED STATES DISTRICT
23 JUDGE:

24 Michael J. Quilling, the Receiver appointed in these proceedings (“Receiver”), files this
25 Motion for Authorization to Abandon the SLE-K(3) Policy and in support would show the
26 following:
27
28

1 1. By Orders dated August 24, 2007 and October 30, 2007, the Receiver was
2 appointed by this Court and charged with having, *inter alia*, “complete and exclusive control,
3 possession and custody of all receivership assets.”

4 2. In that the Receiver was not appointed as to Donald Neuhaus individually and
5 because some of the insurance policies involving investors were held wholly or partially in his
6 individual name, the Receiver negotiated, and received Court approval of [Dkt. No. 72], a
7 Compromise and Settlement Agreement with Donald Neuhaus. One aspect of the Agreement
8 was that he would transfer all policy interests held in his individual name to the receivership.

9 3. One of the assets over which the Receiver assumed control by virtue of the
10 foregoing Orders was life insurance policy number 62782845 in the face amount of
11 \$1,000,000.00 issued by New York Life insuring the life of SLE-K(3) (“Policy”).¹

12 4. Books and records available to the Receiver indicate that prior to the appointment
13 of the Receiver, Donald Neuhaus caused himself and 14 other individuals and entities to be
14 registered as partial owners of the Policy on the records of New York Life. The ownership
15 interest percentage of each was calculated based on the amount invested by each investor. Each
16 investor was also registered as a partial beneficiary of the death benefits available under the
17 Policy. A schedule of the ownership interests held by each investor is set forth in Exhibit 1
18 attached hereto. As reflected, Donald Neuhaus retained an ownership interest of only 2.60698%,
19 which translates into the right to receive \$26,069.80 upon the death of the insured.

20 5. The annual premium with respect to the Policy which is paid on a quarterly basis
21 for 2008 is \$78,000.00. Despite only owning 2.6% of the Policy, since his appointment through
22 April 30, 2008, the Receiver has paid 100% of the premium required when due for a total of
23 \$54,000.00 during the period. Although the premium for 2009 and subsequent years is not
24 known, generally premiums increase each year on average between 4 and 5 percent depending
25 on the age of the insured and the company.

26
27 ¹ In order to protect the identity of the insureds from those who may be interested in their early death, the
28 Receiver will 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 6. With multiple owners and beneficiaries, the Policy has no value on the market,
2 cannot be sold and, in its current state, the Policy is worthless to the receivership. If, however,
3 all partial ownership interests were transferred to the receivership then, if necessary, the Policy
4 could be sold and the funds contributed to the pool of funds to be shared by all investors [see
5 Dkt. No. 56 – Order Pooling Assets]. Accordingly, on March 19, 2008 the Receiver began
6 sending a letter to each partial owner of the Policy requesting that they transfer their ownership
7 interest to the receivership in exchange for a claim against the receivership. A sample of the
8 letter is attached as Exhibit 2. As of May 20, 2008, a total of 4 different investors holding an
9 aggregate of 43.5125% of the Policy ownership have signed and returned forms transferring their
10 interest to the receivership. Those investors are listed on the schedule attached hereto as Exhibit
11 3, as are the investors who have not returned their forms. Combined with the percentage already
12 held by the receivership, the Receiver now controls 46.11948% of the Policy.

13 7. In an effort to encourage the remaining investors to transfer their interest, the
14 Receiver began calling some of the owners to see if he could answer any questions they might
15 have. When contacted, several of the owners were hostile and flatly refused to consider the
16 matter and vowed to never cooperate with the Receiver. Accordingly, it has become abundantly
17 clear to the Receiver that continued efforts to obtain complete ownership of the Policy is an
18 exercise in futility and does not justify further expenditure of effort and fees by the receivership.

19 8. Thus, a couple of options exist as to how to proceed with the Policy to-wit: (1)
20 leave things as they are; (2) have the Receiver bill each investor for their share of the premiums
21 as they become due; or (3) have the receivership abandon its interest in the Policy and leave the
22 remaining owners to fend for themselves. Each option is discussed below.

23 9. Option 1. Leaving things as they are does not make sense, financial or otherwise,
24 for the receivership. The receivership has and will have to continue to borrow funds under its
25 line of credit to pay 100% of the premium when the receivership only owns 2.6% of the Policy.
26 In addition, the receivership will continue paying \$50.00 per month to National Viatical, Inc. to
27 monitor the Policy, the health of the insureds and process premiums in addition to fees and
28 expenses relating to legal counsel. Moreover, since the Policy cannot be sold, there is no exit

1 strategy other than to await the death of the insured and that could take years even though the
2 insured is 92. The out of pocket cost to the receivership has already substantially exceeded the
3 amount it will ever receive in death benefits.

4 10. Option 2. The Receiver has also considered the possibility of continuing to
5 conduct the business of the Policy and cover future premium requirements by requesting that the
6 Court order that individual investors pay their respective percentage of the premium when due.
7 Several investors have told the Receiver that they do not have the financial ability to pay their
8 share of the premium. But even if they could, such an alternative will be extremely burdensome
9 to the receivership in terms of legal fees and will not bring any benefit to the receivership unless
10 both insureds were to die before the conclusion of the receivership because there is no ability to
11 sell the Policy instead of continuing to hold it. Again, the receivership has already paid
12 substantially more in premium than the amount it will ever recover in death benefits.

13 11. Option 3. The only alternative which makes financial sense for the receivership is
14 for the Receiver to abandon the estate's 2.6% ownership interest and to allow the other partial
15 owners to formulate their own devices by which to obtain funds to timely pay the premium.
16 Unfortunately, the likely reality of such a scenario is that the Policy will lapse very quickly due
17 to nonpayment of premium because many of the investors have indicated to the Receiver that
18 they simply do not have the financial ability to continue paying premiums for even a short
19 period of time much less throughout the continued lifetimes of the insured. It is indeed
20 unfortunate that the refusal of a few investors will likely bring about a complete loss of the
21 investment of all of them, but there is simply no way around the current stalemate which exists.

22 12. The Receiver requests the Court schedule an evidentiary hearing to allow a
23 complete record to be developed which justifies the action requested by the Receiver and to
24 allow interested investors who hold ownership interests in the Policy to present their positions to
25 the Court. If, at the conclusion of the hearing, the Court decides that the Receiver should be
26 allowed to abandon the receivership estate's interest in the Policy, the Receiver will provide to
27 each such owner a list of contact information for each known investor holding an interest in the
28 Policy so that they can try to organize to save the Policy from lapsing. The Receiver will also

1 serve a copy of this motion upon each investor who holds an ownership interest in the Policy and
2 notify them of any hearing date.

3 WHEREFORE, PREMISES CONSIDERED, the Receiver requests that the Court
4 schedule an evidentiary hearing to consider the Receiver's request to abandon the receivership
5 estate's ownership interest in the SLE-K(3) Policy and for such other and further relief, general
6 or special, at law or in equity, to which the Receiver may show himself justly entitled.

7
8 Respectfully submitted,

9 Dated: May 30, 2008.

10 /s/ Michael J. Quilling

11 MICHAEL J. QUILLING (Tex. Bar No. 16432300)
12 D. DEE RAIBOURN, III (Tex. Bar No. 24009495)
13 BRENT J. RODINE (Tex. Bar No. 24048770)

14 Attorneys for Receiver
15 QUILLING, SELANDER, CUMMISKEY &
16 LOWNDS, P.C.

17 MARALEE MacDONALD
18 BOUTIN GIBSON DI GIUSTO HODELL INC.
19 Attorneys for Receiver
20
21
22
23
24
25
26
27
28

CERTIFICATE OF SERVICE

I hereby certify that on the 30th day of May, 2008, a copy of this motion was served on all interested parties through the Court's electronic filing system. In addition, a copy of this motion was served on the following investors named as owners of the SLE-K(3) Policy by U.S. Certified Mail, Return Receipt Requested:

Certified Mail, Return Receipt Requested:

The Bunge Revocable Trust 3616 Fieldstone Drive West Bozeman, MT 59715	Leonard J. and Betty A. Costa 4773 Salmon Drive Paradise, CA 95969	Herschel Dixon 2215 Santa Clara Avenue Chico, CA 95928
--	--	--

Frances L. Dudik 6901 Squaw Mountain Dr. #102 Las Vegas, NV 89130	Robert L. Eberle 2485 Grassy Springs Place Las Vegas, NV 89135	Robert Erickson 8354 Citruswood Lane Citrus Heights, CA 95610
---	--	---

Lucielle Erickson Jenkins c/o Bobby Jenkins 1125 Cliff Park Way Reno, NV 89523	Rakesh Joshi 15 Osprey Road Chico, CA 95928	Fred & Sharon Kemp 1270 Kling Court Paradise, CA 95969
---	---	--

Lorraine Machuta 13941 Chestnut Circle Magalia, CA 95954	Robert J. Machuta 13941 Chestnut Circle Magalia, CA 95954	Elaine R. Pierskalla 84 West Noble Heights Tuson, AZ 85742
--	---	--

Kimberly Snowden c/o Jonz Norine, Esq. 2701 Park Marina Drive Redding, CA 96001	William E. Thornton 739 Grand Teton Way Chico, CA 95973	
--	---	--

/s/ Michael J. Quilling
Michael J. Quilling

Exhibit “1”

SLE-K(3)

Investor	Ownership Interest	Amount Invested
The Bunge Revocable Trust	7.5000000%	\$ 37,500.00
Leonard J. and Betty A. Costa	2.0000000%	\$ 5,000.00
Herschel Dixon	8.7500000%	\$ 50,000.00
Frances L. Dudik	7.5000000%	\$ 37,500.00
Robert L. Eberle	10.0000000%	\$ 50,000.00
Robert Erickson	18.9524000%	\$ 108,299.63
Lucielle Erickson Jenkins	19.2625000%	\$ 110,071.15
Rakesh Joshi	3.5818400%	\$ 17,909.20
Fred M. and Sharon A. Kemp	1.0000000%	\$ 5,000.00
Lorraine Machuta	4.0000000%	\$ 20,000.00
Robert J. Machuta	4.4335500%	\$ 22,176.76
Elaine R. Pierskalla	1.0000000%	\$ 5,000.00
Michael J. Quilling, Receiver	2.6069800%	\$ -
Kimberly A. Snowden	1.4127000%	\$ 7,063.72
William E. Thornton	8.0000000%	\$ 40,000.00
TOTAL	99.99997000%	\$ 515,520.46

Exhibit “2”



Michael J. Quilling
BOARD CERTIFIED
BUSINESS BANKRUPTCY LAW
AND CIVIL TRIAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

Telephone: 214.871.2100
Facsimile: 214.871.2111

March 19, 2008

VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Re: Case No. 2:07-CV-01724-LEW-CMK; Securities and Exchange Commission v. Secure Investments Services, Inc., American Financial Services, Inc., Lyndon Group, Inc., Donald F. Neuhaus, and Kimberly A. Snowden; U. S. District Court, Eastern District of California

Re: Insured Name:
Policy No.: 62782845

Dear

As you are probably aware, I am the Receiver appointed by the United States District Court for the Eastern District of California with respect to the above-referenced case. In connection with performing my duties I have taken possession of the books and records of the companies and have been administering the insurance policies (*i.e.*, paying the premiums and monitoring for the death of an insured). One of those policies is Policy No. 62782845 issued by New York Life covering the life of

I am writing to you because the books and records I have reviewed indicate that you have an ownership interest equal to % of the death benefit associated with the policy. Since my appointment, I have been paying 100% of the premiums which are due with respect to the policy. The annual premium at this time is approximately \$78,000.00. When I was appointed, there was very little money available to pay premiums. In order to do so I have had to borrow the money from the bank. Although I have arranged to borrow a total of \$3 million if necessary, I cannot keep doing so forever so I am exploring other possibilities, including a sale of all or some of the policies.

In order for me to formulate a plan to get as much money back to investors as quickly as possible, I need your assistance. In particular, I ask that you sign the enclosed document where indicated and return it to me in the enclosed envelope. If you sign the document, you will be transferring your % ownership interest to me in my capacity as Receiver. If I can find a buyer

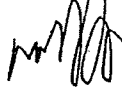
March 19, 2008
Page 2

for the policy the fact that you have transferred the interest to me will make the sale process much easier and faster. By transferring your interest to me you are giving up your ownership interest in the policy but you will have a claim for the principal amount you invested against the receivership estate. If you choose not to assign your interest, then, as more fully explained in the next paragraph, you will have to begin paying your share of the annual premium which right now is approximately \$ This amount will increase in the future and may have to be paid for many years depending on when the insured dies.

If you decide to sign and return the enclosed form, I will hold it until I hear back from all the other partial owners. If some of the owners indicate that they are not willing to sign the form, then I may very well abandon the policy and quit paying premiums, in which event partial owners such as you will have to find a way to pay the premiums yourselves. I hope that I do not have to take that course of action because I want to do as much as I can to help you receive as much of your investment as possible.

If you have any questions at all, please call me and I will be happy to discuss the matter with you. In the alternative, please feel free to contact Steve Harr, the Examiner appointed in these proceedings. As Examiner, his role is to communicate with investors regarding how their interests are impacted by what I do as Receiver. Mr. Harr's phone number is (214) 855-7500, and he can be contacted at www.examinersis.com.

Very truly yours,



Michael J. Quilling

MJQ/ja
Enclosures

cc: Tom Eme, Securities & Exchange Commission
Steve Harr, Examiner
Catrina Tipton, National Viatical, Inc.
Maralee MacDonald, Esq.

Exhibit “3”

SLE-K(3)

Signed Transfer Forms Returned to Receiver

Investor	Ownership Interest
The Bunge Revocable Trust	7.500000%
Herschel Dixon	8.750000%
Lucielle Erickson Jenkins	19.262500%
William E. Thornton	8.000000%
SUB-TOTAL	43.5125000%
Michael J. Quilling, Receiver	2.6069800%
TOTAL	46.1194800%

SLE-K(3)**Transfer Forms Not Returned to Receiver**

Investor	Ownership Interest
Leonard J. and Betty A. Costa	2.0000000%
Frances L. Dudik	7.5000000%
Robert L. Eberle	10.0000000%
Robert Erickson*	18.9524000%
Rakesh Joshi	3.5818400%
Fred M. and Sharon A. Kemp	1.0000000%
Lorraine Machuta	4.0000000%
Robert J. Machuta	4.4335500%
Elaine R. Pierskalla	1.0000000%
Kimberly A. Snowden	1.4127000%
TOTAL	53.88049000%

*Letter Returned "Attempted Not Known; Unable to Forward"