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

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

15 SECURITIES AND EXCHANGE COMMISSION,

16 Plaintiff,

17 v.

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

20 Defendants.
21

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

**NOTICE OF APPLICATION AND
APPLICATION FOR APPROVAL
OF RECEIVER’S INTERIM
REPORT FOR THE PERIOD
ENDED OCTOBER 31, 2012**

Date: December 17, 2012
Time: 9:00 a.m.
Department: 10

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

24 Pursuant to L.R. 66-232(e), Michael J. Quilling (“Receiver”) applies for an order
25 approving his interim report for the period ended October 31, 2012, a copy of which is attached
26 to this Notice as Exhibit A.

27 //

28 //

Respectfully submitted,

BOUTIN JONES, INC.

Dated: November 16, 2012

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

CERTIFICATE OF SERVICE

I hereby certify that on the 16th day of November, 2012, a copy of this Notice 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 other persons by First Class U.S. Mail:

Ernest Jeremias
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Brooklyn, NY 11204

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1291 Nunneley Road
Paradise, CA 95969

Richard H. Gray
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David Green & Monica Zukrow
1995 Wild Oak Lane
Chico, CA 95928

/s/ Maralee Eriksen
Maralee Eriksen

4845-2937-1153, v. 1

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

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

Defendants.

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

**RECEIVER’S INTERIM REPORT
FOR THE PERIOD ENDED
OCTOBER 31, 2012**

Date: December 17, 2012
Time: 9:00 a.m.
Department: 10

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

Michael J. Quilling (“Receiver”) submits this interim report for the period ended October
31, 2012 and, in support, would show the Court as follows:

1 **I. General Overview**

2 1. This Report is being filed pursuant to Local Rule 66-232(e) which requires an
3 annual report to be filed by the Receiver. On November 28, 2007, the Receiver filed his
4 Preliminary Report [Dkt. 90]. On May 5, 2008, the Receiver filed an Interim Report for the
5 Period Ended April 30, 2008 [Dkt. 140]. On October 28, 2008, the Receiver filed an Interim
6 Report for the Period Ended September 30, 2008 [Dkt. 340]. On December 7, 2009, the
7 Receiver filed an Interim Report for the Period Ended October 31, 2009 [Dkt. 701]. On
8 November 10, 2010, the Receiver filed an Interim Report for the Period Ended October 31, 2010
9 [Dkt. 788]. On December 21, 2011, the Receiver filed an Interim Report for the Period Ended
10 October 31, 2011 [Dkt. 906].

11 2. This Report is intended to supplement and update the events reported in the prior
12 Reports and those events, unless there is some significant update, are not reiterated in this
13 Report. Thus, interested parties should consult the previous Reports as well.

14 **II. Ownership of Insurance Policies**

15 3. At the time the Receiver was appointed there were believed to be 49 policies in
16 which the receivership estate held an interest. Since that time there have been a number of
17 events which have reduced the number of the policies.
18

19 **Policies Abandoned/Sold**

20 4. Prior to the Receiver's appointment the JER-E(4)¹ policy (\$1,000,000.00) lapsed.
21 The Receiver worked diligently to get that policy reinstated but has not been able to do so.
22

23 5. The ARM-A policy (\$250,000.00) was allowed to lapse by the Receiver with
24 Court authorization [Dkt. 254] because some investors refused to transfer their ownership
25 interests to the receivership estate.

26

¹ To protect the identity of the insureds from those who may be interested in their early death, the Receiver will,
27 during this report and throughout these proceedings, use an identifier comprised of the first three letters of the last
28 name and the first letter of the first name (e.g., John Smith is SMI-J). If the policy covers two individuals, both first
initials are included (e.g., John and Sally Smith is SMI-J&S). If there are multiple policies on the insured(s) then a
number designation follows (e.g., SMI-J&S(1)).

6. By Order dated July 28, 2010 [Dkt. 767], the Court authorized the Receiver to abandon the PER-T&E policy (\$5,000,000.00) and MAN-S policy (\$2,000,000.00) because both were severe financial burdens on the receivership estate. The Receiver ultimately sold the PER-T&E policy for \$25,000.00 cash and the MAN-S policy for \$10,000.00 cash.

7. Likewise, by Order dated February 4, 2011 [Dkt. 817], the Court authorized the Receiver to abandon the BIE-F&L policy (\$4,000,000.00) because it was a severe financial burden on the receivership estate. The Receiver ultimately sold the BIE-F&L policy for \$25,001.19 cash.

Maturities

8. The following policies have matured, meaning the insured died and the insurance company paid the death benefit.

<u>Insured</u>	<u>Face Value</u>	<u>Death Benefit Paid</u>
BAU-R&L(1)	\$1,000,000.00	\$ 619,593.32
BAU-R&L(2)	\$1,274,056.23	\$1,132,506.66
BER-H&V ²	\$ 217,000.00	\$ 168,175.00
CLA-H	\$ 400,000.00	\$ 400,000.00
DAM-A ³	\$2,000,000.00	\$1,858,667.12
ELK-H	\$ 500,000.00	\$ 438,103.96
FOW-S(1)	\$1,500,000.00	\$1,506,233.45
FOW-S(2) ⁴	\$1,500,000.00	\$ 108,332.81
KIL-D	\$ 925,000.00	\$ 928,114.81
MAT-P	\$ 100,000.00	\$ 109,680.83
SWA-R	\$ 250,000.00	\$ 298,292.89
Totals	\$9,666,056.23	\$7,567,700.85

Remaining Policies

9. There are now 33 insurance policies in which the receivership estate has an ownership interest. Based on information currently available to the Receiver, these policies have

² The Receiver owned a 77.5% interest in the BER-H&V policy when it matured and, therefore, collected 77.5% of its total death benefit.

³ The Receiver owned a 92.5% interest in the DAM-A policy when it matured and, therefore, collected 92.5% of its total death benefit.

⁴ The \$108,332.81 death benefit amount is the net amount realized by the receivership estate. By court order [Dkt. 618] the Receiver collected \$1,508,506.57 from the insurance company and has paid \$1,400,173.76 to investors holding fractional interests in that policy.

1 a total death benefit of \$31,632,648.85 and the receivership estate owns interests that would
2 amount to \$30,757,378.20. Attached as Exhibit 1 is a schedule of all 33 insurance policies.
3 More information regarding these policies is set forth below.

4 Wholly-Owned Policies

5 10. Based upon information provided by the insurance companies to date, the
6 Receiver holds 100% of the ownership interest and 100% of death benefit interest in 26 of the
7 policies (the “Wholly-Owned Policies”). As reflected on Exhibit 1, the total death benefit of the
8 Wholly-Owned Policies is \$22,686,578.85. From the date of his appointment through October
9 31, 2012, the Receiver has paid, either by check or reduction in cash value, a total of
10 \$5,542,262.90 in premiums for these policies.

11
12 11. As to the Wholly-Owned Policies, each insurance company has changed its
13 records to list “Michael J. Quilling, Receiver” as the owner and beneficiary of the policy. That
14 will make it easier to sell those policies should it become necessary. As the owner of those
15 policies, the Receiver continues to request updated three-year, five-year, and seven-year
16 premium illustrations to help determine the future premium obligations.

17 Multiple-Owner Policies

18 12. Based upon information provided by the insurance companies to date, the
19 Receiver holds fractional ownership interests and fractional beneficiary interests in 7 of the
20 policies (the “Multiple-Owner Policies”). As reflected on Exhibit 1, the total death benefit of the
21 Multiple-Owner Policies is \$8,946,070.00 and the receivership estate owns interests that would
22 amount to \$8,070,799.35.⁵ A schedule showing the fractional interests held by other owners in
23 those policies is attached as Exhibit 2. From the date of his appointment through October 31,
24 2012, the Receiver has paid, either by check or reduction in cash value, a total of \$1,295,290.23
25 in premiums for these Multiple-Owner Policies.

26
27
28 ⁵ The Receiver expects his ownership interest in those policies to increase as investors continue transferring their interests to him.

1 13. So long as the other owners timely pay their share of premiums for the KEU-P,
 2 RIC-J(1), SHO-I(1), SHU-A&H(1), SHU-A&H(2), SWA-R&G, and WIL-E&C policies, there
 3 are no issues that will require the Court's attention.

4 **New Life Expectancies (LEs)**

5 14. As the Receiver has obtained full ownership and beneficiary interests in policies,
 6 he has acquired updated medical information and new LEs from 21st Services. To be clear, the
 7 Receiver believes LEs are junk science in its worst form. Nevertheless, he purchased the new
 8 LEs to appease investors and to help sell the policies if it becomes necessary.

9 15. Attached as Exhibit 3 is a schedule comparing the policies' original LEs to their
 10 new LEs. In most cases, the original LEs forecast that the insureds were already supposed to
 11 have died. Obviously that did not happen. Meanwhile, the new LEs obtained years later from
 12 the same company often double the original estimate. Clearly there is no certainty to these
 13 calculations and the Receiver cautions against relying on them. To the extent anyone would
 14 consider them credible, the new LEs simply show that it might take years before most of these
 15 policies mature.

16 **III. Financial Information**

17 18 16. Through October 31, 2012, the receivership estate has \$18,971,602.43 of receipts
 19 and \$18,931,306.37 of disbursements as set forth on Exhibit 4. As reflected in that exhibit, the
 20 only current sources of receipts are from draws on the line of credit and death benefits collected
 21 from matured policies.

22 17. On March 14, 2008, the Court issued an Order [Dkt. 131] authorizing the
 23 Receiver to obtain a \$3 million line of credit with Sovereign Bank of Dallas, Texas. On
 24 February 26, 2009, the Court issued an Order [Dkt. 470] increasing that line of credit to \$4
 25 million. As reflected on Exhibit 4, \$3,037,204.51 is owed on that line of credit through October
 26 31, 2012.
 27
 28

1 **IV. Miscellaneous**

2 **Claims Processing**

3 18. Through October 31, 2012, 811 claims have been submitted to the Receiver. By
4 Orders dated February 5, 2008 [Dkt. 107], September 2, 2009 [Dkt. 674], November 5, 2009
5 [Dkt. 691], February 3, 2010 [Dkt. 723], May 12, 2010 [Dkt. 734], August 12, 2010 [Dkt. 778]
6 December 16, 2010 [Dkt. 808], January 21, 2011 [Dkt. 815] the Court has approved 718 claims
7 totaling \$26,099,366.26. The total amount of approved claims includes claims adjusted by
8 Orders dated June 18, 2010 [Dkt. 752], August 13, 2010 [Dkt. 776], and January 21, 2011 [Dkt.
9 814] to more accurately state amounts the claimants invested. The total amount of approved
10 claims also includes allowed claims following the failure of investors to comply with Orders
11 Compelling Payment of Premium Share.⁶ The total amount of approved claims also includes 20
12 claims relating to the RIC-J(1) and RIC-J(2) policies that the Court allowed by Order dated
13 December 16, 2010 [Dkt. 808] in the amount of \$502,171.00, but which claims have been
14 subrogated until all other investor have received an amount equal to 45% of their claim.
15

16 19. The Receiver's staff has reviewed 24 claims that are not yet approved. Many of
17 those share common problems the Receiver is working to address. For example, some investors
18 were also sales agents who received commissions that may adjust or offset the amount of their
19 net claim. There are several other claims that present their own unique issues. The Receiver is
20 forming his recommendations for each and will soon file motions with the Court seeking final
21 determinations about how to handle them.

22 **Brokers and Sales Agents**

23 20. The Receiver is going to pursue brokers and sales agents for the commissions
24 they received. He will do so by sending demand letters and attempting to negotiate a settlement
25

26 ⁶ The Court has entered numerous Orders compelling investors to pay their share of the premium that the Receiver is
27 paying or forfeit their fractional ownership interest in the policy. Each of these Orders provides that, in the event the
28 investor's ownership interest is forfeited, then the investor would receive an allowed Claim equal to the amount of
their original investment. The Claims that have been allowed as a result of Court Orders Compelling Payment of
Premium Share are shown on Exhibit 5.

1 to present to the Court for approval. If those efforts are unsuccessful, then the Receiver will file
2 motions to disgorge commissions from those recipients.

3 **Receiver's Website**

4 21. In order to establish a cost effective and informative way of communicating with
5 the claimants, the Receiver has established a website, www.secreceiver.com to allow them to
6 monitor these proceedings. All activities of any importance are reported there.
7

8 **Receiver's Recommendation**

9 22. To date, there have been a sufficient number of maturities to help offset the
10 monthly premium requirements of the policies. The Receiver has currently drawn \$3,037,204.51
11 on his line of credit. Based upon the best information available, the aggregate premium
12 obligation for the policies in 2013 will be approximately \$1.2 million. Based on information
13 currently available to the Receiver, one of the insured, SLE-K, has serious health issues and is
14 currently under hospice care. The Receiver holds four policies with respect to the insured
15 totaling approximately \$3.2 million. If the death benefits are received fairly shortly, it will allow
16 the Receiver to virtually payoff the amounts borrowed under the line of credit and allow the
17 Receiver to pay premiums in the future. In anticipation that such a thing may not occur, the
18 Receiver is currently in discussions with a potential buyer for all or some of the policies. Should
19 these discussions reach fruition, all claimants will be advised and given an opportunity to object
20 to any sale.

21 23. The economy right now makes this a horrible time to try to sell any or all of the
22 policies. It is the Receiver's estimation that even with paying premiums, more can be achieved
23 by waiting to see if maturities occur than by selling the policies for a couple cents on the dollar.
24 Accordingly, the Receiver recommends that the receivership remain in place.

25 Submitted this 16th day of November, 2012.
26
27
28

Respectfully submitted,

/s/ Michael J. Quilling

MICHAEL J. QUILLING (Tex. Bar No. 16432300)
BRENT J. RODINE (Tex. Bar No. 24048770)

QUILLING, SELANDER, LOWNDS, WINSLETT
& MOSER, P.C.

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BOUTIN JONES INC.

Attorneys for Receiver

CERTIFICATE OF SERVICE

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/s/ Maralee Eriksen

Maralee Eriksen

4819-3382-3759, v. 1

1 UNITED STATES DISTRICT COURT
2 EASTERN DISTRICT OF CALIFORNIA
3 SACRAMENTO DIVISION
4

5 SECURITIES AND EXCHANGE COMMISSION,
6

7 Plaintiff,

8 v.

9 SECURE INVESTMENT SERVICES, INC.,
10 AMERICAN FINANCIAL SERVICES, INC.,
11 LYNDON GROUP, INC., DONALD F. NEUHAUS,
12 and KIMBERLY A. SNOWDEN,

13 Defendants.

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

**[PROPOSED] ORDER APPROVING
RECEIVER'S INTERIM REPORT
FOR THE PERIOD ENDED
OCTOBER 31, 2012**

14 On this day, the Court considered the Application for Approval of Receiver's Interim
15 Report for the Period Ended October 31, 2012 and good cause appearing therefor:

16 IT IS THEREFORE ORDERED, ADJUDGED AND DECREED the Receiver's Interim
17 Report for the Period Ended October 31, 2012 is approved, and the receivership shall continue.

18 SIGNED this ____ day of _____, 2012.

19 _____
20 UNITED STATES DISTRICT JUDGE
21 HONORABLE GARLAND E. BURRELL, JR.
22
23
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27
28

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/s/ Maralee Eriksen

Maralee Eriksen

4817-1047-1185, v. 1