BOUTIN JONES, INC.
Chris Gibson, SBN 073353
Maralee Eriksen, SBN 208699
555 Capitol Mall, Suite 1500
Sacramento, California 95814-4603
(916) 321-4444

QUILLING, SELANDER, LOWNDS, WINSLETT, & MOSER, P.C.
Michael J. Quilling (Tex. Bar No. 16432300) – Admitted Pro Hac Vice
Brent J. Rodine (Tex. Bar No. 24048770) – Admitted Pro Hac Vice
2001 Bryan Street, Suite 1800
Dallas, Texas 75201
Telephone: (214) 871-2100
Facsimile: (214) 871-2111

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

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 FINAL REPORT AND PROPOSED DISTRIBUTION** Date: March 2, 2015 Time: 9:00 a.m. Department: 10

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

Michael J. Quilling ("Receiver") submits this Final Report and Proposed Distribution and, in support, would show the Court as follows:

I. General Overview

1. This Report is being filed pursuant to Local Rule 232(e) which requires an annual report to be filed by the Receiver. If approved, this report will be the final report. On November 28, 2007, the Receiver filed his Preliminary Report [Dkt. 90]. On May 5, 2008, the Receiver filed an Interim Report for the Period Ended April 30, 2008 [Dkt. 140]. On October 28, 2008, the Receiver filed an Interim Report for the Period Ended September 30, 2008 [Dkt. 340]. On December 7, 2009, the Receiver filed an Interim Report for the Period Ended October 31, 2009 [Dkt. 701]. On November 10, 2010, the Receiver filed an Interim Report for the Period Ended October 31, 2010 [Dkt. 788]. On December 21, 2011, the Receiver filed an Interim Report for the Period Ended October 31, 2011 [Dkt. 906]. On November 16, 2012, the Receiver filed an Interim Report for the Period Ended October 31, 2012 [Dkt. 932].

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

II. Summary Financial Information

3. Through December 31, 2014, the receivership estate has $26,909,186.50 of receipts and $26,411,423.28 of disbursements. Details regarding these amounts are as set forth in **Exhibit 1** attached hereto.

4. All known assets have been liquidated and, as set forth below, all claims have been determined and approved by the Court. Accordingly, the receivership estate is ready to be closed and all funds remaining under the control of the Receiver are ready to be distributed to the investors whose claims have been approved by the Court.

5. Various aspects of the primary assets and expenses of the receivership are discussed below.

III. Estate Assets

6. At the time the Receiver was appointed there were believed to be 49 policies in which the receivership estate held an interest. These policies were the only assets of any significance. Since that time there have been a number of events which have reduced the number of the policies.

Policies Abandoned/Sold

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

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

9. 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.

10. 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.

11. In addition, by Order dated May 16, 2013 [Dkt. 941], the Court authorized the Receiver to surrender the SIL-I policy ($1,000,000.00) in his discretion to pay premiums on other policies. The net cash surrender value of the SIL-I policy was approximately $301,475.16 and the Receiver ultimately sold the SIL-I policy for $325,750.00 cash.

[1] To protect the identity of the insureds from those who may be interested in their early death, the Receiver will, during this report and throughout these proceedings, use an identifier comprised of the first three letters of the last name and the first letter of the first name (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)).

Maturities

12. The following polices have matured, meaning the insured died and the insurance company paid the death benefit to the Receiver.

Insured	Face Value	Death Benefit Paid
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**

Sale of All Remaining Policies

13. By Order dated November 26, 2013 [Doc. 963] the Court approved the Receiver's sale of all policies remaining under the control of the Receiver as of that time to Lexington Settlements for $5 million. The sale was necessitated by the slow death rate of insureds coupled with ever increasing premiums and the Receiver's lack of further borrowing ability under the line of credit. At the time the order was entered, the Receiver anticipated that the sale would fund and close shortly thereafter. However, shortly after the entry of the order, Lexington Settlements encountered unexpected financial problems which prevented a rapid closing. Accordingly, because the Receiver had no viable options, he agreed that the purchase price would be paid over a period of time conditioned upon Lexington Settlements (1) making a $2 million non-refundable down payment (2) paying all premiums on the policies as they became due and (3) paying $200,000 into escrow to be used by the Receiver to pay bank interest, policy monitoring costs

[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.

and the like. All of those items were honored by Lexington Settlements and eventually the balance owed for the purchase was funded in November 2014 at which time the sale of the policies closed.

Lapse of the WIL-E&C Policy

14. During the summer of 2014, through no fault of the Receiver, Lexington Settlements failed to timely pay a premium payment required under the WIL-E&C policy. Although the policy could have potentially been reinstated, the insured refused to cooperate and the policy lapsed. The WIL-E&C policy was owned 80.974517900 % by the Receiver and 19.0254821% by a total of 14 investors. In the aggregate, the investors invested $229,725.90 and owned $418,560.62 of death benefits in the WIL-E&C policy. Attached as **Exhibit 2** is a schedule of the investors and the percentages owned. Those ownership interests have ceased to exist. In order to remedy the problem, the buyer has proposed to replace those ownership interests with equal ownership interests in the BOT-M policy. The Receiver believes that the proposed replacement interests is an acceptable solution to the problem.

15. The WIL-E&C policy was a second to die policy which means it covered both WIL-C and WIL-E but the death benefits would only be paid after both of them died. WIL-C died in November 2011 and WIL-E is still alive. If the policy had not lapsed and premiums continued to be paid, upon the death of WIL-E, approximately $2.2 million of death benefits would be paid of which $418,560.62 would be paid to the investors referenced above who hold fractional interests. The annual premium on the WIL-E&C policy prior to its lapse was approximately $82,800. The BOT-M policy was owned entirely by the receivership estate and is now owned by Lexington Settlements. There are no other fractional owners of the policy. The insured under the BOT-M policy is 94 years old and upon her death, approximately $2,373,858 of death benefits will be paid. The annual premium under the BOT-M is approximately $110,700. The proposal by Lexington Settlements to replace the lost interests of the investors who held factional interests in the WIL-E&C policy with identical dollar amount interests in the

BOT-M policy will allow them to continue to have the same financial position, just in a different policy.

IV. Receivership Expenses

Expenses to Monitor/Manage the Policies

16. The vast majority of the expenses spent by the Receiver related to maintaining the portfolio of life insurance policies. From August 24, 2007 to December 31, 2014, the Receiver paid the following amounts in connection with those policies:

Description	Amount
Premiums to insurance companies	$10,462,904.72
Interest and bank fees	1,121,065.67
Management of policies by NVI	169,908.98
Total:	$11,753,879.37

In the aggregate these fees total approximately 44% of the amounts collected and administered by the Receiver. In addition, The Receiver made total loan payments (excluding interest) in the amount of $11,081,530.37, which totals approximately 41% of the amounts collected and administered. In short, 85% of the funds were used just to keep the policies in force.

Professional Fees

17. From August 24, 2007 to December 31, 2014, the Receiver has paid $1,712,657.91 to retained legal and accounting professionals after being authorized to do so by the Court. A detailed schedule of those fees is set forth in **Exhibit 1**. In the aggregate these professional fees total approximately 6% of the amounts collected and administered by the Receiver. Below is a summary of the work done by each of the firms and the professional fees paid to them. Additional information regarding these fees can be found in the interim and final fee applications which have been filed by these professionals.

1. QSLWM

During the course of these proceedings, QSLWM has served as primary counsel for the Receiver who is a member of the firm. The fees paid to the firm include the fees of the Receiver. In general, the firm has assisted the Receiver in the performance of his duties since inception. The details of the services performed are found in the periodic detailed fee applications which have been filed with the Court. Through December 31, 2014, QSLWM has been paid $1,389,247.24 for their services and will be paid an additional $11,926.20 if the 10% holdback requested in their final fee application is approved by the Court. The total amount paid to QSLWM equates to approximately 5% of the total amount of funds administered by the Receiver.

2. BOUTIN JONES, INC.

Boutin Jones formerly Boutin Gibson served as local counsel for the Receiver during these proceedings. The vast majority of the services were performed by Maralee Eriksen. She attended hearings, when necessary, on behalf of the Receiver and oversaw the proper filing and service of pleadings. Through December 31, 2014, Boutin Jones has been paid $99,208.80 for their services and will be paid an additional $142.45 if the 10% holdback requested in their final fee application is approved by the Court. The total amount paid to Boutin Jones equates to approximately 0.3% of the total amount of funds administered by the Receiver.

3. MUNSCH HARDT KOPF & HARR, P.C.

Munsch Hardt is a Texas law firm and served as primary counsel for the Examiner, Steve Harr, who is a member of the firm. Their fees include, and primarily consist of, the Examiner's fees. The Examiner served a valuable role in these proceedings by giving investors a person to whom to address their questions and monitor the activities of the Receiver. Through December 10, 2014, Munsch Hardt has been paid $133,052.29 for their services and will be paid an additional $481.40 if the 10% holdback

requested in their final fee application is approved by the Court. The total amount paid to Munsch Hardt equates to approximately 0.5% of the total amount of funds administered by the Receiver.

4. MENNEMEIER GLASSMAN LLP

Mennemeier Glassman, LLP served as local counsel for the Examiner during these proceedings. The firm attended hearings, when necessary, on behalf of the Examiner and oversaw the proper filing and service of pleadings. Through December 31, 2014, Mennemeier has been paid $11,907.40 for their services and will be paid an additional $94.50 if the 10% holdback requested in their final fee application is approved by the Court. The total amount paid to Mennemeier equates to approximately 0.03% of the total amount of funds administered by the Receiver.

5. LITZLER SEGNER SHAW & MCKENNEY, L.L.P.

Litzler Segner Shaw & McKenney, L.L.P. is a Texas accounting firm and served as accountants for the Receiver. During the course of these proceedings they have kept the books and records of the receivership, reconciled the bank accounts, filed tax returns and have handled various general tax issues. Through December 31, 2014, Litzler Segner Shaw & McKenney, L.L.P. has been paid $69,242.18 for their services and will be paid an additional $124,957.40 if the 10% holdback ($7,636.90) and the outstanding fees ($117,320.50) requested in their final fee application is approved by the Court. The total amount paid to Litzler Segner Shaw & McKenney, L.L.P. equates to approximately 0.7% of the total amount of funds administered by the Receiver.

V. Claims Processing

18. Through December 31, 2014, 826 claims have been submitted to the Receiver. By Orders dated February 5, 2008 [Dkt. 107], September 2, 2009 [Dkt. 674], November 5, 2009 [Dkt. 691], February 3, 2010 [Dkt. 723], May 12, 2010 [Dkt. 734], August 12, 2010 [Dkt. 778] December 16, 2010 [Dkt. 808], January 21, 2011 [Dkt. 815], October 29, 2014 [Dkt. 975] the Court has approved 772 claims totaling $28,195,743.18. The total amount of approved claims includes claims adjusted by Orders dated June 18, 2010 [Dkt. 752], August 13, 2010 [Dkt. 776], January 21, 2011 [Dkt. 814], and October 29, 2014 [Dkt. 976] to more accurately state amounts the claimants invested. The total amount of approved claims also includes allowed claims following the failure of investors to comply with Orders Compelling Payment of Premium Share.[5] The total amount of approved claims also includes 20 claims relating to the RIC-J(1) and RIC-J(2) policies that the Court allowed by Order dated December 16, 2010 [Dkt. 808] in the amount of $502,171.00, but which claims have been subrogated until all other investors have received an amount equal to 45% of their claim. If the Court approves this Final Report there are 752 claims totaling $27,693,572.18 which will receive a distribution check.

VI. Proposed Distribution to Claimaints.

19. Assuming the Court grants the requested final fee applications of the professional identified above, the Receiver will have approximately $341,661.27 to distribute to investors by virtue of a final distribution. Attached as **Exhibit 3** is a schedule as to how this amount is calculated. The actual amount will vary based upon interest accruals in the interim and the rulings by the Court on pending fee applications.

20. The Receiver asks for authority to make a *pro- rata* final distribution to all of the allowed claimants in the aggregate approximate total amount of $341,661.27. Such a

[5] The Court has entered numerous Orders compelling investors to pay their share of the premium that the Receiver is paying or forfeit their fractional ownership interest in the policy. Each of these Orders provides that, in the event the investor's ownership interest is forfeited, then the investor would receive an allowed Claim equal to the amount of their original investment.

distribution would pay approximately 1.23% of the total allowed claims. The distribution percentage is calculated as follows:

$$\frac{\text{Amount to be Distributed}}{\text{Total Allowed Claims}} = \text{Distribution Percentage}$$

$$\frac{\$\ 341{,}661.27}{\$27{,}693{,}572.18} = 1.23\%$$

The schedule attached as **Exhibit 4** shows the approximate amount each approved claim would receive through this final distribution.

21. In connection with mailing the final distribution, the Receiver proposes that a check equal to each investor's *pro-rata* share of the distribution amount be issued and mailed to each investor. Each check will contain a notice that the check is the final distribution, that no further amounts will be paid and that the check must be cashed within 90 days or it will be void.

Receiver's Website

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

Conclusion

23. The Receiver asks the Court to approve this Final Report and, if necessary, conduct a hearing and then enter an order which provides as follows:

a. Approves replacing the fractional interests of the investors in the WIL-E&C policy with like interests in the BOT-M policy;

b. The Receiver is authorized to pay all outstanding amounts approved by the Court pursuant to separately filed fee applications to the following professionals:

1. Quilling, Selander, Lownds, Winslett & Moser, P.C.;
2. Boutin Jones, Inc.;
3. Munsch Hardt Kopf & Harr, P.C.;

4. Mennemeier Glassman LLP; and

5. Litzler Segner Shaw & McKinney, LLP;

c. The Receiver is authorized to make a final pro-rata disbursement to investors holding claims in the approximate aggregate amount of $341,661.27;

d. That upon completion of the final distribution to investors that the Receiver be discharged from any further duty other than as set forth below and his bond released;

e. The Receiver is authorized, so long as may be necessary, to execute such documents and take such actions as may be necessary to continue efforts to transfer ownership of all policies to Lexington Settlement or its designees;

f. For such other and further relief, general or special, at law or in equity, to which the Receiver may show himself just entitled.

Submitted this 29th day of January, 2015.

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.

Chris Gibson, SBN 073353
Maralee Eriksen, SBN 208699
BOUTIN JONES INC.

Attorneys for Receiver