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Guarantee in alleged Ponzi scheme called fiction

Two indicted men pushed bonds that were supposed to ensure 'viaticals' payoff.

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Pouring \$430,000 into obscure investments called "viaticals," John Wilson never wavered. The deal came with a security blanket: bonds issued by a Michigan company ensuring his payoff.

"It was guaranteed and insured, and there was no way in the world you could lose a dime," the Paradise resident said.

But the bonds were pure fiction, prosecutors say, a scam perpetrated by two Detroit-area men who played key roles in an alleged Northern California Ponzi scheme that swindled Wilson and hundreds of others.

The two men, David Goldenberg, 49, of Bloomfield Hills, Mich., and Mark Eric Wolok, 42, of West Bloomfield, Mich., were among eight people indicted on fraud charges in August by a federal grand jury in Sacramento.

The scheme centered on a Redding investment firm, but the Michigan men were essential components, officials say. The bonds they issued gave investors the confidence to put their money in.

For Wolok and Goldenberg, the indictment is the latest in a series of legal problems. The men and their various companies have been dogged for years by lawsuits, disciplinary actions, multimillion-dollar judgments and a contempt citation, almost all stemming from their involvement in the world of viaticals.

They've allegedly pocketed millions from phony bond sales. Yet Wolok filed for personal bankruptcy earlier this year.

Their company, International Fidelity & Surety Ltd., has its home office in Michigan, but its Web site says it's incorporated in the South Pacific island nation of Vanuatu. In truth, it exists only on paper, prosecutors say.

"There is no company, it's just Goldenberg and Wolok playing house," said Michael Quilling, the court-appointed receiver who's trying to recoup money for investors in the Redding case. Quilling is suing the pair in a separate case in Texas.

The two men, like all the defendants in the Redding case, have pleaded not guilty.

Wolok's lawyer, Robert Joseph Peters of Sacramento, said Wolok mostly handled construction bonds. "It appears that Mr. Goldenberg handled the viaticals; he was the hands-on player," Peters said.

Goldenberg's lawyer, David J. Cohen of San Francisco, noted his client's not-guilty plea but had no further comment.

The case involves Secure Investment Services Inc., a Redding firm that sold \$25 million worth of viaticals since 2001.

Viaticals, or life settlements, are shares in a life insurance policy that was purchased by someone else but sold for cash. When that person dies, the investors share in the death benefit.

Besides hefty returns, Secure Investment promised safety. Bonds sold by Wolok and Goldenberg guaranteed that clients would get paid on time if the insurance policyholders didn't die when they were expected to.

"I wouldn't have invested otherwise," said Stan Finberg of El Dorado Hills, who invested \$10,000.

The insurance policies are legitimate, and some Secure Investment clients did get paid. Wilson made \$80,000 early on and invested another \$430,000.

But officials say the Redding firm fed its clients bogus information about policyholders' life expectancies. When the policyholders didn't die on time, and the bonds turned out fraudulent, the scheme unraveled.

Secure Investment has known for some time of the problems with the bonds. The Redding firm, also known as American Financial Services Inc., sued Goldenberg and International Fidelity in October 2005 in Shasta Superior Court, accusing them of defaulting on their obligations. Secure Investment owner Donald Neuhaus, one of those under indictment, contends he spent \$2 million for the bonds.

"It is Don's position that he relied on them to do what they had contracted to do," said Neuhaus' lawyer, Bruce Locke of Sacramento. Neuhaus' lawyer in Redding began warning investors in 2005 of serious problems with International Fidelity.

Yet Neuhaus' firm was in trouble well before then. It was hit with a state cease-and-desist order in February 2003 for failing to register its investment securities. And officials say Neuhaus continued luring investors with phony promises long after it sued International Fidelity.

"Up to the day of their indictment ... Neuhaus and his associates were continuing to sell viatical/life settlement investments by false statements and omissions," says an affidavit by Special Agent Michael Woo of the Internal Revenue Service.

Locke, however, said Neuhaus believed he "was in compliance with the law right up to the time that they closed him up."

Still, Quilling said Neuhaus should have known International Fidelity was a sham.

"A reasonable, legitimate businessman would have seen red flags all over this thing and would have realized a bonding company in Vanuatu and no audited financials ... was not a legitimate bonding company," the receiver said.

The South Seas connection dates to the mid-1990s, with formation of a company called United

Fidelity Corp. It was incorporated in the Cook Islands, east of Australia, and its principals were Wolok and his father, Sanford, court records show.

Just two years after it was founded, brochures distributed to viaticals investors said United had assets of \$307.4 million, according to a suit filed against it by some investors in 2001. The suit, which called United a fake, is pending in Denver.

More legal problems quickly piled up. A 2002 lawsuit in Michigan accused Goldenberg and Mark Wolok of viaticals fraud. A cease-and-desist order in Florida said International Fidelity was selling viatical bonds and construction bonds illegally. Texas ordered the firm to stop selling insurance products.

Wolok and Goldenberg were sued in two more viaticals cases this year, in Michigan for \$600,000 and in Texas for \$45 million.

In the Texas case, Quilling, serving as court-appointed receiver, obtained judgments against Wolok and International Fidelity. The judgment is almost surely uncollectible, he said.

Wolok's problems nearly boiled over last winter. The judge in the Denver case fined him \$272,000 for contempt of court, for violating an earlier order against transferring property. When Wolok said he hadn't remembered the earlier order, the judge said the claim was "simply not worthy of belief" and threatened to have him arrested if he didn't pay the fine.

Just before the deadline, Wolok filed for bankruptcy in Michigan. The fine was put on hold. Wolok and Goldenberg's next brush with the law came in August, with their arrest in the Redding case.

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