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

15 SECURITIES AND EXCHANGE COMMISSION,

16 Plaintiff,

17 v.

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

21 Defendants.

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

COMPLAINT

DEMAND FOR JURY TRIAL

22 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

23 **SUMMARY OF THE ACTION**

24 1. This civil enforcement action involves a fraudulent scheme whereby Defendants
25 sold fractional ownership interests in a particular life insurance policy to a specific group of
26 investors, and then failed – without warning or disclosure – to use those investors' money to
27 cover the future premium payments on their specific policy. Instead, those investors' money was
28 rapidly depleted to pay Defendants' business and personal expenses and to cover the premiums
on *other* insurance policies (owned by different groups of investors) that would otherwise lapse

1 for non-payment of premiums. Defendants are therefore operating a “ponzi” scheme whereby
2 every new investor is being defrauded to provide the cash needed to conceal Defendants’
3 misrepresentations to an earlier group of investors.

4 2. Defendants Donald F. Neuhaus and Kimberly A. Snowden have operated this
5 scheme through at least one of their corporations -- Defendants Secure Investment Services, Inc.,
6 American Financial Services, Inc., and Lyndon Group, Inc. -- since at least 2001 and have raised
7 over \$25 million from hundreds of investors in more than twenty states. After representing that
8 they will reserve investor funds to pay future premiums on the life insurance policy being sold,
9 Defendants commingle and spend the funds immediately. Consequently, Defendants can meet
10 future premium obligations exceeding \$3 million only by fraudulently raising funds from new
11 investors. As their scheme has been heading for collapse, Neuhaus and Snowden have
12 transferred at least \$740,000 in investor funds to themselves.

13 3. Defendants also have concealed from investors significant risks relating to the
14 policy they are purchasing. The amount of future premiums that must be reserved is tied to the
15 estimated future life expectancy of the person being insured. Those life expectancy estimates
16 have been consistently too low, and many of them were provided by someone whom Defendants
17 learned to have falsely claimed to be a medical doctor. Additionally, Defendants represented
18 that bonding companies would step in and pay investors their return if the insured lived beyond
19 the estimated life expectancy. That representation was false and misleading because Defendants
20 knew or were reckless in not knowing that the bonding companies were unlicensed, and had a
21 dubious reputation.

22 4. Operating on nothing but borrowed time and misappropriated funds, Defendants’
23 scheme must be stopped to protect investors. The Commission brings this action to enjoin
24 Defendants from further violations of the antifraud and registration provisions of the federal
25 securities laws. The Commission also asks that the Court appoint a receiver and grant other
26 equitable relief to marshal and protect investor assets, and order the Defendants to disgorge their
27 ill-gotten gains and pay civil money penalties.

28

1 **JURISDICTION AND VENUE**

2 5. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the
3 Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b) and 77t(d)] and Sections 21(d)
4 and 21(e) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d) and
5 78u(e)].

6 6. This Court has jurisdiction over this action pursuant to Sections 20(d)(1) and
7 22(a) of the Securities Act [15 U.S.C. §§ 77t(d)(1) and 77v(a)] and Sections 21(d)(3), 21(e), and
8 27 of the Exchange Act [15 U.S.C. §§ 78u(d)(3), 78u(e), and 78aa]. Defendants, directly or
9 indirectly, have made use of the means and instrumentalities of interstate commerce or of the
10 mails in connection with the acts, transactions, practices, and courses of business alleged in this
11 complaint.

12 7. Venue is proper in this District pursuant to Section 22(a) of the Securities Act [15
13 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Neuhaus and Snowden
14 reside in the District, and the principal place of business of the remaining Defendants is located
15 in the District. Also, acts, practices, and courses of business alleged in the complaint occurred in
16 the District. This action has been filed in the Sacramento Division according to Local Rule 3-
17 120(d) because the case arises from acts, practices, and courses of business that occurred in
18 Shasta County, California.

19 **DEFENDANTS**

20 8. **Secure Investment Services, Inc.** (“SIS”), **American Financial Services, Inc.**
21 (“AFS”), and **Lyndon Group, Inc.** (“Lyndon Group”) (collectively “the corporate defendants”)
22 are corporations that Donald Neuhaus and Kimberly Snowden have used to operate the
23 fraudulent scheme at various times. SIS and Lyndon Group were incorporated in Nevada and
24 AFS was incorporated in Wyoming. All have their principal places of business in Redding,
25 California. Since approximately May 2005, the scheme has been primarily operated through
26 SIS.

27 9. **Donald F. Neuhaus** (“Neuhaus”), age 76, resides in Redding, California.
28 Neuhaus has served as an officer and/or director for each of the corporate defendants and

1 controls them along with co-defendant Kimberly Snowden. Together with his wife, Neuhaus
2 owns the corporate defendants. Neuhaus is familiar with the flow of funds through the
3 investment program; he monitors corporate bank account balances and activity; and he
4 participates in managing business expenses.

5 10. **Kimberly A. Snowden**, age 42, resides in Redding, California, and is Neuhaus's
6 daughter. She has served as an officer and/or director for each of the corporate defendants and
7 also as their Director of Operations and Controller. Snowden keeps SIS's books and financial
8 statements, she has control over SIS's bank accounts, and she writes the checks to pay premiums
9 on the life insurance policies.

10 **FACTUAL ALLEGATIONS**

11 **A. Defendants Are Selling Securities to Elderly Investors**

12 11. Defendants offer and sell securities that take the form of fractionalized interests in
13 life insurance policies, so-called "bonded life settlements" or "bonded senior settlements." By
14 representing that investors will receive returns on these investments as high as 125 percent,
15 Defendants have sold over 40 policies to at least 500 investors in over 20 states including
16 California, Florida, and Texas, and have obtained over \$25 million in investor proceeds.

17 12. Investors are typically solicited by a network of sales agents recruited by
18 Defendants. The sales agents use internet websites, advertisements, mailings, seminars, and
19 other means to solicit investors. Investors have been encouraged to place their retirement
20 savings in Defendants' program and many have done so. Many investors are in their 50s, 60s,
21 and 70s.

22 13. Defendants obtain the life insurance policies from various policy brokers, paying
23 the brokers a fraction of the policy's face amount. Upon selling a policy to investors, Defendants
24 record the investors as beneficiaries and owners of the policy on the insurance company's
25 records. As the investment is structured, when the insured on the policy dies, the insurance
26 company should pay each investor a pro rata share of the policy face amount that equals his or
27 her original investment plus the return.

28 14. For the insured on each policy, Defendants obtain a purported life expectancy

1 estimate, which includes information on the insured's age and health status. These supposed
2 estimates typically project that the insured will die in three to six years and, by extension, project
3 when the investor will receive a return. Defendants provide the life expectancy estimates to
4 investors, either directly or through sales agents. Many of the investments are supposedly
5 "bonded" so that if the insured lives beyond the life expectancy, then, after a waiting period, the
6 bonding company will purchase the policy from the investors, paying them the amount they
7 would otherwise receive from the insurance company upon the death of the insured. Defendants
8 provide copies of the purported bonds to investors either directly or through sales agents.

9 15. After a policy is sold to investors, premiums on the policy must be paid to prevent
10 it from lapsing. The purchase agreements typically state that included in what investors pay is an
11 amount sufficient to pay policy premiums for the life expectancy of the insured plus the typical
12 bond waiting period (twelve months), and that Defendants will use this amount to pay the
13 premiums. The investors are therefore passive participants, with their role limited to signing
14 purchase documents and paying for the investment.

15 **B. Defendants Falsely Represent that Future Premiums are Covered**

16 16. As Defendants know, when a policy is sold to investors, a portion of the investor
17 funds must be set aside in an amount sufficient to pay future premiums on the policy for the
18 period of the life expectancy plus the bond waiting period. The investor purchase agreements
19 typically contain the following representations by Defendants:

- 20 • "All of the following costs associated with the purchase of an interest of [sic] a policy are
21 included in the investment amount . . . A premium payment for a minimum of one year
22 beyond the projected life expectancy of the insured, or until the policy is purchased by
23 the bonding company, whichever comes first."
- 24 • "SIS may escrow funds for future premium payments for a minimum of twelve (12)
25 months beyond the projected life expectancy of the insured, or longer at SIS's discretion .
26 . . ."
- 27 • "Future premiums, for a minimum of the life expectancy of the insured plus twelve (12)
28 months, or longer at the SIS's discretion, shall be paid by SIS . . ."

1 In other documents, Defendants have similarly represented to investors that they will “set aside”
2 or “escrow” investor money to cover future premiums.

3 17. These representations are false. Future premium payments are “not included in
4 the investment amount” because Defendants do not “escrow,” “set aside,” or otherwise reserve
5 investor funds for payment of future premiums. Rather, since at least June 2005, Defendants
6 have secretly commingled investor funds immediately upon receiving them and used them to pay
7 premiums on any policy they previously sold, to purchase policies, to pay sales commissions,
8 and to cover any other expense of the scheme. Defendants have not reserved sufficient funds to
9 pay future premiums on previously sold policies, meaning those premiums can be “paid by SIS”
10 only if Defendants raise new money from new investors in new policies.

11 18. As of June 30, 2007, even though Defendants were obligated to pay at least \$3.1
12 million in premiums on policies they had already sold if the insured lives until the end of the
13 bond waiting period, the investor money for those policies had already been depleted. In
14 addition, as detailed below, as of June 30 Defendants owed \$1,000,000 in “self-insurance” to
15 investors in two policies. As of June 30, Defendants had approximately \$162,000 in corporate
16 bank accounts, and as of July 31 the accounts contained approximately \$63,000. Defendants
17 cannot meet their premium and self-insurance obligations without raising money from new
18 investors. If Defendants fail to meet premium obligations, policies may lapse and cause
19 investors to lose their entire investment.

20 19. Lacking cash, Defendants at times use the cash value of the policies to cover
21 premiums. “Cash value” refers to funds that can accumulate within a policy and are held by the
22 insurance company. Cash value is an asset that belongs to the owners of the policy, and
23 generally can be loaned to the owner or used to pay premiums in lieu of cash payments. The
24 purchase agreements contemplate only cash payments of premiums. Defendants have not
25 informed investors or potential investors that they deplete policy cash value to cover premiums.

26 20. From the amount that each investor pays for the investment, Defendants take as
27 much as 20% and use it pay commissions to the sales agent. The agents may spend a few hours
28 effecting an investment and thereby earn a 20% commission on \$50,000, \$100,000, \$200,000 or

1 more. Defendants have not disclosed the commissions to investors or potential investors nor
2 ensured that the sales agents disclose them.

3 21. Although Defendants lack money to cover their obligations, Neuhaus and
4 Snowden have transferred substantial funds from corporate bank accounts to themselves. From
5 June 2005 to the present, Neuhaus has received at least \$500,000 in investor funds from SIS's
6 bank accounts. Snowden has received at least \$240,000 in investor funds from the accounts
7 during the same time frame.

8 **C. Defendants Are Not Providing "Self-insurance"**

9 22. In September 2003, AFS purported to provide the bond or "self-insurance" for
10 two policies that were to pay investors a combined return of \$1,000,000. Defendants did not set
11 aside or segregate funds needed to perform on the "self-insurance" if necessary, and today the
12 corporate defendants lack the funds to perform.

13 23. In June 2007, Neuhaus sent a letter telling investors in the policies that once they
14 submit certain paperwork giving up their ownership in the policies, they will receive their share
15 of the \$1,000,000 payout. As Defendants know but have not disclosed to investors, they do not
16 have \$1,000,000 and can only obtain it by fraudulently raising new money.

17 **D. Defendants Have Failed to Disclose to Investors that Life Expectancy**
18 **Estimates are Falsely Certified and Unreliable**

19 24. In the investor purchase agreements, Defendants represent to investors: "All life
20 expectancies of insured [sic] will be determined by an independent reviewing physician taking
21 into account the insured's age, current medical history, and, where applicable, insurance industry
22 actuarial guidelines." Most of the life expectancies Defendants have provided to investors are in
23 the form of written "certificates" bearing the name of AmScot Medical Labs, Inc. ("AmScot") or
24 Midwest Medical Review LLC ("Midwest"). Many of the certificates under the AmScot name
25 bear the name "George Kindness, M.D." and many bear his signature.

26 25. Contrary to the purchase agreement and the certificates, George Kindness is not
27 an M.D. or physician. Furthermore, a federal grand jury indicted Kindness along with AmScot
28 in November 2003 on 21 counts involving conspiracy and fraud in the introduction of

1 misbranded and adulterated drugs into commerce. The indictment includes an allegation that
2 Kindness falsely represented himself to be an M.D. In July 2005, both Kindness and AmScot
3 pled guilty to one count of the indictment, and in September 2006 both were convicted.

4 26. No later than September 2005, an investor informed Neuhaus that Kindness is not
5 an M.D. and had been indicted. No later then mid-2005, Snowden learned that Kindness was
6 involved in adverse legal proceedings and she later learned that he had been convicted of a
7 crime.

8 27. After Kindness was indicted, the certificates Defendants provided to investors
9 switched from bearing the AmScot name to bearing the bearing Midwest name, and Kindness's
10 name no longer appeared on the certificates. Kindness controls both AmScot and Midwest and
11 continues to provide input on Midwest's operations. AmScot and Midwest certificates exhibit
12 certain characteristics--including an "Amscot Midwest" fax header line, identical fax numbers,
13 the names of the same purported physicians, and similar formats--which Neuhaus and Snowden
14 observed and which made it obvious to them that Midwest is a continuation of AmScot's
15 operation.

16 28. Defendants have not disclosed to investors or potential investors that Kindness is
17 not a medical doctor, that he and AmScot have criminal records, and that Midwest is a
18 continuation of AmScot's operation. These undisclosed facts indicate that AmScot and Midwest
19 life expectancy estimates are unreliable; that investors may have to wait longer for returns; and
20 that policies may lapse from lack of funds to make premium payments and investors will lose
21 their entire investment.

22 29. Since 2003, Defendants have also obtained life expectancy estimates from an
23 entity named 21st Services. Some of the 21st Services estimates cover the same insured for which
24 AmScot or Midwest had earlier prepared a certificate that was provided to investors. Many of
25 these 21st Services life expectancy estimates are years longer than the estimate in the AmScot or
26 Midwest certificate. After receiving consistently longer estimates from 21st Services, Defendants
27 continued to sell policies on the basis of AmScot or Midwest estimates only.
28

1 30. At present, insureds on at least 20 policies sold by Defendants remain alive
2 beyond the end of the life expectancy estimate, some by two or three years. Defendants have not
3 disclosed to investors or potential investors that insureds are outliving life expectancies in this
4 manner.

5 **E. Defendants Have Failed to Disclose Risks Associated With the Bonds**

6 31. Defendants' purchase agreements typically state that that the investment "shall
7 carry an insurance bond" that will pay the investor "the full face value of their interest in the
8 policy, should for any reason, the policy not mature within the limits indicated in the agreement."
9 A policy "matures" when the insured dies. The purchase agreements also typically state that
10 "included in the investment amount . . . [is] [t]he Bonding Company fee for the life of the
11 Agreement."

12 32. The purported bonds are, in fact, illusory because the bonding companies are
13 unlicensed and have adverse regulatory histories. One such bonding company is International
14 Fidelity & Surety Ltd. ("IFS"), purportedly based in the Pacific Island nation of Vanuatu. IFS
15 has never been licensed to provide insurance in any state in the United States and has never been
16 an authorized "surplus line insurer" in California. Since 2001, IFS has been the subject of state
17 regulatory actions in Florida and Texas variously involving fraud, unauthorized issuance of
18 insurance, and a "life settlement" investment program. Neuhaus, who previously worked in the
19 insurance industry, chose IFS as a bonding company with the knowledge that it was not licensed
20 to provide insurance anywhere in the U.S. In September 2005, an investor wrote to Neuhaus
21 expressing concern that IFS was not licensed and headquartered in Vanuatu.

22 33. Defendants have also used the following purported bonding companies:
23 Provident Capital and Indemnity Ltd. ("Provident"), purportedly based in Costa Rica; BALGI,
24 purportedly based in Brunei; and Sino Reinsurance ("Sino") purportedly based in Australia.
25 None of these companies has ever been licensed to provide insurance in any state in the U.S.
26 None of the companies has ever been an authorized "surplus line insurer" in California, and
27 Provident specifically appears on California's list of "unacceptable nonadmitted" insurance
28 companies. Since 1992, Provident has been the subject of state regulatory actions in California,

1 Florida, and Texas variously involving fraud, unauthorized issuance of insurance, and a “life
2 settlement” investment program. Defendants have not disclosed the bonding companies’ lack of
3 licensure and adverse regulatory histories to investors.

4 **F. Defendants Have Concealed Their Regulatory Problems**

5 34. In February 2003, the California Department of Corporations ordered Neuhaus
6 and AFS to cease selling investments of the type involved here. The order found that in selling
7 the investments, Neuhaus and AFS made material misstatements and omissions of fact involving
8 the bond, the return, liquidity, and licensing status. Defendants have not disclosed the order to
9 investors or potential investors.

10 35. In April 2005, the Internal Revenue Service executed search warrants at AFS’s
11 office and Neuhaus’s home. Soon after the search, AFS discontinued business operations and
12 closed its bank accounts, and SIS was created and opened its own accounts at a different bank.

13 **G. Sales Agents Under Defendants’ Control Have Misrepresented the**
14 **Investment**

15 36. Many sales agents operate under written agreements with SIS. The agreements
16 require the agents to obtain approval from SIS before using written promotional materials.
17 Promotional materials distributed by sales agents to investors have made the following claims:
18 (i) an independent escrow company “handles all the money transactions” including paying policy
19 premiums; (ii) policy premiums will be paid because SIS “will have collected enough money to
20 support the term of the investment plus an extra year”; (iii) the bonding company agrees to bond
21 the investment on the basis of “a consensus of three medical opinions”; and (iv) the investment is
22 “guaranteed” and has “little, if no, risk.” As shown above, these claims are false and misleading.

23 **H. Defendants have not registered any offering**

24 37. Since at least 2001, Defendants have continuously offered for sale and sold their
25 bonded life settlement investments as securities in public offerings to individual investors
26 through their network of sales agents. No registration statement was filed with the Commission
27 or was in effect with respect to these securities prior to the offer or sale of these securities.
28

1 **FIRST CLAIM FOR RELIEF**

2 **Violations of Section 17(a) of the Securities Act**

3 38. The Commission hereby incorporates paragraphs 1 through 37 by reference.

4 39. Defendants have, by engaging in the conduct set forth above, directly or
5 indirectly, in the offer or sale of securities, by the use of means or instruments of transportation
6 or communication in interstate commerce, or of the mails: (a) with scienter, employed devices,
7 schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements
8 of material fact or by omitting to state material facts necessary in order to make statements made,
9 in the light of the circumstances under which they were made, not misleading; and (c) engaged in
10 transactions, practices, or courses of business which operated or would operate as a fraud or
11 deceit upon the purchasers of such securities.

12 40. By reason of the foregoing, Defendants have directly or indirectly violated
13 Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and unless enjoined will continue to
14 violate Section 17(a) of the Securities Act.

15 **SECOND CLAIM FOR RELIEF**

16 **Violations of Section 10(b) of the Exchange Act**

17 **and Rule 10b-5 Thereunder**

18 41. The Commission hereby incorporates Paragraphs 1 through 37 by reference.

19 42. Defendants, by engaging in the conduct set forth above, directly or indirectly, by
20 use of means or instrumentalities of interstate commerce, or of the mails, or of a facility of a
21 national security exchange, with scienter: (a) employed devices, schemes, or artifices to defraud;
22 (b) made untrue statements of material fact or omitted to state material facts necessary in order to
23 make the statements made, in light of the circumstances under which they were made, not
24 misleading; and (c) engaged in acts, practices, or courses of business which operated or would
25 operate as a fraud or deceit upon other persons, in connection with the purchase or sale of
26 securities.

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III.

Order Defendants to pay civil money penalties pursuant to Section 20(d)(1) of the Securities Act [15 U.S.C. § 77t(d)(1)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

IV.

Appoint a receiver over SIS, AFS, and Lyndon Group.

V.

Enter an order freezing the assets of Defendants.

VI.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VII.

Grant such other and further relief as this Court may deem just, equitable, and necessary.

Dated: August 23, 2007

Respectfully submitted,

/s/ Thomas J. Eme
THOMAS J. EME

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JOHN S. YUN
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LLOYD A. FARNHAM

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SECURITIES AND EXCHANGE COMMISSION

DEMAND FOR JURY TRIAL

The Commission hereby demands a jury trial.

Dated: August 23, 2007

Respectfully submitted,

/s/ Thomas J. Eme
THOMAS J. EME

HELANE L. MORRISON
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