

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

FEDERAL TRADE COMMISSION,)	
)	
Plaintiff,)	
)	
v.)	Case No. 4:96CV02225 SNL
)	
RICHARD C. NEISWONGER, et al.,)	
)	
Defendants,)	

SPECIAL REPORT OF TEMPORARY RECEIVER
DATED NOVEMBER 2, 2006

TO THE HONORABLE STEPHEN N. LIMBAUGH, UNITED STATES DISTRICT
JUDGE:

Robb Evans as Temporary Receiver (“Temporary Receiver”) of Asset Protection Group, Inc.
and its subsidiaries, affiliates, divisions, successors and assigns (“Receivership Defendants”) herewith files his Special Report to the Court dated November 2, 2006.

DATED: November 2, 2006

McKENNA LONG & ALDRIDGE LLP

By: s/Gary Owen Caris
Gary Owen Caris (Cal. Bar No. 088918)
Lesley Anne Hawes (Cal. Bar No. 117101)
444 S. Flower St., 8th Floor
Los Angeles, CA 90071
(231) 688-1000 (Telephone)
(213) 243-6330 (Facsimile)
e-mail: gcaris@mckennalong.com
lhawes@mckennalong.com

SPENCER FANE BRITT & BROWNE LLP

By: s/Erik O. Solverud

Erik O. Solverud, #61269
Gerald P. Greiman, #3276
1 North Brentwood Blvd., Suite 1000
St. Louis, MO 63105
(314) 863-7733 (Telephone)
(314) 862-4656 (Facsimile)
email: esolverud@spencerfane.com
ggreiman@spencerfane.com

Attorneys for Temporary Receiver Robb Evans

ROBB EVANS
Temporary Receiver of
Asset Protection Group, Inc., et al.

**SPECIAL REPORT OF THE TEMPORARY RECEIVER
DATED NOVEMBER 2, 2006**

The purpose of this report is to update the Court about Mr. Reed's continuing violations of the Temporary Restraining Order and on certain suspicious financial transactions the Temporary Receiver¹ has been investigating since its first report. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing the progress of the Receivership.

Background

On October 12, 2006 the Temporary Receiver filed Temporary Receiver's Response To The Motion To Dismiss Brought By Defendants William S. Reed And Asset Protection Group, Inc. (hereinafter "Receiver's Response"). The Temporary Receiver wanted to address the assertions by Reed and Asset Protection Group, Inc. (APGI) that the Temporary Receiver "recommends to this Court that Asset Protection Group, Inc. continue to operate and provide corporate services." (Memorandum of Law in support of Motion to Dismiss at p. 7:1-2). The Temporary Receiver has uncovered a series of transactions conducted by Mr. Reed and Kimberly Toy, the Vice President of APGI, that violate two Orders of this Court: the Court's Temporary Restraining Order (including the asset freeze and Receiver control provisions) and the Order granting the Temporary Receiver's proposal for restricted business operations. The activities of Mr. Reed and Ms. Toy not only constitutes a violation of this Court's previous orders, but the Temporary Receiver has serious concerns about the legality of these activities which will be described in detail in this report.

IMPROPER BUSINESS PRACTICES

Preparation of Fraudulent Liens

Pursuant to an Order approving the Temporary Receiver's Proposal for Restricted Business Operations of the Receivership Defendants Pending the Show Cause Hearing, APGI corporate services commenced operations on July 31, 2006 under the direct supervision of the Temporary Receiver. The Temporary Receiver directed that a daily transaction log be created identifying all corporate services requested by clients or consultants. Shortly after the restricted business operations commenced, the Temporary Receiver inquired about several

¹ Reference to the Temporary Receiver in this report means the Receiver, the Receiver's deputies, his staff, and his counsel.

entries for lien preparation. The Temporary Receiver was advised that clients had requested the preparation of liens and promissory notes, which liens would then be recorded against the client's property in favor of one of the corporations formed by APGI.

Under Mr. Reed's direction, APGI staff would prepare and record so-called "friendly liens" for clients. A client of APGI would have APGI set up a company owned by the client and then execute a trust deed in favor of the newly formed corporation against the client's property without any consideration. In some cases, these friendly liens were in excess of \$1 million. APGI charged \$250 for the preparation of the liens. The Temporary Receiver confirmed that APGI staff prepared these liens without confirming the existence that any consideration was provided for the liens. These friendly liens enabled clients to falsely protect equity in their real estate by discouraging bona fide creditors from executing on the real estate based on the false impression that there was no equity in the property. In the event that a creditor completed an execution sale on such property, senior liens would be paid including the false "friendly lien". The Temporary Receiver no longer authorizes APGI to prepare trust deed liens unless the Temporary Receiver is able to confirm that the lien is supported by adequate consideration.

These types of liens are referred to by Mr. Reed and employees of APGI as "friendly liens." The Temporary Receiver instructed Ms. Toy and other employees that they were only authorized to prepare liens for clients only after the Temporary Receiver had conducted due diligence and confirmed that there was adequate consideration supporting the lien. The Temporary Receiver reported to the Court in the Receiver's Response that, in each instance an APGI customer was contacted, they were not aware that consideration was required and all of them stated that the concept of "friendly liens" as explained by APGI did not include the requirement of consideration.

On September 29, 2006, Zoltan Posa, an APGI customer that had previously requested the preparation of a "friendly lien" asked that the Temporary Receiver return his documents to Kimberly Toy because "Kimberly said she would prepare and file the liens without a showing of consideration." The Temporary Receiver carefully monitored the preparation of all documents by APGI employees and examined all outgoing mail to ensure compliance with the Court's Order and the direction of the Temporary Receiver.

On October 16, 2006, the Temporary Receiver discovered several liens that appeared to have been prepared by Ms. Toy. When Ms. Toy was preparing to leave APGI offices, the Temporary Receiver advised her that she was not allowed to remove any corporate documents. The Temporary Receiver took control of several dozen documents being removed from the premises by Ms. Toy.

A review of these documents showed that Ms. Toy had prepared four unauthorized liens totaling \$731,816. There were an additional ten "APG Friendly Lien Preparation Worksheets" totaling over \$4.9 million in the documents confiscated from Ms. Toy. None of these liens was approved by the Temporary Receiver and they were prepared by Ms. Toy in direct contravention of the instructions given by the Temporary Receiver in August 2006.

On October 17, 2006 the Temporary Receiver interviewed Ms. Toy concerning the preparation of these liens. Ms. Toy admitted to preparing several of the liens.

Mr. Reed's violations of this Court's Orders and Circumvention of the Temporary Receivership

During the course of the October 17 interview, Ms. Toy admitted that she had set up previously undisclosed bank accounts using APGI corporations as a conduit for transferring funds without the permission or knowledge of the Temporary Receiver. These accounts were used to divert APGI client funds, violating the Court's orders and circumventing the Temporary Receiver's policy of conducting due diligence on all transfers of client funds. Ms. Toy stated William S. Reed was a signatory on all of the new accounts. When asked if setting up the new accounts in order to avoid oversight by the Temporary Receiver was her idea, she was adamant that it was not her idea. When asked if Mr. Reed had instructed her to set up the accounts, or if Mr. Reed set up the accounts himself, she again repeated that it was not her idea. Ms. Toy was the Vice President of APG, worked closely with Mr. Reed and took direction from him. Based on our observation of their relationship and interviews with Ms. Toy and Mr. Reed and the fact that Mr. Reed was a signatory on the new accounts, the Temporary Receiver believes that Mr. Reed orchestrated the creation of these accounts and the diversion of client funds circumventing the oversight of the Temporary Receiver.

The Temporary Receiver served another copy of the Temporary Restraining Order on Ms. Toy, and instructed her not to interfere with the duties of the Temporary Receiver, or to attempt to transfer any funds on behalf of clients or contact clients or consultants in any way that would interfere with the ongoing restricted business operations of APGI. The Temporary Receiver then terminated Ms. Toy on October 17.

Immediately after Ms. Toy was terminated, the Temporary Receiver sent a letter to the Bank of Nevada notifying them of Ms. Toy's termination and advising the bank that she was no longer authorized to transact business on any of the APGI accounts at the Bank of Nevada.

Two of the bank accounts Ms. Toy admitted to setting up were Quality Services Network, Inc. dba Select Services Network and My Heritage dba Financial Services. Ms. Toy told the Temporary Receiver that Quality Services Network, Inc. was her account, which the Temporary Receiver learned is untrue.

Under Tab 1 is the Quality Services Network, Inc. signature card the Temporary Receiver obtained from Bank of Nevada. This account was opened in May 2002, evidencing Ms. Toy also falsely asserted that it was opened post-receivership. However, what is noteworthy about this account is that Mr. Reed was using it to transfer money without the Temporary Receiver's knowledge or permission long after Quality Services Network became defunct. Mr. Reed is the only authorized signatory. Also under Tab 1 is a printout the Temporary Receiver obtained from the Nevada Secretary of State website. This document shows that Mr. Reed is the sole officer of Quality Services Network. The document also shows that the State of

Nevada revoked the authorization for this entity to exist on May 1, 2004. Under Tab 2 are the Quality Services Network, Inc.'s bank statements for the months of August and September 2006. The August bank statement shows deposits of \$20,000 and \$190,000 on August 24th and August 30th, respectively. The source of the \$20,000 deposit was a check from a consumer. The \$190,000 deposit was a transfer from a Bank of Nevada account in the name of Midwest Development Corp Inc. The August bank statement also shows check number 1046 in the amount of \$19,975 and check number 1047 in the amount of \$190,000. Check number 1046 was payable to Travita Development Inc., a company owned by the consumer who remitted the \$20,000 deposit. Check number 1047 was payable to May Li Enterprises, a company that is owned by the owner of Midwest Development Corp Inc., the remitter of the \$190,000. The Temporary Receiver was not aware of and did not approve these transactions.

Under Tab 3 is a copy of a check for \$725.00 drawn on the account of Midwest Development Corp Inc. Mr. Reed cashed this check on August 30, 2006 in violation of this Court's Order. The Colorado driver's license number on the back of the check is the same driver's license number Mr. Reed lists on his July 31, 2006 sworn financial statement.

The September bank statement shows check number 1049 in the amount of \$10,000 was processed on September 22, 2006. Under Tab 4 is check number 1049 signed by Mr. Reed and payable to Executive Services, Inc. Also under Tab 4 is a printout the Temporary Receiver obtained from the Nevada Secretary of State website. This document shows that Ms. Toy is the sole officer of Executive Services, Inc. The Temporary Receiver was not aware of and did not approve this transaction.

The Temporary Receiver obtained the Bank of Nevada September 2006 bank statement to My Heritage dba Financial Services. My Heritage was a corporation owned by a former APGI client. The Bank of Nevada signature card under Tab 5 shows that Mr. Reed is the sole signatory on this account and that the account opened on September 15, 2006. This account had an opening deposit of \$250 and no other activity. The Temporary Receiver obtained a copy of the opening deposit which was a money order purchased at a Safeway grocery store.

After the Temporary Receiver learned that accounts had been established at Bank of Nevada to circumvent the Temporary Receiver's due diligence procedures, the Temporary Receiver sent Bank of Nevada a list of all new accounts that had been approved by the Temporary Receiver. The bank compared that list of accounts to its records to determine if any other accounts for which Mr. Reed was a signatory had been opened post-receivership. Under Tab 6 is a list of 18 accounts the Bank of Nevada provided to the Temporary Receiver that were opened post-receivership and that were not on the list of accounts approved by the Temporary Receiver. These accounts were opened in violation of this Court's orders and circumvented the Temporary Receiver's policy of conducting due diligence on all transfers of client funds.

The first account on the list is A Plus Group Inc. dba Transworld Credit. This account was opened on September 15, 2006. Under Tab 7 is a printout the Temporary Receiver obtained from the Nevada Secretary of State website. This document shows that Mr. Reed is the sole

officer of A Plus Group Inc. The document also shows that the State of Nevada revoked the authorization for this entity to exist on October 1, 2006. Also, under Tab 7 is a copy of the Bank of Nevada signature card that shows Mr. Reed is the sole signer on this account. The Bank of Nevada bank statement (Tab 7) shows two large deposits of \$87,506 and \$125,000 on October 3, 2006 and October 16, 2006, respectively. One of these deposits originated from an account in Spain and the other deposit originated from an unrelated account in Florida. It appears Mr. Reed was also using this account to divert APGI client funds violating the Court's orders and circumventing the Temporary Receiver's policy of conducting due diligence on all transfers of client funds. The bank statement also shows checks of \$1,000 and \$3,100 on October 5, 2006 and October 20, 2006. Under Tab 7 are copies of these checks that were cashed by Mr. Reed in violation of this Court's orders.

Mr. Reed's Use of Identities of Others

The Temporary Receiver has discovered a pattern whereby Mr. Reed uses the identities of others to transact his personal business.

Under Tab 8 is a copy of a July 17, 2006 check for \$9,200 payable to American Express. The American Express card number is the same number Mr. Reed lists on his July 31, 2006 sworn financial statement. The signature on this check is purportedly the signature of Tom Boldt. Under Tab 8 is a printout from the APGI database that shows the Nevada First bank account was closed and that "Bill's using bank acct w/ new acct #010 2003 0027." It appears Mr. Reed is signing Mr. Boldt's name on this account.

Under Tab 9 is an email Mr. Reed sent to the Temporary Receiver in response to Temporary Receiver's attempt to reconcile the APGI escrow account. Upon receipt of this email the Temporary Receiver asked the Federal Trade Commission to issue a subpoena for the E*Trade accounts of David Kruger and Timothy Savage. The results of that subpoena, discussed in the following paragraph, show that Mr. Reed lied to the Temporary Receiver in his explanation of these two accounts.

E*Trade documents show that these accounts were opened under the individual social security numbers of Mr. Kruger and Mr. Savage. Under Tab 10 is a December 14, 2004 E*Trade document that shows Mr. Kruger's signature. Also under Tab 10 is a May 8, 2006 E*Trade power of attorney form that shows Mr. Kruger's signature that was notarized by Ms. Toy. Under Tab 10 is a January 4, 2005 E*Trade document that shows Mr. Savage's signature. Also under Tab 10 is a May 5, 2006 E*Trade power of attorney form that shows Mr. Savage's signature that was notarized by Ms. Toy. In addition, under Tab 10 are statements for each of these accounts that show active purchasing and selling of securities.

The Temporary Receiver contacted Mr. Kruger and Mr. Savage. Mr. Kruger had no recollection of ever having an E*trade account. The Temporary Receiver sent the two E*Trade documents with Mr. Kruger's signature to Mr. Kruger. Mr. Kruger then contacted the Temporary Receiver and reported "They are not my signatures. I have never seen those documents before. The signature is very close to my signature but I did not sign those

documents.” Mr. Savage told the Temporary Receiver “That account is fraudulent. I have never had an account with E*Trade.” The Temporary Receiver sent the two E*Trade documents with Mr. Savage’s signature to Mr. Savage. Mr. Savage stated unequivocally² that he had never seen these documents and the signatures were not his.

Conclusion

The Temporary Receiver continues to investigate other suspicious transactions and accounts to determine under what other entities Mr. Reed may be holding undisclosed assets.

Respectfully submitted,

/s/

Robb Evans
Temporary Receiver

² Mr. Savage was extremely agitated at what he characterized as a fraudulent act. The Temporary Receiver has concluded that it is not appropriate to quote Mr. Savage’s comments verbatim in a public document.