

that NLS, Judah, and Jablonski had sold unregistered securities through unregistered salespeople and had committed fraud in the offer and sale of securities. The State sought the appointment of a receiver for NLS. On February 13, 2009, the 201st Judicial District Court of Travis County entered a *Temporary Restraining Order and Order Appointing Receiver*. On February 26, 2009, the 53rd Judicial District Court of Travis County entered a *Temporary Injunction Order and Order Appointing Permanent Receiver* (the “Receivership Order”). In the Receivership Order, the Court made Receiver the permanent receiver of NLS and all money, property, and assets of NLS and/or property that appeared to the Receiver to be derived from proceeds of NLS’s sale of securities.

In accordance with the Court’s orders, Receiver seized and liquidated assets derived from NLS’s investment program. These assets included bank accounts, a house, furniture, office contents, luxury vehicles, and assignments of beneficial interests in certain trusts. The proceeds of these liquidated assets are the source of the funds that Receiver proposes to distribute. In the *Agreed Permanent Injunction Order, Order Appointing Permanent Receiver, and Final Judgment as to Defendants Howard Glenn Judah, Jr. and Gregory F. Jablonski* entered on September 3, 2009 in this case, Judah and Jablonski agreed as follows:

Defendants Judah and Jablonski hereby waive any right, title or interest in the accounts, money, and other assets the Receiver has seized in this case as well as any other property belonging to the receivership estate and agree that the proceeds thereof may be distributed to investors as authorized by further orders of the Court;

See *Agreed Permanent Injunction Order, Order Appointing Permanent Receiver, and Final Judgment as to Defendants Howard Glenn Judah, Jr. and Gregory F. Jablonski*, ¶1.8, page 3.

II.

THE CLAIMS PROCESS

A. Notice to Investors

On June 29, 2009, the Court approved Receiver’s proposed claims process and Proof of Claim form. The Court set a deadline of September 30, 2009 for filing claims. Under the Court’s

orders, Receiver sent a Proof of Claim form and claim filing instructions to all known prospective claimants at each person's last known address. Receiver maintains a database of investor addresses and other contact information and updates that database as soon as she receives new information.

Receiver posted the claim form on the receivership web site (www.nlsreceivership.com) and published notice of the claim filing deadline in newspapers of general circulation in Houston, Austin, San Antonio, Corpus Christi, Brownsville, Fort Worth, and Casper, Wyoming. Approximately two weeks before the claim filing deadline, Receiver sent postcards to approximately 96 people who had not filed claims and reminded them of the September 30, 2009 deadline. Receiver also posted a reminder on the web site.

Receiver received a total of 320 claims by the deadline.

B. Late Filed Claim

After the claim filing deadline, a relative of an investor who does not speak English contacted Receiver and stated that the investor was unaware of the deadline. Receiver instructed the investor to file a claim, even though the deadline had passed. Receiver has now received a claim from this investor, and Receiver agrees that the claim is accurate. Receiver moves the Court to waive the deadline as to this investor and permit her to share in distributions in this case as if her claim had been timely filed.

C. Claims Not Filed

Ultimately, three investors who would be entitled to receive distributions under Receiver's proposed distribution did not file claims. Receiver's claims administrator made every reasonable effort to contact these investors before the claim filing deadline. In addition to sending claim forms and reminder postcards to each investor's last known address, whenever possible the claims administrator sent e-mails, left messages on answering machines, and searched databases to try to locate new addresses and/or phone numbers. Receiver recommends that, for now, she maintain

reserves equal to the amounts that would be distributed to these individuals in case they surface while the receivership is still active and the Court orders Receiver to make distributions to them.

D. Receiver's Efforts to Resolve Disputed Claims.

The Court directed Receiver to attempt to resolve disputed claims informally rather than having each disputed claim resolved in an evidentiary hearing before the Court. Receiver worked with claimants to resolve inaccuracies or other problems with claims. Receiver's efforts to informally resolve disputed claims have been very successful. As a consequence of Receiver's efforts, there are only six disputed claims, all of which involve individuals who received commissions for selling NLS's investments or payments for serving on NLS's advisory board. Receiver is contemporaneously filing a separate pleading setting forth the basis for her objections to these insiders' claims and moving the Court to set a hearing date for resolving these claims. Receiver moves the Court for entry of an order directing her to reserve an amount equal to the distribution that would be made on each disputed claim so that the claims can be paid if the Court does not sustain Receiver's objections.

III.

DEFINITION OF AN "ALLOWED CLAIM"

An "Allowed Claim" is the amount of money an investor actually deposited with NLS. Allowed Claims do not include interest, surrender fees that NLS promised to reimburse investors when they terminated annuities or other investment vehicles, or any other amount not actually deposited in cash or a cash equivalent.

Some investors rolled over all or part of an existing retirement account to make an investment with NLS. In some cases, when an investor rolled over his or her entire existing account, NLS immediately refunded a portion of the rollover to the investor. An Allowed Claim

does not include any part of a rollover that NLS refunded to the investor because those funds were never intended to be deposited with NLS and did not remain on deposit with NLS.

IV.

METHOD OF CALCULATING CLAIMS

NLS deposited all investor funds into various commingled accounts held in NLS's name. No investor money was placed in a segregated account. Because funds were commingled, Receiver recommends that all investors should be treated the same, without regard to when their funds were deposited with NLS. Under this recommendation, the last investor would be treated the same as the first investor and each investor would receive a distribution under the same formula. One of the last individuals to invest with NLS before the initiation of the receivership asserts that his distribution should equal 100% of his deposit. This individual argues that, since his investment was deposited in NLS's bank account on the day before the receivership began, NLS did not have time to do anything with his money. Because all money went into commingled accounts and NLS operated as a Ponzi scheme, Receiver asserts that no investor should be permitted to trace his or her funds.

While most NLS investors never received any money back, NLS did return money to a few investors in the form of withdrawals, partial withdrawals, or purported returns. NLS's only source of funds used to pay any investor was money from NLS's pool of commingled investor funds and bank interest earned on those funds. Receiver believes that the most equitable method of distributing assets to claimants is to ensure that investors who received some money back from NLS before the beginning of the receivership do not receive better treatment than investors who received nothing from NLS prior to the receivership. Therefore, each investor's total return from NLS, whether the money was received prior to the receivership or is received in distributions from the receivership, should equal the same pro-rata percentage.

V.

RECOMMENDATION FOR INITIAL DISTRIBUTION OF RECOVERED ASSETS

Receiver has determined that there is \$19,823,160.99 available for an initial distribution to claimants and to maintain the aforementioned reserves for disputed and unfiled claims. A distribution under the method Receiver proposes would result in claimants receiving a total return equal to 69% of their Allowed Claims, counting any funds received prior to the receivership as well as the funds distributed by Receiver. For example, a claimant who had already received 10% of her Allowed Claim back from NLS prior to the receivership (regardless of whether NLS characterized this return as a withdrawal of principal or as profits) would receive an additional 59% of her Allowed Claim when Receiver makes the distribution. On the other hand, a claimant who had received no money from NLS prior to the initiation of the receivership would receive a distribution equal to 69% of her Allowed Claim. One claimant had already received an amount from NLS prior to the initiation of the receivership that equals more than 69% of his Allowed Claim. Under Receiver's recommendation, this claimant would not receive any distribution at this time but would retain the right to share in future distributions.

Claimants who received commissions from NLS will receive no distribution at this time. As mentioned above, Receiver requests that the Court set a hearing on these claims.

VI.

CONCLUSION

Receiver's recommended distribution allows the receivership to retain sufficient reserves to pay the costs of litigation that Receiver intends to file against individuals who received commissions for selling NLS's securities. Most of these individuals did not file claims. Receiver will also retain sufficient funds to pay the receivership's future professional fees, fees

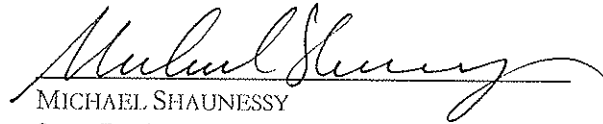
related to the preparation and filing of the receivership's income tax returns, and other receivership costs.

Accordingly, Receiver requests that the Court enter an order directing her to make a cash distribution to claimants as set forth in this motion.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify, by my signature below, that a true and correct copy of the above and foregoing has been forwarded, via certified mail, return receipt requested, to the following on the 18th day of December, 2009:

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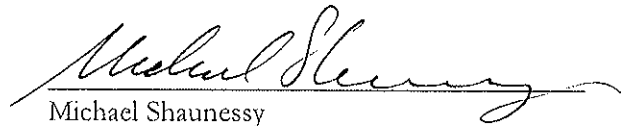
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