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News Release

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Forest Lake man sentenced for mail fraud, wire fraud, failing to file tax returns

A 66-year-old Forest Lake man was sentenced today in federal court for defrauding 519 people nationwide out of approximately \$30 million in an investment scheme.

On Oct. 16 in Minneapolis, United States District Court Chief Judge Michael Davis sentenced Neulan Midkiff to 180 months in prison and three years supervised release, and also ordered him to pay \$18.9 million in restitution. Midkiff was convicted in August on eight counts of mail fraud, eight counts of wire fraud, one count of conspiracy to commit mail fraud and four counts of failure to file tax returns.

“We believe today’s sentence was fair and appropriate,” said U.S. Attorney Frank J. Magill. “It sends a strong message that those who attempt to defraud others will be prosecuted. I want to thank our law enforcement partners – the IRS, the FBI and U.S. Postal Inspection Service – for their efforts in bringing a successful outcome to this case.”

Midkiff was indicted in December 2006 in connection with the scheme. A second defendant named in the indictment, Georgia resident Travis Correll, pleaded guilty in Georgia in connection with his participation in the scheme. A third defendant, Jerry Watkins, pleaded guilty Jan. 9, 2007, to five criminal counts for his participation in the scheme.

From April 2004 through December 2005, Midkiff devised and intended to devise a scheme to defraud and to obtain money by means of materially false and fraudulent pretenses, and did knowingly cause to be sent by the U.S. Postal Service and interstate commercial carrier various mailings for the purpose of executing such scheme.

It was part of the scheme to defraud that Midkiff fraudulently obtained money from individuals by falsely representing that the individuals’ money was being invested and that other investors were obtaining high rates of return on their investment, when in fact, he knew that the investment was not producing interest payments.

In the spring of 2004, Midkiff and Watkins began soliciting investors using the business name “Central Financial Services of Minnesota,” and promised a return on their investment of 6-8 percent per month. In May 2004, Central Financial Services entered into an agreement to invest money they had collected from the investors with West Wing Financial. The agreement called for Midkiff and Watkins to provide West Wing \$1 million, and in exchange, West Wing promised to pay a minimum of 8 percent interest per month for 14 months.

In May 2004, Midkiff and Watkins wired more than \$1 million to West Wing.

Prior to the agreement with West Wing, from 2002 through the spring of 2004 Midkiff worked as an “intermediary” on behalf of Correll, and recruited investors to send money to Correll purportedly for investment with a business operated by Correll called Horizon Establishment. Midkiff directed the investors to send the money to Correll and each investor received a “contract” from Horizon, along with an oral promise of a return on the investment of 5 percent or more per month.

In the summer of 2004, Midkiff and Watkins learned that most of the \$1 million they had sent to West Wing had disappeared. Midkiff and Watkins did not tell this to the investors, but instead said the money had been “transferred” to Horizon. To conceal the disappearance, Midkiff entered into an agreement with Correll whereby the West Wing investment falsely appeared to have been transferred to Horizon. Horizon then began paying monthly “interest” payments to Midkiff, which were then used to pay the investors whose money had been stolen by West Wing as if nothing had happened to their principal.

Midkiff directed that all the Horizon payments be paid to “Joshua Tree Group,” a Nevada-based corporation that Midkiff formed in September 2004, using a Nevada bank account held in the name of Joshua Tree. After September 2004, Midkiff conducted all business through Joshua Tree, and the arrangement between Midkiff and Correll to pay West Wing investors was characterized as a “loan” from Horizon to Joshua Tree.

From August 2004 to October 2004, Midkiff and Watkins solicited investors for more than \$1 million, which was sent to Correll at Horizon. Initially, Correll paid Midkiff and Watkins under the terms of the agreement on a monthly basis, and these payments were used to fund monthly interest payments to Joshua Tree investors, after Midkiff and Watkins had taken their “commission.”

In December 2004, the monthly interest checks from Horizon to Joshua Tree failed to clear, and stopped entirely in February 2005. Midkiff, however, continued paying the investors their regular monthly interest, and in order to make those payments, Midkiff used money he was collecting from new investors. Midkiff also did not inform any of the investors that the payments from Horizon had stopped or that new investor money was being used to pay their monthly returns.

Midkiff even directed potential investors to speak with existing investors for confirmation that the existing investors were receiving regular interest payments as a method of attracting new investors.

Midkiff paid himself or otherwise used for personal expenses in excess of \$2.5 million out of the funds provided by investors, and Watkins was paid in excess of \$1 million.

This case was the result of an investigation by the U.S. Postal Inspection Service, the Internal Revenue Service-Criminal Investigation Division and the Federal Bureau of Investigation. It was prosecuted by Assistant U.S. Attorneys Tracy L. Perzel and Tim Rank.