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CLERK U.S. DISTRICT COURT
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9 UNITED STATES DISTRICT COURT
10 CENTRAL DISTRICT OF CALIFORNIA
11 SOUTHERN DIVISION

12 SECURITIES AND EXCHANGE
13 COMMISSION,

14 Plaintiff,

15 v.

16 MEDICAL CAPITAL HOLDINGS,
17 INC.; MEDICAL CAPITAL
CORPORATION; MEDICAL
18 PROVIDER FUNDING
CORPORATION VI; SIDNEY M.
19 FIELD; and JOSEPH J.
LAMPARIELLO,

20 Defendants.
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Case No. SA CV09-0818 DOC (RNBx)

SEVENTH INTERIM FEE
APPLICATION OF THOMAS
SEAMAN, RECEIVER

Date: February 13, 2011
Time: 8:30 a.m.
Ctrm: 9D Judge: Hon. David O. Carter
Judge: Hon. David O. Carter

1 Thomas A. Seaman (the "Receiver"), the court-appointed Permanent Receiver
2 for Medical Capital Holdings, Inc., Medical Capital Corporation, Medical Provider
3 Funding Corporation VI and their subsidiaries and affiliates, (collectively the
4 "Receivership Entities") submits this seventh interim application for approval and
5 payment of fees. This application covers the period May 1, 2011 through July 31,
6 2011 (the "Seventh Application Period").

7 During the Seventh Application Period, the Receiver and his staff spent
8 1,857.9 hours executing the duties set forth in the Temporary Restraining Order and
9 Order Appointing Receiver and the subsequent Preliminary Injunction and Order
10 Appointing Permanent Receiver, and subsequent orders of the Court. During this
11 period the Receiver has recovered \$2,951,972.17 in gross receipts for the
12 receivership estate. By this Seventh Interim Fee Application, Thomas Seaman seeks
13 approval of \$329,825.50 in fees which were incurred at a weighted average hourly
14 rate of \$178 per hour. The Receiver seeks approval to pay 90% of this amount, or
15 \$296,842.95.

16 The Receiver does not seek reimbursement of any expenses.

17 **I. PROCEDURAL OVERVIEW OF THE RECEIVERSHIP CASE.**

18 On July 16, 2009, the SEC commenced an enforcement action against
19 Medical Capital Holdings, Inc., Medical Capital Corporation, Medical Provider
20 Funding Corporation VI, Sidney M. Field and Joseph J. Lampariello ("Defendants"),
21 alleging various violations of securities laws. On the same day, the SEC filed an Ex
22 Parte Application for Temporary Restraining Order ("TRO") and Orders: (1)
23 Freezing Assets; (2) Appointing a Temporary Receiver; (3) Prohibiting the
24 Destruction of Documents; (4) Granting Expedited Discovery, and (5) Requiring
25 Accountings; and Order to Show Cause Re: Preliminary Injunction and
26 Appointment of a Permanent Receiver. On July 20, 2009, the Court granted the
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1 TRO, however, the TRO was vacated the following day at the request of the
2 Defendants, and further briefing was submitted.

3 Thereafter, on August 3, 2009 (the "Appointment Date"), the Court entered
4 the TRO, appointing Thomas A. Seaman as temporary receiver for the Receivership
5 Entities. On August 17, 2009, the Court confirmed the appointment of the Receiver
6 and entered the Preliminary Injunction and Order Appointing a Permanent Receiver
7 ("Appointment Order"), by which Mr. Seaman was appointed as the Permanent
8 Receiver for the Receivership Entities.

9 **II. SCOPE OF THE RECEIVERSHIP CASE.**

10 The Receivership Entities were in the business of raising money through
11 broker dealers purportedly to fund lending activities which entailed making loans to
12 medical providers secured by medical accounts receivable, as well as making other
13 loans and investments, and then managing the collection of such loans and
14 investments through an operating company called Medical Capital Corporation
15 ("MCC"), a wholly owned subsidiary of Medical Capital Holdings Corporation
16 ("MCH"), defendants herein.

17 Although a billion dollars in loans were allegedly outstanding at the time of
18 the Receiver's appointment, the Defendants' accounts receivable factoring business
19 had essentially ceased and collections had slowed to a trickle. During July 2009, the
20 month prior to the appointment of the Receiver, the Defendants only collected
21 approximately \$317,000.

22 It is quite clear to the Receiver based on interviews with company personnel,
23 review of books and records of the company, review of borrowers' loan documents,
24 payment histories, security agreements and modifications thereto, and meeting with
25 borrowers, that loans were made to risky borrowers of low or poor credit quality.

26 The high risk nature of the loans made by the Receivership Entities is
27 confirmed by the Receiver's investigation of the sources and uses of investor cash,
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1 which demonstrates that the Receivership Entities did not operate their lending
2 business profitably. In fact, leaving aside that the Receiver has learned that many of
3 the accounts receivable do not exist, it appears that the vast majority of the real
4 unpaid loans are non-performing. Notwithstanding the unprofitability of the
5 Receivership Entities' money lending activities, the money raising entities paid
6 administrative fees in excess of \$324 million to MCC.

7 The funds used to make investments were raised through the sale of
8 promissory notes to investors from Special Purpose Corporations ("SPC's"), referred
9 to as Medical Provider Financial Corporations ("MPs"). MCC was very successful
10 in attracting investors, apparently raising over \$1.7 billion from investors in the
11 MPs. At the time of the Receiver's appointment investors were owed principal of
12 \$1.079 billion.

13 The history of making poor credit decisions resulted in numerous foreclosure
14 actions and the Receivership Entities took possession of collateral securing many of
15 its loans. Other non-performing notes were restructured or converted to equity. The
16 consequence has been that the Receivership Entities now own a variety of assets
17 completely unrelated to its core medical accounts receivable business. The range of
18 assets includes or included non-operating hospitals, a feature film, a non-operating
19 radio pharmaceutical manufacturer, a wireless entertainment company, a 118 foot
20 luxury yacht, among others, in addition to numerous nonperforming notes, and a
21 handful of performing loans.

22 Following the Appointment Date, the Receiver had to analyze, investigate and
23 preserve the value of dozens of assets with a stated value of over \$1.1 billion which
24 quickly revealed that many of the loans were fictional while others were in default
25 or subject to immediate potential impairment.

26 In addition, because the Defendants did not keep accurate books and records,
27 the Receiver is conducting a forensic accounting of the sources and uses of investor
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1 funds. The forensic accounting entails entering over transactions totaling \$20
2 billion of into a relational database designed to identify assets of the company and
3 recipients of ill-gotten gains, as well as allow the Court to make determinations as to
4 the nature of the fraud including a likely finding that Medical Capital affiliates and
5 subsidiaries operated a unitary enterprise in a Ponzi-like manner in order to defraud
6 investors and enrich the Defendants. The forensic accounting is being performed by
7 the Receiver and his staff along with certain former employees of Medical Capital
8 (who are paid from the estate thereby greatly reducing the cost of performing the
9 forensic accounting), which would have been massively expensive if performed by
10 an outside accounting firm. During the Seventh Application Period the Receiver
11 and his agents incurred fees of \$16,968.00 working on the forensic accounting. The
12 cost of the forensic accounting from inception of the receivership through July 31,
13 2011, has been approximately \$386,697.50.

14 The preliminary forensic accounting clearly indicates that the Receivership
15 Entities' lending and investing activities were not profitable, notwithstanding that
16 the Receivership Entities were showing a profit in their financial statements and
17 income tax returns. Moreover, the Receivership Entities paid the income taxes on
18 their overstated income. The Receiver has filed amended tax returns for 2005, 2006,
19 2007 and 2008, as well as the pre-receiver 2009 return, which the Receiver is
20 hopeful will result in significant income tax refunds.

21 Administration of the receivership estate therefore involved or continues to
22 involve a multiplicity of activities in the following varied functional areas:

- 23 • Collection efforts
- 24 • ♦ Foreclosure actions
- 25 • ♦ Actions to enforce personal guarantees
- 26 • ♦ Discounted pay-off negotiations
- 27 • ♦ Forbearance negotiations

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- Claims against Receivership Entities, not all of which were covered by the stay imposed by the Preliminary Injunction
- Lawsuits and other claims of lender breach relative to the collection of accounts receivable that had not been financed (in at least one case, the borrower had paid its debt in full and MCC continued to collect the underlying accounts receivable), or Medical Capital's failure to perform lending commitments
- Asset sales
- Management or oversight of operating businesses owned or otherwise controlled by Receivership Entities:
 - Marketing and sale of all real property owned by the Receivership Entities, some by virtue of foreclosure
 - Marketing of notes
 - Marketing, maintenance and sale of the Home Stretch (luxury yacht)
 - Disposition of personal property
 - Forensic accounting based on daily cash receipts and disbursements covering nearly six years and approximately \$20 billion of transactions in 258 bank accounts. Approximately 15,000 bank statements have been input and reconciled.
 - Accounting for receivership receipts and disbursements segregated by MP and business operating entities
 - Preparation of monthly reports filed with Court
 - Handling of investor relations and communications
 - ◆ Establish and maintain website, with all pleadings promptly posted there (www.medicalcapitalreceivership.com)
 - ◆ Establish and effectuate investor claim process

- 1 • Evaluate potential causes of actions for recovery of funds for benefit of
- 2 investors
- 3 • Investigated claims against professionals and sought *in camera*
- 4 approval to proceed
- 5 • Sought and was granted approval to bring action against the bond
- 6 indenture trustees
- 7 • Execute tolling agreements and initiated pre-litigation settlement
- 8 discussions with bond indenture trustees
- 9 • Conducted damage and causation analysis for bond indenture litigation
- 10 and potential settlement discussions
- 11 • Issuance of subpoenas for banking records and then review and
- 12 investigation of materials obtained to determine possible sources of
- 13 recovery
- 14 • Respond to subpoenas and inquiries of several federal agencies with
- 15 interest in the underlying civil litigation
- 16 • Assist with providing a mechanism which supports various discovery
- 17 requests and subpoenas of the Receiver
- 18 • Analyze payments made by investors compared to principal and
- 19 purported interest paid to investors for the purpose of establishing a
- 20 basis for a plan of distribution now that cash in the estate is accruing to
- 21 a sizable number

22 The Receiver's efforts resulted in gross receipts to the receivership estate in
23 the amount of \$2,951,972.17 during the Seventh Application Period and can be
24 broken down into the following categories:

- 25 • Accounts Receivable Collection: \$ 17,207.60
- 26 • Income Tax Refunds: \$ 140,839.15
- 27 • Loan Collections: \$ 119,521.67

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1	• NHBC revenue:	\$1,536,532.98
2	• Perfect Game Revenue:	\$ 160,797.00
3	• Viva-Vision Revenue:	\$ 998.77
4	• Rental Income:	\$ 338,838.22
5	• Sale of Assets:	
6	○ TRACE Asset:	\$ 375,614.28
7	○ Sale of Other Asset:	\$ 50.00
8	• Settlement Proceeds:	<u>\$ 261,572.50</u>
9	Total	\$2,951,972.17

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The gross receipts of the receivership estate, the Receiver's fees, and the Receiver's fees as a percentage of gross receipts are summarized below.

	<u>Seventh Fee Application</u>	<u>Inception To Date</u>
Gross Receipts	\$ 2,951,972.17	\$ 129,741,848.48
Receiver's Fees	\$ 329,825.50	\$ 2,640,762.00
Receiver's Fees as % of Receipts	11.2%	2.04%

The receiver's fees were 11.2% of funds recovered during this fee application period, and are just over 2% inception to date. During the fee application period the receiver devoted a significant amount of the work to asset sales which will not result in recovery to the estate until the sales are closed in future periods. For example, the Receiver spent time on the Southwest Atlanta Hospital sale and the Parkway note sale, both of which have been problematic and time consuming to administer. The Receiver also prepared NHBC for disposition.

Similarly, the Receiver also expended time and resources investigating and seeking approval to bring actions against former counsel and the indenture trustees as well as preparing for settlement discussions and damage analysis which did not have a direct monetary benefit to the receivership estate during the fee application

1 period and will only result in recoveries if the Receiver prevails in, or settles these
2 matters.

3 In addition, administration of the investor claims process, one of the primary
4 functions of the receivership estate, does not produce revenue to the estate but
5 consumed estate resources. So, while many of the Receiver's activities, such as the
6 forensic accounting, necessary to find assets and sources of recovery, and
7 effectuating the investor claims process, may not produce immediate returns or any
8 returns, they are necessary to administer this complex estate.

9 As of July 31, 2011, the Receiver was holding cash in the amount of
10 \$99,913,201.01.

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12 **III. ANALYSIS OF RECEIVER'S FEES AND RELATED METRICS.**

13 Exhibit A provides a detailed listing of each and every time entry comprising
14 the Receiver's fees. In order to assist the Court in its review and analysis of the
15 Receiver's fees, the Receiver has prepared three separate analyses. The first is a
16 breakdown by timekeeper setting forth the amount of time spent by the Receiver and
17 his agents at their respective hourly rate. The next summary is a breakdown of work
18 by functional area including debt collection, accounting, forensic accounting,
19 business management, asset sales, and investor relations, among others. The third
20 breakdown is by significant asset or loan.

21 **A. Charges by Timekeeper**

22 Exhibit B provides a breakdown by timekeeper setting forth the amount of
23 time spent by the Receiver and his agents at their respective hourly rates. The
24 Receiver personally expended 134.1 hours during the Seventh Application Period
25 for a total cost of \$53,625.00. The Receiver raised his hourly rate from \$375 to
26 \$400 per hour effective May, 2011. During the Seventh Application Period the
27 Receiver expended 26% of his time working on the Medical Capital receivership.

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1 In order to manage the Receivership in a cost effective manner, the Receiver
 2 delegates some assignments to agents who are billed at hourly rates ranging from
 3 \$35 to \$320 per hour. These agents perform accounting, financial analysis, business
 4 management, forensic accounting, investor relations and claims management, debt
 5 collection, litigation support, real estate management, management of asset
 6 disposition and other services required by the receivership estate. During the
 7 Seventh Application Period, the Receiver's agents expended 1,857.96 hours at an
 8 average hourly rate of \$178 per hour. The Receiver expects the number of hours
 9 necessary to administer the receivership estate to continue to remain stable in the
 10 near term as the Receiver's investigation and recovery efforts proceed, and for the
 11 fees to then decline once the Forensic Account Report is filed and the plan of
 12 distribution are approved.

13 By using qualified agents at significantly lower hourly rates than the
 14 Receiver, the Receiver was able to achieve a weighted average hourly (blended) rate
 15 of \$178 per hour for the Seventh Application Period and \$156 per hour from
 16 inception to date. The Receiver believes that the hourly rates charged by the
 17 Receiver are fair and reasonable given the requirements of the receivership estate.

18 **B. Charges by Task**

19 Exhibit C provides a monthly breakdown by tasks performed by the Receiver
 20 and his agents. The total hours and cost by task for the billing period are as follows:

21	<u>Task</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
22	A/R and other Debt Collections	74.1	\$172	\$29,892.00
23	Accounting and Reporting	51.9	\$116	\$6,032.50
24	Bookkeeping	179.0	\$113	\$20,308.50
25	Forensic Accounting	94.5	\$180	\$16,968.00
26	Investor Relations	459.0	\$100	\$46,024.00
27	Litigation & Support	137.2	\$189	\$25,973.00

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1	Manage Business	92.3	\$294	\$27,133.50
2	Paralegal	73.3	\$130	\$9,529.00
3	Project Mgmt	283.1	\$187	\$52,881.50
4	Receiver	65.0	\$400	\$26,000.00
5	Receivership Admin	18.0	\$52	\$933.50
6	Sell Liquidate Assets	230.5	\$296	\$68,150.00
7	Totals	1,857.9	\$178	\$329,825.50

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9 The Receiver did not charge for the cost of preparing the fee applications,
10 which took 38.0 hours to prepare during the Seventh Application Period at a cost
11 savings to the receivership estate of \$5,958.00.

12 **C. Charges by Asset**

13 Exhibit D provides a monthly breakdown by asset of tasks performed by the
14 Receiver and his agents. The Receiver has attempted to categorize costs by
15 significant asset. Most assets can be tied to an MP or MPs, as applicable. The table
16 in Exhibit D displays the cost of work performed for each referenced asset as a
17 percentage of the work performed for all referenced assets during the Seventh
18 Application Period. Not all of the Receiver's work can be tied to specific asset and
19 there is a category for this unspecified work. This work is listed in the table below
20 as Non-Categorized. The amount of time devoted to each asset and the related cost
21 is as follows:

22				% of
23				Referenced
24	Asset	Hours	Rate	Cost Assets Costs
25	Castle Hill	1.1	\$182	\$200.00 0.1%
26	Edge	27.6	\$243	\$6,705.00 4.0%
27	Emark	3.1	\$60	\$185.50 0.1%

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1	Gulf Pines	12.4	\$281	\$3,485.00	2.1%
2	Home Stretch	4.1	\$116	\$477.00	0.3%
3	MTS	0.2	\$160	\$32.00	0.0%
4	NHBC	291.7	\$247	\$71,980.00	43.3%
5	Parkway Hospital	129.0	\$233	\$30,071.50	18.1%
6	Perfect Game	58.2	\$142	\$8,293.00	5.0%
7	Southwest Atlanta Hospital	120.3	\$241	\$28,951.00	17.4%
8	TEEM, Macaluso	2.5	\$381	\$952.00	0.6%
9	TRACE	55.9	\$232	\$12,955.00	7.8%
10	Valley Health	1.9	\$261	\$496.00	0.3%
11	Velocity (mail.com)	3.6	\$299	\$1,078.00	0.6%
12	Vivavision	3.7	\$100	\$370.00	0.2%
13	Total Referenced Asset	715.3	\$232	\$166,231.00	100.0%
14	Categories (Excludes work				
15	not related to specific				
16	assets)				
16	Non-Categorized	1,142.6	\$143	\$163,594.50	
17	Totals	1,857.9	\$178	\$329,825.50	

CONCLUSION.

The Receiver believes his fees are fair and reasonable in view of the circumstances encountered by the Receiver. The Receiver has worked diligently to perform his duties in an efficient and cost effective manner. Therefore, the Receiver respectfully requests an order:

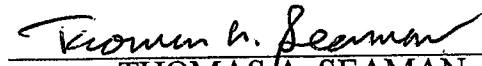
Approving fees totaling \$329,825.50 for the Seventh Application Period;

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1. Authorizing the Receiver to pay 90% of such sum, or \$296,842.95, out of assets of the receivership estate; and
2. For other and further relief as is appropriate.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

Executed this 13th day of January, 2012, at Irvine, California.



THOMAS A. SEAMAN