

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS**

SECURITIES AND EXCHANGE COMMISSION,))	
)	
Plaintiff,))	
)	
v.))	Case No. 07-cv-10712-RGS
)	
LYDIA CAPITAL, LLC;))	
GLENN MANTERFIELD, and))	
EVAN ANDERSEN,))	
)	
Defendants.))	

**RECEIVER’S FOURTH REPORT TO THE COURT
FOR THE PERIOD NOVEMBER 1, 2007 THROUGH DECEMBER 31, 2007**

Pursuant to the Court’s June 1, 2007, Order for Appointment of Receiver (“Order for Appointment”) (Doc. No. 28), H. Thomas Moran, II, Court-Appointed Receiver for Defendant Lydia Capital, LLC (“Lydia”), submits his fourth periodic report to the Court, “summarizing his activities, providing an accounting of the funds, assets and property in his possession, and reporting on the status of any legal claims” for the period November 1, 2007 through December 31, 2007. (Doc. No. 28, p. 8, ¶ XIII.) As further ordered, this Report also contains “an application to the Court for an order approving the payment of all reasonable fees and expenses” for both the Receiver and the Receiver’s legal counsel. (Id.) Accordingly, the Receiver submits his fourth report to the Court.

I. BACKGROUND.

On April 12, 2007, the United States Securities and Exchange Commission (“S.E.C.”) filed this action against Defendants Lydia, Evan Anderson (“Anderson”) and Glenn Manterfield (“Manterfield”). (Doc. No. 1.) On the same date the S.E.C. sought and, on April 13, 2007, secured a temporary restraining order freezing certain of the Defendants’ assets. (Electronic

Order, dated April 13, 2007.) The temporary restraining order was modified on April 17, 2007. (Electronic Order, dated April 17, 2007.) On May 3, 2007, the Court entered two unopposed preliminary injunction orders freezing certain assets of Defendants Lydia, Manterfield and Anderson. (Doc. Nos. 20, 21 and 22.)

On May 23, 2007, the S.E.C. filed a motion seeking the appointment of a receiver for Lydia as well as a brief in support of the motion. (Doc. Nos. 25 and 26.) The Defendants did not oppose the S.E.C.'s motion. (Doc. No. 25, p. 2.) On June 1, 2007, the Court granted the S.E.C.'s request and appointed Mr. Moran as Receiver for Lydia.¹ (Doc. No. 28.) In the June 1, 2007, Order for Appointment of Receiver ("Order"), the Court directed the Receiver to:

A. take and retain immediate possession, custody and control of the funds, assets, monies, securities, contracts, notes, bank accounts, safe deposit boxes, negotiable and non-negotiable instruments or documents of title, choses in action and properties, real, if any, and personal, tangible and intangible, of whatever kind and description, wherever situated, of Lydia, and of all other entities which Lydia either owned, controlled or benefited from (including, but not limited to, Lydia Capital Alternative Investment Fund LP) including without limitation, the accounts established by Lydia on behalf its investors (the "Lydia Client Accounts"), as well as all property of whatsoever nature, whether real or personal, tangible or intangible, which has been acquired with or through funds or proceeds of Lydia (hereinafter "Receivership Assets");

B. take all steps the Receiver deems necessary to conduct an inventory of the assets and liabilities of Lydia and Lydia Capital Alternative Investment Fund LP;

C. take all steps the Receiver deems necessary to reconstruct the histories of the Lydia Client Accounts to determine whether and how client funds have been dissipated;

D. take all steps the Receiver deems necessary to secure and protect the Receivership Assets, including all assets and property of Lydia and Lydia Capital Alternative Investment Fund LP;

E. promptly provide written notice of this Order to all current and former clients of Lydia ("Lydia Clients"). Service of a copy of this Order shall be deemed sufficient notice;

F. have access to and take control of all books, records, papers and other documents of Lydia and Lydia Capital Alternative Investment Fund LP,

¹ An Electronic Order was entered on May 23, 2007, granting the S.E.C.'s motion to appoint a receiver. (Electronic Order dated May 23, 2007.) However, it was an additional ten days (June 1, 2007) before an order was docketed which set forth the name of the Receiver and delineated the scope of the Receiver's duties. (Doc. No. 28.)

including all computers, computer files, on-site and off-site backup files, backup disks, other electronic storage material and websites;

G. have control of, and be added as an authorized signatory for, all accounts of Lydia and Lydia Capital Alternative Investment Fund LP at any bank, brokerage firm, insurance company or financial institution having possession, custody or control of any assets, accounts or funds of Lydia and Lydia Capital Alternative Investment Fund LP, wherever situated;

* * * *

J. receive and collect any and all sums of money due and/or owing to Lydia or Lydia Capital Alternative Investment Fund LP and make or authorize such payments and disbursements from the funds and assets taken into control or thereafter received by the Receiver, engage in or authorize such transactions, incur or authorize the incurrence of such expenses, and make or authorize the making of such agreements, as the Receiver deems necessary and appropriate to carry out the Receiver's mandate pursuant to this Order;

K. In connection with the exercise of these powers, liquidation of any, or all, of the assets of Lydia or the Lydia Capital Investment Fund LP shall be undertaken, if at all, with due regard for the best long-term interests of investors in the Fund;

L. engage and employ persons in his discretion and in consultation with the Boston Regional Office of the Commission to assist him in carrying out his duties and responsibilities hereunder, including, but not limited to, attorneys, accountants and appraisers;

M. have access to, including rights to receive, open and review all mail of Lydia and Lydia Capital Alternative Investment Fund LP; and

N. file on a timely basis all relevant federal, state, and local tax returns and take any and all other steps required by such taxing authorities.

(Doc. No. 28, pp. 1-4, ¶¶ II.A-G and II. J-N.)

II. SUMMARY OF THE RECEIVER'S ACTIVITIES.²

A. General Background

The Receiver was notified of his appointment on Friday, June 1, 2007. Since that date and the date of the Receiver's last report to the Court, the Receiver and his staff have continued to work to analyze and categorize the information and documents seized from the Lydia offices, the documents received from the S.E.C. and the documents obtained from third parties and vendors. The Receiver has continued to communicate with all known vendors and service

² The activities of the Receiver, his staff, accountants and attorneys are briefly summarized herein. For a more complete statement of the activities of the Receiver, his staff and attorneys, please refer to the itemized statements attached to the motions for payment of fees and expenses of the Receiver and his counsel.

providers for Lydia and the Fund in order to secure the voluntary production of various documents from each of those entities, including copies of contracts; unpaid invoices; a summary or description of services provided to Lydia and/or the Fund; and a summary of data maintained by the vendor related to Lydia and/or the Fund. As such documents have been received, the Receiver has reviewed the same in order to determine whether additional assets exist and the extent of Lydia's liabilities. The Receiver has also continued working on the analysis of the Lydia bank accounts, including both deposits to and disbursements from the accounts. The Receiver and his counsel have continued to work on an analysis of the insurance policies which comprise the Portfolio as well as all the documents that related thereto. Finally, the Receiver has continued to catalog and analyze the available information regarding the investors in the Fund and has communicated with the investors on various issues.

B. April Investors Settlement

During this period, the Receiver diligently addressed the financial issues facing the Receivership Estate and was successful in negotiating a Settlement Agreement with the nine investors, known as the "April Investors," to resolve the dispute over the approximately \$8.8 million deposited in the Citibank (Smith Barney) account in March and April of 2007.³ The resolution with the April Investors included refunding fifty percent of each investment; thus, approximately \$4.4 million dollars was returned to the investors and the remaining \$4.4 million may now be used to benefit the Receivership Estate. This Court approved the Settlement Agreement on December 26, 2007. With the addition of the \$4.4 million, the Receiver now anticipates being able to pay the premiums and expenses of the Receivership through approximately August of 2008.

³ The exact amount invested by the April Investors was \$8,807,686.22.

C. Funding of Receivership Expenses

As previously reported, the Receiver corresponded with all of the investors regarding the possibility of funding the payment of premiums and other Receivership expenses and investigating financing alternatives. The Receiver received a total of nine responses from the investors during this period. Of the nine responses received only one investor indicated a willingness to fund premiums.

D. Motion for Instructions on Whether to Complete Purchase of Policy

The Receiver also conducted extensive research and analyzed the facts and circumstances surrounding a certain policy in preparation for seeking instructions from the Court on whether he should finalize the purchase of the policy or whether it was in the best interest of the Receivership Estate to not complete the purchase and request reimbursement of the funds previously advanced by Lydia. In this regard, the Receiver filed a Motion for Instructions on January 17, 2008; which was granted on January 26, 2008.

E. Pending Litigation

In October, Lincoln National Life Insurance Company ("Lincoln") moved for permission to file declaratory judgment actions regarding the validity of three separate life insurance policies. This Court granted the motion on November 29, 2008. Subsequently, Lincoln filed three declaratory judgment actions against the Receiver. In each of these lawsuits, Lincoln is seeking rescission of the policies based upon essentially identical allegations that the insureds sold their policies within weeks of application, and made material misrepresentations on their applications regarding their involvement in discussions concerning the sale of the policies to a life settlement, viatical or other secondary market provider. The Lincoln lawsuits were filed in the Suffolk County District Court in New York (the Helen Gissoni life insurance policy, Index

No. 07-39852), the Southern District of California (the Roy K. Black life insurance policy, Case No. '08 CV 0023 IEG NLS) and the Eastern District of Wisconsin (the Carroll A. Vandebush life insurance policy, Case No. 07-C-1140).

The Receiver is now actively engaged in formulating a strategy and response to the lawsuits as well as researching the forum states' laws to determine the best course of action for the Receivership Estate. In addition to the Lincoln lawsuits, this Court approved Sun Life Assurance Company's ("Sun Life"), motion for leave to commence declaratory judgment actions on January 24, 2008. It is anticipated that Sun Life will also similarly allege that it is entitled to rescission as a result of the insureds selling their policies within weeks of application, and making representations on their applications that they had not discussed the possibility of selling the policies to a life settlement, viatical or other secondary market provider. The Receiver has been notified that Sun Life intends to file two such lawsuits in Arizona during the next reporting period.

III. INVESTOR RELATED MATTERS.

As previously reported, the Receiver received 74 completed claim forms from investors. The Receiver has not yet received a claim form from one investor. The Receiver continues to review and confirm the claims submitted. Based on the records received from Dundee Leeds and others, it appears that the total amount invested in the Fund, including the \$8,807,686.22 from the April Investors was \$42,734,226.12. However, pursuant to the Settlement Agreement discussed above, \$4,553, 858.11 was returned to the April Investors. Therefore, the total amount invested now stands at \$38,180,368.01. As a result, the Receiver will request revised Proof of Claim forms reflecting the payment of funds from the Settlement Agreement from the April Investors during the next reporting period.

IV. THE INSURANCE POLICIES.

Based on the Receiver's analysis of the data and documents received from the S.E.C. and others, it appears that the Portfolio consists of thirty-seven policies, on the lives of 28 individuals, which policies range in face value from \$1,000,000.00 to \$10,000,000.00. As of December 31, 2007, the Receiver has made \$2,262,485.83 in premium payments on 19 policies. The Receiver estimates the premiums on the portfolio for the year 2008 to be in excess of \$6.1 million.

V. RECEIVERSHIP ACCOUNTING MATTERS.

On June 1, 2007, the Receiver was given authority over all of Lydia's accounts pursuant to the Order for Appointment. The amount of funds deposited in those accounts totaled \$11,932,721.16 on the day of the Receiver's appointment. The principal balance in the Receiver's account after payment to the April Investors was \$5,130,221.15.⁴ All funds are currently being held in interest bearing accounts. A Balance Sheet and summary of the activity in those accounts is set forth on Exhibit 1. As part of the Receiver's on-going duties, the Receiver is reviewing account records to track the flow of money into and out of the accounts in order to attempt to locate recoverable assets and to be able to provide an accounting of the expenditure of the investors' funds.

VI. MOTIONS FOR PAYMENT OF FEES AND EXPENSES.

Contemporaneously with the filing of this Report, the Receiver and his counsel have submitted motions seeking the approval of their fees and expenses for the months of November and December, 2007. (Doc. Nos. 125 and 126.⁵) As set forth therein, the fees and expenses itemized in the applications are reasonable. Accordingly, for the reasons set forth in the

⁴ This number represents the total current assets as of December 31, 2007 as reflected on Exhibit 1 (\$9,684,079.6) minus the amount paid out to the April Investors (\$4,553, 858.11).

⁵ A copy of each of the motions is attached hereto. (Exhibits 2 and 3.)

Motions, the Receiver respectfully requests the Court enter an Order approving the payment of those fees and expenses.

Dated: February 1, 2008

Respectfully submitted,

/s/ Melvin R. McVay, Jr.

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CERTIFICATE OF SERVICE

I hereby certify that on the 1st day of February, 2008, I electronically transmitted the attached document to the Clerk of Court using the ECF System for filing and transmittal of a Notice of Electronic Filing to the following ECF registrants:

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/s/ Melvin R. McVay, Jr.