

**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 SEVENTH REPORT TO THE COURT
FOR THE PERIOD AUGUST 1, 2008 – OCTOBER 31, 2008¹**

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 seventh 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 August 1, 2008 to October 31, 2008. [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 Seventh 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

¹ This Seventh Report includes the Receiver's activities for the months of August, September and October of 2008 and financial information for the second quarter (July, August and September) of 2008.

(“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.² [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;

² 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.]

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, 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.³

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 diligently work to preserve the receivership assets and the policies comprising the portfolio. During this reporting period, the Receiver and his counsel also continued to devote significant time and attention to defending the nine declaratory judgment lawsuits pending against the Receiver. See discussion of Pending Litigation, *infra*.

B. Investor Communications

On September 10, 2008, the Receiver participated in a teleconference with certain Lydia investors. Prior to the teleconference, the Receiver corresponded with all of the investors and posted a notice on the Lydia website to communicate the date and time of the conference as well as providing the necessary information for their participation. During the teleconference, the Receiver and his counsel updated the investors and answered investors' questions regarding: (1) the state of the assets including the status of the nine pending lawsuits; (2) the continuing settlement negotiations with various litigants; (3) the financial condition of the receivership estate; (4) the court-approved sale of five Lydia policies; (5) long-term options for the portfolio; and, (6) plans for a teleconference to take place during the next reporting period.

C. Pending Litigation

During this period, the Receiver continued to defend the nine lawsuits filed by The Lincoln National Life Insurance Company ("Lincoln"), AXA Equitable Life Insurance Company

³ 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.

("AXA") and Sun Life Assurance Company of Canada seeking to void or rescind certain policies owned by Lydia. In addition to the nine lawsuits filed in various federal jurisdictions throughout the country, the Court has also granted AXA and another insurance company leave to file four declaratory judgment lawsuits, which would seek to void or rescind four additional Lydia policies. The Receiver anticipates that these lawsuits, which involve similar facts and issues, will be filed if a settlement cannot be reached between the parties. The Receiver has been, and continues to be, very actively engaged in conducting discovery in each of the pending lawsuits. The Receiver has devoted considerable time during this reporting period to researching the applicable laws of the many jurisdictions where these lawsuits have been, or may be, filed. Further, the Receiver has filed Third-Party Complaints in several of the pending lawsuits against various individuals involved in the sale and purchase of the subject life insurance policies, including agents, brokers, insureds, beneficiaries and trustees.

Finally, the Receiver has been actively engaged in settlement discussions with AXA regarding seven policies issued by AXA and owned by Lydia. Four of the policies are in litigation and three may be the subject of litigation if a settlement cannot be reached. The Receiver and his counsel met with an AXA representative and its counsel on September 4, 2008, in Oklahoma City to discuss a possible settlement. The Receiver and AXA have been engaged in ongoing discussions regarding a tentative settlement proposal. The Receiver has also been actively negotiating a settlement agreement with the former AXA agent who sold two of the AXA policies and one of the Lincoln policies. The Receiver has made written demand of other various individuals and entities who were involved in, and received compensation from, the sale of the contested policies to indemnify or otherwise compensate the Receivership for any losses or damages in connection with these policies.

A summary of each lawsuit follows:

	DATE FILED	PLAINTIFF/INSURED	STATUS	COURT/ CASE NO.
1	12/21/2007	The Lincoln National Life Ins. Company/ Vandembush	Scheduling Order in place. Written discovery has been issued and answered by both parties. Subpoenas duces tecum have been issued to third-parties, who have responded with document production. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages. Receiver has filed his Motion for Leave to File Third-Party Complaint and will file the Third-Party Complaint upon the obtaining leave of court.	E.D. Wis. 07-C-1140
2	12/26/2007	The Lincoln Life & Annuity Company of New York/ Gisonni	Scheduling Order in place. Plaintiff filed Second Amended Complaint and Answer has been filed. Written discovery has been issued and answered by both parties. Subpoenas duces tecum have been issued to third-parties, who have responded and/or have produced the requested documents. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages. Depositions of the insured and beneficiary have been taken. Receiver has filed a Third-Party Complaint against individuals involved in the sale and purchase of the subject insurance policy.	E.D.N.Y CV-08-699
3	01/09/2008	The Lincoln National Life Ins. Company/ Black	Scheduling Order in place. Written discovery has been issued and answered by both parties. Subpoenas duces tecum have been issued to third-parties; most have responded and/or have produced the requested documents. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages. Receiver has requested, and has been granted, leave to file a Third-Party Complaint against the individuals involved in the sale and purchase of the insurance policy. The Court has allowed the Receiver until October 27 to file his Third-Party Complaint.	S. D. Cal. 08-CV-0023-IEG-NLS
4	03/17/2008	AXA Equitable Life Ins. Company/ Lancet	Case has not yet matured to the point of discovery under Federal Rules. Receiver is currently engaged in settlement discussions with AXA as well as potential third-party defendants who were involved in the sale and purchase of the policy. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages. The parties have requested an extension of time for Defendants to answer the Complaint to allow sufficient opportunity to explore settlement. Answer date is currently set for November 14, 2008.	S. D. Cal. 08-CV-497-H-JMA
5	03/17/2008	AXA Equitable Life Ins. Company/ Williamson	Receiver has filed his Answer. Receiver has also filed his Cross Claim and Third-Party Complaint against individuals involved in the sale and purchase of the insurance policy. Receiver is currently engaged in settlement discussions with AXA as well as potential third party defendants who were involved in the sale and purchase of the policy. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages.	S. D. Cal. 08-CV-498-H-LSP

6	03/17/2008	AXA Equitable Life Ins. Company/ Williamson	Receiver has filed his Answer. Receiver has also filed his Cross Claim and Third-Party Complaint against individuals involved in the sale and purchase of the insurance policy. Receiver is currently engaged in settlement discussions with AXA as well as potential third party defendants who were involved in the sale and purchase of the policy. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses and damages.	D. Utah 08-CV-00206
7	03/26/2008	AXA Equitable Life Ins. Company/ Fischbach	Case has not yet matured to the point of discovery under Federal Rules. Receiver is currently engaged in settlement discussions with AXA as well as potential third party defendants who were involved in the sale and purchase of the policy. Receiver has made written demand on parties involved in the sale of the policy to indemnify and otherwise compensate the receivership for its losses or damages. The parties have requested an extension of time for Defendants to answer the complaint to allow sufficient opportunity to explore settlement. Answer date is currently set for November 14, 2008.	S. D. Cal. 08-CV-0569- BTN-BLM
8	04/02/2008	Sun Life Assurance Company of Canada/ Hoover	Scheduling Order has been entered and Rule 26 disclosures made. Receiver has filed a Third-Party Complaint against individuals involved in sale and purchase of the insurance policy. Written discovery has been issued.	D. Ariz. 2:08-CV- 00632-SRB
9	04/02/2008	Sun Life Assurance Company of Canada/ Bawden	Scheduling Order has been entered and Rule 26 disclosures made. Receiver has filed a Third-Party Complaint against individuals involved in sale and purchase of the insurance policy. Written discovery has been issued.	D. Ariz. 2:08-CV- 00629-MHB

D. General Matters

The Court entered a Final Judgment as to Defendant Evan Anderson on September 12, 2008 [Docket No. 184]. As part of the Judgment, the Court ordered the cash payment of \$1,124,000.00 to Lydia Capital Alternative Investment Fund LP. At the time of this reporting, the Receiver has received \$1,120,588.05 of the cash payment. The Receiver is working to secure the balance of the judgment amount.

The Court also ordered Evan Anderson to transfer free and clear title to real property (a condominium) located in Boston, Massachusetts, worth an estimated \$676,000.00. After the Court entered the Final Judgment, the Receiver obtained a title commitment and determined that the property was encumbered by a Certificate of Municipal Liens from the City of Boston and a lien for common area assessments by the Loft 43 Condominium Trust. As a result, the Receiver

has worked, in conjunction with the S.E.C., during the reporting period to clear title to the property and complete the transfer of this real property free and clear of all liens and encumbrances. The Receiver anticipates that the transfer of the real property will be completed during the next reporting period.

One policy in the portfolio is subject to a premium finance loan. A trust created by the insured acquired the policy from an insurance company in October 2005. This policy had an initial death benefit of \$5,000,000.00. Subsequently, the insured created a sub-trust to hold title to the policy and obtain financing to fund the first-year premiums on the policy. In exchange for the loan, the policy, as well as the beneficial interests held by the beneficiaries of the trust and the sub-trust, were pledged to the premium financing company, and served as security for the loan. This policy eventually became part of the Lydia portfolio. After the appointment of the Receiver in June 2007, the Receiver made a quarterly premium payment on the Policy of \$100,000.00. The premium financing company now contends that the assignment of the policy to Lydia is invalid, and in contravention of the underlying loan documents.

During this reporting period, the Receiver has engaged in discussions with the premium financing company regarding the purported restriction on the ability of the beneficiaries of the trust that owned that policy to transfer or assign their beneficial interest in the policy. The Receiver anticipates filing with the Court during the next reporting period a motion for instructions from the Court seeking court approval to provide a full release of the policy to the premium financing company in consideration for the premium financing company returning to the Receiver the amount of the premium paid by the Receiver on the policy, which is \$100,000.00. The Receiver believes it is in the best interest of the receivership estate and the investors to not expend any resources contesting the claims of the premium financing company

and provide a release of any rights in the policy in exchange for a return of the premium amount paid by the Receiver. The Receiver will further outline his position with regard to this policy in the motion for instructions from the court, which will be subsequently filed by the Receiver.

During this period, counsel for the Receiver also attended, by telephone, the depositions of Randy Bagley, Keith Dall, Robert M. Yurglich and Richard Fink. The depositions were scheduled by the S.E.C., and took place on October 1, 2, 6 and 7.

III. INVESTOR RELATED MATTERS.

As previously reported, based on the records received from Dundee Leeds and others, the total amount invested in the Fund, including \$8,807,686.22 from certain April 2007 Investors was \$42,734,226.12. However, \$4,553,858.11 was returned to these April Investors pursuant to a Settlement Agreement discussed in the Receiver's Fourth Report. [Doc. No. 127, p. 4]. Therefore, as previously reported, the total amount invested stands at \$38,180,368.01.

During this reporting period, the Receiver again requested revised Proof of Claim forms from certain April 2007 Investors reflecting the payment of funds received by them from the Settlement Agreement. The Receiver has received seven revised Proof of Claim forms; three revised Proof of Claim forms remain outstanding. In addition, the Receiver has again requested an initial Proof of Claim form from one investor. The Receiver has sent correspondence to the remaining three investors from whom revised proof of claims are still required as well as the remaining investor from whom an initial proof of claim form is required, and the Receiver will report on their status in the eighth report to the Court.

IV. THE INSURANCE POLICIES.

In the Receiver's Sixth Report to the Court, the Receiver reported that based upon the Receiver's analysis of the data and documents received from the S.E.C. and others, the portfolio consisted of thirty-seven policies ranging in face value from \$1,000,000.00 to \$10,000,000.00 on the lives of 28 individuals. However, as discussed below, the Court approved the sale of five of the thirty-seven policies. As a result of this sale, the portfolio now consists of 32 policies ranging in face value from \$1,000,000.00 to \$10,000,000.00.

A. Sale of Five Policies

On May 9, 2008 the Receiver filed Receiver's Motion and Brief in Support for (I) an Order (A) Approving Bidding Procedures in Connection With the Sale of Certain Receivership Assets, (B) Approving the Form and Manner of Notice, (C) Scheduling an Auction and Sale Hearing, and (D) Granting Related Relief; and (II) an Order (A) Approving the Asset Purchase Agreement or Such Other Purchase Agreement(s) Between the Receiver and the Highest Bidder(s) at the Auction, (B) Authorizing the Sale of Receivership Assets Free and Clear of All Liens, Claims, Encumbrances, and Other Interests, and (C) Granting Related Relief [Docket No. 147] (the "Motion"). The Motion sought an Order from the Court approving the bidding procedures in connection with a proposed auction sale of certain receivership assets and an Order approving a proposed Asset Purchase Agreement and the sale of receivership assets free and clear of all liens, claims and encumbrances. On June 4, 2008, the Court entered an Order (A) Approving Bidding Procedures in Connection With the Sale of Certain Receivership Assets, (B) Approving the Form and Manner of Notice, (C) Scheduling an Auction and Sale Hearing, and

(D) Granting Related Relief. The Receiver's efforts in marketing and selling the policies were outlined in the Receiver's Sixth Report to the Court [Docket No. 171].

The sale hearing was set by the Court for July 31, 2008 (the "Sale Hearing"). At the Sale Hearing, all interested parties were offered an opportunity to be heard with respect to the Sale Motion. On August 1, 2008, the Court issued an Order (A) Approving the Asset Purchase Agreement or Such Other Purchase Agreement(s) Between the Receiver and the Highest Bidder, (B) Authorizing the Sale of Receivership Assets Free and Clear of All Liens, Claims, Encumbrances, and Other Interests, and (C) Granting Related Relief [Docket No. 175]. The Court found that the Receiver demonstrated a good, sufficient and sound business purpose for the sale to the Highest Bidder and that there were compelling circumstances for the sale, as the value of the assets could be harmed by any delay in the sale of the policies. Further, the Court found that (1) the Receiver adequately marketed the assets; (2) the purchase price contained in the Asset Purchase Agreement constituted the highest and best offer for the assets and provided fair and reasonable consideration for such assets; (3) the sale provided a greater recovery for the receivership's investors and creditors than would be provided by any other practical available alternative; (4) no other party offered to purchase the assets for greater economic value to the Receiver; and (5) the purchase price constituted reasonably equivalent value and fair consideration under the laws of the United States, and any state, territory, possession or the District of Columbia. As a result, the Court held that the approval of the Asset Purchase Agreement and the consummation of the sale to the highest bidder was in the best interest of the Receiver, the investors, the creditors and the receivership estate.

During this reporting period, the Receiver worked to consummate the sale of the policies pursuant to the Court's Order approving the Asset Purchase Agreement. The Receiver negotiated

with the purchaser of the policies regarding the timing of payments to the Receivership, the transfer of ownership of the policies and the change of beneficiaries. In addition, the Receiver completed various modifications to the Asset Purchase Agreement to meet the terms of the bid and provided the necessary documentation to the purchaser to complete the sale of the policies. At this time, the sale of the policies has been fully consummated and the Receivership has received the full purchase price for the policies from purchaser.

B. Premiums

The Receiver made \$5,744,596.39 in premium payments on 31 policies between June 1, 2007 and September 30, 2008. The Receiver estimates the total amount of policy premiums for October 1, 2008 to December 31, 2008 to be \$663,750.00.

C. Transfer of Title

The Receiver is continuing to work with the successor trustees of the various life insurance trusts and the applicable insurance companies to facilitate the transfer of ownership and the designated beneficiaries of the various policies into the name of the Fund. The Receiver requested transfers for 34 of the original 37 policies. Subsequently, five policies were sold. Of the 32 remaining policies, transfers have been requested for 29 of the policies, and 28 have been completed. The Receiver will continue to actively pursue a transfer for the remaining policies.

D. Updated Medical Information on Insureds

The Receiver is currently working on obtaining updated medical information on many of the insureds. The Receiver's attempts to use the HIPAA release forms collected by Lydia along with the Order of Appointment failed in many cases, as medical providers would not accept HIPAA release forms that were more than one year old. Therefore, the Receiver has mailed requests for updated HIPAA release forms to all of the insureds. As of this writing, eleven

updated release forms have been returned. The Receiver mailed a second request to the insureds on July 24, 2008, and anticipates making a third request to obtain the additional release forms required.

E. Financing of Portfolio

The Receiver is continuing to explore potential financing sources should the need arise to pay premiums and expenses.

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 as of September 30, 2008 is \$2,654,962.31. A Balance Sheet and summary of the activity in those accounts is set forth on Exhibit 1. During this reporting period the Receiver continued working on cost basis financial statements including balance sheets and income statements for both Lydia and the Fund as of: December 31, 2006; the date of appointment on June 1, 2007; and, December 31, 2007. The results of this analysis will be reported in the Receiver's Eighth Report to the Court.

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 July, August and September, 2008. [Doc. Nos. 190 and 191.]⁴ As set forth therein, the Receiver and his counsel believe that the fees and expenses itemized in the applications are reasonable.

⁴ A copy of each of the motions is attached hereto. (Exhibits 2 and 3.)

Accordingly, for the reasons set forth in the Motions, the Receiver respectfully requests the Court enter an Order approving the payment of those fees and expenses.

Dated: October 29, 2008

Respectfully submitted,

/s/ Melvin R. McVay, Jr.

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CERTIFICATE OF SERVICE

I hereby certify that on the 29th day of October, 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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