

(“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 Andersen. [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 work diligently toward preserving the assets of the Receivership Estate, including the life settlement policies comprising the bulk of the estate. The Receiver's initial efforts were concentrated primarily on identifying and preserving the assets of the Estate. Since the time of his appointment, the Receiver and his counsel have been required to devote a substantial amount of time to defending lawsuits brought by various insurance companies seeking to void or rescind certain of the life settlement policies in the Estate. Not only do the lawsuits seek to void or rescind the policies, the Plaintiffs in those lawsuits also seek to retain the premiums paid for the policies rather than returning them to the Receiver upon rescission of the policies. Therefore, the Receiver has aggressively defended the lawsuits in order to protect assets of the Estate on behalf of the Lydia investors.

As discussed more fully below, when possible, the Receiver has sought a favorable settlement of certain of the lawsuits when such a settlement will result in an outcome that is in the best interests of the investors. A total of thirteen lawsuits have been filed against the Receivership in separate federal jurisdictions throughout the country. The Receiver has negotiated the settlement of eight of the lawsuits, resulting in a significant amount of settlement monies being realized by the Receivership. [Doc No. 239.] The Receiver continues to

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 seeking Court approval for payment of fees and expenses of the Receiver and his counsel. Further, the Receiver wishes to advise the Court that he is always available to the Court should the Court determine that it would be advisable to schedule a status conference to more fully discuss any of these matters.

aggressively defend the remaining five lawsuits against the Receiver, while at the same time exploring the possibility of settlements that will end the litigation, and result in a favorable outcome for the investors. The Receiver has engaged in extensive settlement negotiations with Lincoln National Life Insurance (“Lincoln”), Sun Life Assurance Company of Canada (“Sun Life”), and Hartford Life and Annuity Insurance Company (“Hartford”). (See Pending Litigation, *infra*.)

The Receiver is currently prosecuting Third-Party Complaints filed by the Receiver against various third parties who may have liability related to the claims asserted by the insurance carriers in the lawsuits. Additionally, the Receiver has also continued to monitor the status of AXA Equitable Life Insurance Company’s (“AXA”) efforts to recover funds paid on commissions, as part of the settlement entered into and approved by the Court. [Doc. No. 252.]

The Receiver is also maintaining the policies in the Estate not currently in litigation to ensure that the policies will remain marketable for the benefit of the Estate. The Receiver is currently aggressively marketing the Portfolio of policies so that it can be sold for the benefit of the Estate. The Receiver's efforts in this regard are detailed below.

B. Investor Communications

During this reporting period, the Receiver attended several telephone conferences and meetings to answer investors' questions regarding the status of the Receivership and to address any concerns investors may have regarding the Receivership assets. The Receiver and his counsel first participated in a teleconference with the Lydia investors on July 30, 2009. Prior to the teleconference, the Receiver corresponded with all of the Lydia investors and posted a notice on the Lydia Receivership website to communicate the date and time of the conference as well as to provide the necessary information for their participation. Additionally, the Receiver sought

input from investors regarding issues for the Receiver to discuss during the conference call in an effort to address any questions or concerns the investors may have.

During the July 30 teleconference, the Receiver and his counsel updated the investors and answered investors' questions regarding the state of the assets, including the status of the pending litigation, the settlement discussions and negotiations with various parties relating to the pending litigation and policies not currently in litigation, the financial condition of the Receivership Estate, and the status of the settlement with AXA and Lincoln.

The Receiver scheduled an additional conference call with investors for September 2, 2009, and informed all investors of the date and time of the call. The Receiver and his counsel attended the conference call. However, no investors joined the call. Therefore, at the request of several of the investors, a second conference call was scheduled for the following week, September 9, 2009. During the teleconference, the Receiver updated the investors regarding: (1) the financial condition of the Receivership Estate since the date of the Receiver's last report to the Court; (2) the financial needs of the Receivership, including the amounts scheduled to be paid towards premiums; (3) the status of the Policies comprising the Lydia Portfolio; (4) the status of the pending litigation, including settlement discussions with the insurance companies; (5) the settlements with AXA and Lincoln; and (6) the Receiver's efforts to market the Policies. Additionally, the Receiver answered all questions of the investors.

On September 24, 2009, the Receiver traveled to Taipei, where most of the Lydia investors are located. The purpose of this meeting was to provide an opportunity for the investors to ask questions of the Receiver directly. As the Receiver has previously reported to the Court, the Receiver has made extensive efforts to communicate with the Taiwanese investors via the Receiver's website, regular mailings, e-mails and conference calls. However, at times,

these efforts have been frustrated by the language barrier. Representatives of the Taiwanese investors expressed to the Receiver that such a meeting would be beneficial and appreciated by the investors. The meeting in Taipei provided a forum and opportunity for the Receiver to respond directly to investors' questions, with the aid of an interpreter. Because of concern over the expense of this meeting, the Receiver agreed only to charge the Receivership Estate for his travel expenses and the actual time he spent in meeting with the investors.

The Taipei meeting was very successful. Approximately 80 investors attended the meeting. The Receiver updated the investors on the status of the Receivership assets, the status of the litigation, the funds coming in to the Receivership Estate as a result of the settlements with AXA and Lincoln, the Receiver's efforts to market and sell policies not currently in litigation, and the options available for the future of the Portfolio. The details of the information provided to the investors regarding the marketing and potential sale of the Policies is discussed more fully below.

Following the Receiver's report to the investors, the Receiver spent two hours answering investors' questions. In the Receiver's opinion, the investors were pleased that the meeting was able to take place in Taipei so that they could meet the Receiver and have all of their questions fully answered.

C. Pending Litigation

A total of thirteen lawsuits have been filed against the Receivership. The Receiver has settled eight of the lawsuits, and the Settlement Agreements have been executed by the parties to the agreements, and approved the Court. [Doc No. 252.] During this period, the Receiver continued to defend the remaining five lawsuits filed by Lincoln, Sun Life and Hartford, which seek to void or rescind certain policies owned by Lydia.

There are five remaining lawsuits pending in four separate federal jurisdictions. 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. Through these third-party actions, the Receiver seeks the return of monies paid in connection with the sale of the policies to Lydia in the event the policies are rescinded.

The Receiver has been, and continues to be, engaged in conducting discovery in the pending lawsuits. While defending the claims by the insurers to rescind the policies and prosecuting the third-party claims, the Receiver and his counsel have also focused their efforts toward resolving the pending suits through settlement with opposing parties. As noted below, the Receiver has engaged in, or has currently scheduled, settlement conferences and mediations in all of the remaining lawsuits. However, a major obstacle to settlement has been the refusal of the insurers to return the premiums on these policies in return for their request to rescind the policies. It is the position of the insurers in the pending litigation that they can rescind the policy and keep the premium. The Receiver disputes this position. The Receiver's counsel has conducted extensive research regarding the return of premiums upon rescission of the policies. Based upon this research, the Receiver is preparing the appropriate motions to seek rulings from the Courts that the insurers are obligated to return all premiums that were paid on the policies should the insurers be successful in rescinding the 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/ Vandenbush	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 a Third-Party Complaint against individuals involved in the sale and purchase of the subject insurance policy. The Third-Party Defendants have answered the Receiver's Third-Party Complaint. A settlement conference took place on October 14, 2009, which was unsuccessful. The parties are continuing to discuss settlement.	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 a Second Amended Complaint and the Receiver's 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 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. All of the Third-Party Defendants have answered the Receiver's Third-Party Complaint. A settlement conference took place on September 30, 2009, which was unsuccessful. The parties are continuing to discuss the possibility of settlement.	E.D.N.Y CV-08-699
3	04/02/2008	Sun Life Assurance Company of Canada/ Hoover	Scheduling Order has been entered. Rule 26 disclosures have been made. Receiver has filed a Third-Party Complaint against individuals involved in the sale and purchase of the insurance policy. All Third-Party Defendants have answered or otherwise pled. Written discovery has been issued and answered by the Plaintiff and Defendants. The Court, upon the motion of the parties, consolidated this matter with the Bawden matter. At the request of the Receiver and other parties, the Court has set this matter for a settlement conference on December 3, 2009.	D. Ariz. 2:08-CV- 00632-SRB
4	04/02/2008	Sun Life Assurance Company of Canada/ Bawden	Scheduling Order has been entered. Rule 26 disclosures have been made. Receiver has filed a Third-Party Complaint against individuals involved in the sale and purchase of the insurance policy. All Third-Party Defendants have answered. Written discovery has been issued and answered by the Plaintiff and Defendant. The Court, upon the motion of the parties, consolidated this matter with the Hoover matter. At the request of the Receiver and other parties, the Court has set this matter for a settlement conference on December 3, 2009.	D. Ariz. 2:08-CV- 00629-MHB
5	1/16/2009	Hartford Life & Annuity Ins. Company/ Williamson	Suit filed in January 2009 and Receiver has filed its Answer. A scheduling Order has been entered and Rule 26 disclosures have been made. The parties are proceeding with discovery. At the request of the Receiver and other parties, the Court has set this matter for mediation to take place on November 12, 2009.	C.D. Cal. 2:09-CV- 00391-CAS- SS

D. Settlements with AXA and Lincoln

During prior reporting periods, the Receiver has advised the Court of its extensive discussions with AXA and Lincoln regarding the settlement of seven of the litigation cases involving all of the policies issued by AXA (the "AXA Policies") and litigation involving one policy issued by Lincoln. On June 17, 2009, the Receiver submitted a Motion to approve the settlements with AXA and Lincoln. [Doc. No. 252.] The settlements resolved all claims and causes of action relating to the seven AXA Policies and the Lincoln Black Policy. After the receipt of all payments due under the Settlement Agreements, the settlement will result in the payment of \$3,205,200.00 to the Receivership. To date, the Receivership has received \$2,242,743.00.

As the Court has been made aware, the settlement agreement entered into with AXA requires AXA to pay to the Receivership, in addition to other settlement amounts, ten percent of any amounts AXA recovers from its agents and/or producers, up to \$100,000.00. As of this Report, AXA has recovered funds sufficient to pay to the Receivership Estate \$55,870.00 in quarterly payments. However, AXA reports to the Receiver that it is currently in negotiations with other agents and producers to recover additional funds. The Receiver will continue to update the Court on the status of AXA's efforts, and the resulting funds the Receivership Estate expects to receive.

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 (the "April 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.

The Receiver has previously 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 requested an initial Proof of Claim form from one investor. The Receiver has repeatedly sent correspondence to the remaining three investors from whom revised Proof of Claim forms are still required, as well as the remaining investor from whom an initial Proof of Claim form is required. The Receiver has not yet received these Proof of Claim forms. The Receiver addressed this issue during the meeting with investors in Taipei. However, the Receiver has not yet received the required revised or initial Proof of Claim forms following his meeting with the investors.

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. Subsequently, the Court approved the sale of five of the thirty-seven policies. As previously reported, the Receiver entered into a settlement with AXA and Lincoln regarding eight policies, resulting in those policies being rescinded. Therefore, the portfolio now consists of 24 policies ranging in face value from \$1,000,000.00 to \$10,000,000.00.

A. Premiums

The Receiver made \$976,311.87 in premium payments on the policies between June 30, 2009 and September 30, 2009. *See* Lydia Premium Disbursement Check Register, attached as Exhibit A. The Receiver estimates the total amount of policy premiums for October 2009 to December 2009 to be \$768,475.00.

B. Updated Medical Information on Insureds

The Receiver continues to work toward 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. Current medical information on each insured is necessary for the Receiver to determine the current value of each of the policies within the portfolio and to market and sell those policies. As such, the Receiver mailed requests for updated HIPAA release forms to the insureds on several occasions. However, certain insureds failed to return updated HIPAA release forms to the Receiver. As a result, the Receiver sent additional notices to those outstanding insureds who did not comply with the Receiver's requests, which resulted in additional release forms being returned. Further, the Receiver directed his Counsel to communicate directly with each of the non-complying insureds to advise each of their contractual obligations to execute updated release forms. In Counsel's communications with the insureds, Counsel for the Receiver advised each insured that should he/she continue to refuse to comply with the contractual obligations agreed upon by the insured, the Receiver would be forced to submit this matter to the Court.

There remain outstanding HIPAA release forms which have not been returned to the Receiver by certain insureds. In those instances where the Receiver has not received updated

release forms, the Receiver is relying upon the latest medical records in its possession in order to value the policies. In order to mitigate costs and attorney fees, the Receiver is proceeding with the medical records in his possession rather than seeking the release forms through Motions to Compel. However, should it become necessary the Receiver will submit this matter to the Court to obtain the needed HIPAA release forms.

C. Sale of the Portfolio

As the Court is aware, the marketing and sale of the Portfolio has presented unique and difficult issues. The Receiver previously made the determination that an early and quick liquidation of the policies would not result in the greatest return to the investors. Rather, the decision was made to retain the policies in the Receivership Portfolio until after the majority of the policies were beyond the two-year contestability period, likely resulting in the greatest value being derived from the sale of the policies.

All of the policies are now beyond their contestability period, and as previously reported to the Court, the Receiver has been actively marketing the Portfolio to many potential buyers. In addition to posting notice of the sale in industry publications, the Receiver has sent information concerning those policies not currently in litigation to over 100 potential contacts, including insurance brokers, providers and industry-specific individuals for potential purchase. The Receiver has provided all interested parties with detailed information on the policies that are part of the Receivership Estate in an effort to solicit bids on the Portfolio.

Since the Receiver's last report, sale efforts have continued with potential purchasers. The Receiver has received one offer for the purchase of the entire Portfolio, as well as one offer for purchase of a portion of the Portfolio. However, those offers were considerably lower than

the Receiver had hoped to receive. The Receiver has also been informed by two potential purchasers that offers will be forthcoming very shortly.

Numerous potential purchasers have executed Confidentiality Agreements and have reviewed detailed information regarding the Policies and their value. However, the majority of those potential purchasers have either not been ready to bid, are still awaiting funding from their sources, or were not interested after further due diligence. In the Receiver's opinion, the offers received to date reflect the fact that there has been a significant negative shift in the market's view toward life settlements of this type contained in the Receivership Estate. The Receiver also believes that the amount of litigation associated with this Portfolio has affected its marketability. Additionally, the length of the life expectancies of the insureds and the high premium carrying costs for the policies have had a negative impact on the Receiver's ability to obtain offers.

The Receiver, however, anticipates presenting an offer to the Court to sell the remaining assets of the Receivership Estate within sixty days.

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 \$11,932,721.16⁴ on the day of the Receiver's appointment. The principal balance in the Receiver's accounts as of September 30, 2009 was \$2,274,363.16. A General Ledger summarizing the activity in those accounts is set forth in Exhibit B. Additionally, for further information regarding the income and expenses of the Receivership, see the Standardized Fund Accounting Report attached as Exhibit 2 to the Receiver's Motion for Approval of Fees and

⁴ As discussed in the Receiver's Fourth Report, \$4,553,858.11 was returned to the April Investors in January 2008, pursuant to a settlement agreement with the April Investors.

Expenses (for the Months of July, August and September, 2009) and Memorandum in Support.
[Doc. No. 263.]

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 2009. [Doc. Nos. 263 and 264.]⁵ As set forth therein, the Receiver and his counsel believe that the fees and expenses itemized in the applications are reasonable. 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.

Respectfully submitted,

/s/ Melvin R. McVay, Jr.

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Dated: November 18, 2009

⁵ A copy of each of the motions is attached hereto. (Exhibits C and D)

CERTIFICATE OF SERVICE

I hereby certify that on the 18th day of November, 2009, 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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