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CENTRAL DISTRICT OF CALIF.
SANTA ANA

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11 **UNITED STATES DISTRICT COURT**
12 **CENTRAL DISTRICT OF CALIFORNIA**
13 **SOUTHERN DIVISION**

14 SECURITIES AND EXCHANGE
COMMISSION,

15 Plaintiff,

16 vs.

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

21 Defendants.
22

Case No. **SACV09-818 DOC(RNBX)**
**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS**

23 Plaintiff Securities and Exchange Commission (“Commission”) alleges as
24 follows:

25 **SUMMARY**

26 1. This matter concerns fraud in the offer and sale of a \$76.9 million in
27 securities in the form of notes by the Defendants: Medical Capital Holdings, Inc.
28 (“MCHI”); Medical Capital Corporation (“MCC”); Medical Provider Funding

1 Corporation VI (“MP VI”); Sidney M. Field; and Joseph J. Lampariello. MCHI is a
2 medical receivables financing company that operates through MCC, its wholly-
3 owned subsidiary, to administer several Special Purpose Corporations (“SPCs”),
4 including MP VI. Defendants Field and Lampariello are directors of MCHI, MCC,
5 and MP VI, with Field also serving as the Defendant entities’ Chief Executive
6 Officer (“CEO”) and Lampariello serving as their president and Chief Operating
7 Officer (“COO”). Since 2003, MCHI, MCC, Fields, and Lampariello have raised
8 over \$2.2 billion through offerings of notes in MP VI and five other similarly
9 structured SPCs. As of March 31, 2009, MP VI and its affiliated SPCs have over
10 \$1 billion in notes outstanding and, since August 2008, five of the SPCs have been in
11 default or late in paying principal and/or interest on \$992.5 million in notes.

12 2. The Defendants are committing fraud in the offer and sale of MP VI
13 notes. As of June 19, 2009, the Defendants misappropriated approximately
14 \$18.5 million of the \$76.9 million raised through the sale of MP VI notes to pay
15 administrative fees to MCC. These fee payments were contrary to representations
16 in MP VI’s original private placement memorandum (“PPM”), which stated that
17 administrative fees would not be paid out of the offering proceeds, as well as
18 representations in MP VI’s May 27, 2009 supplemental PPM (“Supplemental
19 PPM”) that less than \$4 million of offering proceeds had been used for purposes
20 other than purchasing accounts receivables. The Defendants also misrepresented
21 that none of the SPCs affiliated with MP VI had defaulted on, or been late in
22 making payments of, principal and/or interest to their respective investors. In fact,
23 two MP VI-affiliated SPCs began defaulting on interest and/or principal payments
24 in the same month that MP VI began its offering, and recently two other MP VI-
25 affiliated SPCs have defaulted or been late in making interest payments.

26 3. The Defendants, by engaging in the conduct described in this
27 Complaint, have violated, or aided and abetted, and unless enjoined will continue
28 to violate, or aid and abet, the antifraud provisions of the federal securities laws.

1 By this Complaint, the Commission seeks emergency relief against the Defendants,
2 including a temporary restraining order, an asset freeze against MCHI, MCC, and
3 MP VI, the appointment of a receiver, an order prohibiting the destruction of
4 documents, an order expediting discovery, and accountings, as well as preliminary
5 and permanent injunctions, disgorgement with prejudgment interest, and civil
6 penalties.

7 JURISDICTION AND VENUE

8 4. This Court has jurisdiction over this action pursuant to Sections 20(b),
9 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C.
10 §§ 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27
11 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1),
12 78u(d)(3)(A), 78u(e), and 78aa. The Defendants have, directly or indirectly, made
13 use of the means or instrumentalities of interstate commerce, of the mails, or of the
14 facilities of a national securities exchange in connection with the transactions, acts,
15 practices and courses of business alleged in this Complaint.

16 5. Venue is proper in this district pursuant to Section 22(a) of the
17 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.
18 § 78aa, because certain of the transactions, acts, practices and courses of conduct
19 constituting violations of the federal securities laws occurred within this district,
20 and all of the defendants reside and/or are located in this district.

21 DEFENDANTS

22 6. Medical Capital Holdings, Inc. is a Nevada corporation with its
23 principal place of business in Tustin, California. Through various wholly-owned
24 operating subsidiaries and SPCs, MCHI provides financing to healthcare providers
25 by purchasing their accounts receivables and making secured loans to them.
26 MCHI uses the special purpose corporations to raise money from investors to fund
27 the financings. MCHI uses the operating subsidiaries to underwrite, monitor,
28 administer, and service these financings. MCHI is not registered with the

1 Commission in any capacity. In February 2001, the California Department of
2 Corporations issued a Desist and Refrain Order against MCHI from the further
3 offer or sale of securities in the State of California.

4 7. **Medical Capital Corporation** is a Nevada corporation and wholly-
5 owned subsidiary of MCHI, with its principal place of business in Tustin,
6 California. MCC is the administrator for each of MCHI's SPCs, including MP VI,
7 and provides management, underwriting, and administrative services, such as
8 bookkeeping, payroll, and accounting services, including administration of all
9 investor promissory notes and interest payments. MCC is not registered with the
10 Commission in any capacity.

11 8. **Medical Provider Funding Corporation VI** is a Nevada corporation
12 and wholly-owned SPC of MCHI that was formed in April 2008. From August
13 2008 to the present, MP VI has conducted a note offering and, as of June 19, 2009,
14 it had raised \$76.9 million through the issuance of notes to about 700 investors.
15 MP VI has never been registered with the Commission in any capacity, nor has it
16 registered an offering of securities under the Securities Act or a class of securities
17 under the Exchange Act. Since May 2009, MP VI has been late on interest
18 payments to investors by several days.

19 9. **Sidney M. Field**, age 63, resides in Villa Park, California. Field has
20 been the CEO and a director of MCHI and its subsidiaries during the relevant
21 period.

22 10. **Joseph J. Lampariello**, age 55, resides in Huntington Station, New
23 York, and Newport Beach, California. Lampariello has been the president, COO,
24 and a director of MCHI and its subsidiaries during the relevant period.

25 **RELATED ENTITIES**

26 11. **Medical Provider Financial Corporation I** ("MP I") is a Nevada
27 corporation and wholly-owned special purpose subsidiary of MCHI that was
28 formed in September 2003. From December 2003 to August 2007, MP I

1 conducted a note offering, raising approximately \$554.9 million through the
2 issuance of about 3,821 notes to investors. As of May 31, 2009, MP I had repaid
3 all but \$375,000 of its investors' principal.

4 12. **Medical Provider Financial Corporation II** ("MP II") is a Nevada
5 corporation and wholly-owned SPC of MCHI that was formed in October 2003.
6 From January 2004 to December 2005, MP II conducted two series of note
7 offerings, raising approximately \$251.7 million through the issuance of about
8 3,458 notes to investors. As of May 27, 2009, MP II had \$88 million in
9 outstanding notes and had defaulted in paying \$43 million in principal and
10 \$1.3 million in interest to its investors.

11 13. **Medical Provider Financial Corporation III** ("MP III") is a Nevada
12 corporation and wholly-owned SPC of MCHI that was formed in February 2005.
13 From July 2005 to January 2008, MP III conducted two series of note offerings,
14 raising a total of about \$522.7 million by issuing 5,318 notes to investors. As of
15 March 31, 2009, MP III had \$109.4 million in outstanding notes, and as May 27,
16 2009, MP III had defaulted in paying principal on \$26.5 million in outstanding notes.

17 14. **Medical Provider Financial Corporation IV** ("MP IV") is a Nevada
18 corporation and wholly-owned SPC of MCHI that was formed in July 2005 and
19 commenced operations in October 2006. From November 2006 through February
20 2008, MP IV conducted two series of note offerings, raising a total of \$401.3
21 million by issuing 4,222 notes to investors. As of May 27, 2009, MP IV had \$400
22 million in outstanding notes and defaulted in interest payments in January 2009
23 and since March 2009.

24 15. **Medical Provider Funding Corporation V** ("MP V") is a Nevada
25 corporation and wholly-owned SPC of MCHI that was formed in September 2007.
26 From November 2007 to about July 2008, MP V conducted a note offering, raising
27 \$401.8 million by issuing 4,323 notes that begin to mature in November 2009. As of
28 March 31, 2009, MP V had \$401.1 million in outstanding notes issued to 4,270

1 investors. In May 2009, interest payments to investors were delayed by several days.

2 THE FRAUDULENT SCHEME

3 A. MCHI's Business and SPC Note Offerings

4 16. MCHI provides financing to healthcare providers by purchasing
5 their accounts receivables and making secured loans to them. MCHI funds its
6 healthcare financing by offering notes issued by its SPCs. Since December
7 2003, MCHI has raised approximately \$2.2 billion from over 20,000 investors.
8 MCHI uses its operating subsidiary MCC to administer each of the SPCs,
9 providing management, underwriting, and administrative services, such as
10 bookkeeping, payroll, and accounting services – including administration of all
11 investor promissory notes and interest payments.

12 17. The SPCs sold the notes through registered broker-dealers to only
13 accredited investors under Rule 506 of Regulation D. 17 C.F.R. §§ 230.501–
14 230.508. In the offerings, the SPCs sold notes with various maturities (one to
15 seven years) and interest rates (8.5% to 10.5%). In the PPMs, the SPCs
16 represented that after paying offering expenses of 4% to 8%, they would use the
17 net offering proceeds to purchase healthcare receivables and make investments in
18 other businesses. The notes are securities in the form of notes as investment
19 contracts.

20 18. The Defendants used substantial amounts of the SPCs' offering
21 proceeds to purchase healthcare receivables and make loans to or investments in
22 healthcare-related businesses. As of March 31, 2009, MCC, as administrator of the
23 SPCs, controlled receivables, loans, or investments owned by the SPCs with a
24 purported total value of over \$1.2 billion.

25 19. Despite raising about \$2.2 billion from investors and controlling over
26 \$1 billion in purported assets, the proposed defendants do not keep the SPCs'
27 financial statements in accordance with GAAP or even keep their accounting
28 records in a manner that would allow GAAP financial statements to be generated.

1 For example, at the time they purchase a batch of receivables, the SPCs record as
2 revenue the amount that expected collections exceed the purchase price and never
3 reconcile actual collections with expected collections.

4 **B. Misrepresentations in the Offer and Sale of MP VI**

5 **1. Misappropriation of Offering Proceeds to Pay Fees to MCC**

6 20. In MP VI's original August 5, 2008 PPM and supplemental May 27,
7 2009 PPM, the Defendants disclosed that MCC would be MP VI's administrator,
8 providing management, underwriting of receivables, and administrative services,
9 such as bookkeeping, payroll, and accounting services. The Defendants also
10 disclosed in the PPMs that MCC received a fee for such services, which was equal
11 to the difference between what MP VI expected to receive from its receivables and
12 loans less operating costs and the notes' aggregate outstanding principal balance.
13 They further disclosed in the PPMs that MCC was an affiliate and that the
14 administrative agreement was not made through independent arm's length
15 negotiations.

16 21. The Defendants, however, represented in the MP VI PPMs, under the
17 heading "Restrictions on Use of Proceeds," that MP VI would not use "any
18 proceeds from the sales of notes to pay administrative fees to [MCC] for the
19 services it provides as administrator" and that that such fees would rather be "paid
20 out of amounts collected from the accounts receivable and proceeds from other
21 investments." They further represented in the PPMs that MP VI believed that the
22 administrative fees paid to MCC would be "no greater than those an independent
23 third-party would charge for providing similar services."

24 22. The Defendants also represented in MP VI's PPMs that the note
25 offering's proceeds would be used to: purchase account receivables; make secured
26 loans; pay sales commissions and other operating costs; provide funds for general
27 operating purposes; and pay principal and interest on the notes.

1 23. The Defendants have not used MP VI's offering proceeds as
2 represented in the PPMs and instead have misappropriated a substantial amount of
3 the investors' funds to pay administrative fees to MCC. In fact, as shown on Table
4 1 below, as of June 19, 2009, MP VI's administrative fees exceeded its collections
5 by approximately \$18.5 million in direct contravention to its PPMs'
6 representations that administrative fees would solely be "paid out of amounts
7 collected from the accounts receivable and proceeds from other investments."

8 24. In the May 27, 2009 Supplemental PPM, the Defendants further
9 misrepresented how the note offering's proceeds had been used. Specifically,
10 Defendants represented:

11 As of February 28, 2009, we have issued notes in the face amount of
12 \$69,331,558.90. We have used \$65,558,703.02 of the proceeds to
13 finance accounts receivable. We have applied \$3,264,410.12 to
14 commissions and other expenses. The balance is on deposit in our trust
15 account awaiting additional accounts receivable financing.

16 In fact, as shown on Table 1 below, as of February 28, 2009, Defendants had paid
17 \$21.7 million in administrative fees, which exceeded MP VI's collections by
18 \$16.9 million. In addition, Defendants had actually spent approximately
19 \$48.8 million on receivables, rather than the \$65.5 million represented in the
20 Supplemental PPM.

21 25. The Defendants misappropriation of investors' funds to pay fees is
22 shown on the table below. Defendants took approximately 24% of the amount
23 raised as administrative fees, far in excess of the collections on receivables.

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1 Table 1: MP VI Actual Administrative Fees Paid

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Date	Collections on Receivables	Administrative Fees Paid to MCC	Excess Administrative Fees ¹
Actual as of 2/28/09	\$4.8 million	\$21.7 million	\$16.9 million
Actual as of 6/19/2009	\$6.5 million	\$25 million	\$18.5 million

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8 **2. Misrepresentation Regarding Defaults of Other SPCs**

9 26. In MP VI's original PPM, the Defendants disclosed that MP VI had
10 no operating history but represented that MP VI had "several experienced
11 affiliates that ha[d] completed offerings of debt securities backed by accounts
12 receivable," and that the "affiliates ha[d], since 1994, financed accounts receivable
13 having an aggregate face amount of over \$5 billion." The PPM further stated that
14 "[MP VI's] affiliates have never defaulted in the payment of their obligations on
15 those debt securities, and all interest payments on those securities were made
16 when due."

17 27. In fact, the Defendants knew, or were reckless in not knowing, that
18 during the MP VI offering several of the affiliated SPCs had defaulted on their
19 obligations. The May 27, 2009 Supplemental PPM represents that MP II, MP III,
20 and MP IV are each in default. Indeed, since August 2008 (the same month that
21 the MP VI offering began), MP II defaulted on \$43 million in principal payments
22 and \$1.3 million in interest payments, and MP III defaulted on \$26.5 million in
23 principal payments. MP IV missed interest payments in January 2009 and from
24 March 2009 through the present. MP V has also recently made interest payments
25 late.

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27
28 ¹ "Excess administrative fees" are those fees that exceed the amount MP VI collected on receivables and, therefore, were paid with offering proceeds.

1 28. Although the Defendants notified MP II and MP III investors
2 about the defaults beginning in August 2008, the Defendants did not notify
3 purchasers of MP VI notes about MP VI's affiliates' defaults until about June
4 2009. On or about June 8, 2009, the Defendants sent broker-dealers who had
5 previously sold MP VI notes the Supplemental PPM, which disclosed the
6 principal and interest payment defaults by MP II, MP III, and MP IV.

7 29. At all times, Defendants acted with scienter.

8 **FIRST CLAIM FOR RELIEF**

9 **Fraud In The Offer Or Sale Of Securities**

10 **Violations of Section 17(a) of the Securities Act**

11 **(Against All Defendants)**

12 30. The Commission realleges and incorporates by reference
13 paragraphs 1 through 29 above.

14 31. The Defendants, and each of them, by engaging in the conduct
15 described above, in the offer or sale of securities by the use of means or
16 instruments of transportation or communication in interstate commerce or by use
17 of the mails directly or indirectly:

- 18 a. with scienter, employed devices, schemes, or artifices to
- 19 defraud;
- 20 b. obtained money or property by means of untrue statements of a
- 21 material fact or by omitting to state a material fact necessary in
- 22 order to make the statements made, in light of the
- 23 circumstances under which they were made, not misleading; or
- 24 c. engaged in transactions, practices, or courses of business which
- 25 operated or would operate as a fraud or deceit upon the
- 26 purchaser.

27 32. By engaging in the conduct described above, the Defendants violated,
28 and unless restrained and enjoined will continue to violate, Section 17(a) of the

1 Securities Act, 15 U.S.C. § 77q(a).

2 **SECOND CLAIM FOR RELIEF**

3 **Fraud In Connection With The Purchase Or Sale Of Securities**

4 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

5 **(Against All Defendants)**

6 33. The Commission realleges and incorporates by reference paragraphs
7 1 through 29 above.

8 34. The Defendants, and each of them, by engaging in the conduct
9 described above, directly or indirectly, in connection with the purchase or sale of a
10 security, by the use of means or instrumentalities of interstate commerce, of the
11 mails, or of the facilities of a national securities exchange, with scienter:

- 12 a. employed devices, schemes, or artifices to defraud;
- 13 b. made untrue statements of a material fact or omitted to state a
14 material fact necessary in order to make the statements made, in
15 the light of the circumstances under which they were made, not
16 misleading; or
- 17 c. engaged in acts, practices, or courses of business which
18 operated or would operate as a fraud or deceit upon other
19 persons.

20 35. By engaging in the conduct described above, the Defendants violated,
21 and unless restrained and enjoined will continue to violate, Section 10(b) of the
22 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.
23 § 240.10b-5.

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1 **PRAYER FOR RELIEF**

2 WHEREFORE, the Commission respectfully requests that the Court:

3 **I.**

4 Issue findings of fact and conclusions of law that the Defendants committed
5 the alleged violations.

6 **II.**

7 Issue judgments, in forms consistent with Fed. R. Civ. P. 65(d), temporarily,
8 preliminarily, and permanently enjoining the Defendants and their officers, agents,
9 servants, employees, and attorneys, and those persons in active concert or
10 participation with any of them, who receive actual notice of the judgment by
11 personal service or otherwise, and each of them, from violating Section 17(a) of
12 the Securities Act, 15 U.S.C. § 77q(a), and Section 10(b) of the Exchange Act, 15
13 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5, and with
14 regard to MCC, in the alternative, from aiding and abetting violations of Section
15 10(b) and Rule 10b-5.

16 **III.**

17 Issue, in a form consistent with Fed. R. Civ. P. 65, a temporary restraining
18 order and a preliminary injunction freezing the assets of MCHI, MCC, and MP VI
19 and any entity affiliated with any of them, appointing a receiver over MCHI, MCC,
20 and MP VI, prohibiting each of the Defendants from destroying documents,
21 granting expedited discovery, and requiring accountings from each of the
22 Defendants.

23 **IV.**

24 Order each of the Defendants to disgorge all ill-gotten gains from their
25 illegal conduct, together with prejudgment interest thereon.

26 **V.**

27 Order each of the Defendants to pay civil penalties under Section 20(d) of
28 the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act,

1 15 U.S.C. § 78u(d)(3).

2 **VI.**

3 Retain jurisdiction of this action in accordance with the principles of equity
4 and the Federal Rules of Civil Procedure in order to implement and carry out the
5 terms of all orders and decrees that may be entered, or to entertain any suitable
6 application or motion for additional relief within the jurisdiction of this Court.

7 **VII.**

8 Grant such other and further relief as this Court may determine to be just and
9 necessary.

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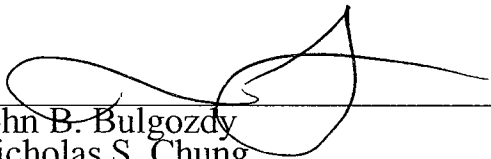
11 Dated: July 16, 2009

Respectfully submitted,

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Securities and Exchange Commission

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