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8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA
10 SOUTHERN DIVISION

11 SECURITIES AND EXCHANGE
COMMISSION,

12 Plaintiff,

13 vs.

14 ROBERT LOUIS CARVER, et al.

15 Defendants,

16 LINCOLN BIOTECH VENTURES, LP,
17 et al.

18 Relief Defendants.

Case No. SA CV-08-0627 CJC (RNBx)

**RECEIVER'S FINAL REPORT AND
ACCOUNTING; MOTION FOR
ORDER CLOSING RECEIVERSHIP
ESTATE AND GRANTING
ANCILLARY RELIEF**

Date: September 12, 2011
Time: 1:30 p.m.
Ctrm: 9B
Judge: Hon. Cormac J. Carney

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1 **I. INTRODUCTION**

2 James H. Donell ("Receiver"), the Court-appointed receiver for defendants
3 Paropes Corporation, f/k/a Brookstone Capital, Inc., Lincoln Funds
4 International, Inc., relief defendants Lincoln Biotech Ventures, L.P., Lincoln
5 Biotech Ventures II, L.P., and Lincoln Biotech Ventures III, L.P., and their
6 subsidiaries and affiliates (collectively, the "Receivership Entities"), submits his
7 final report describing his activities during the receivership and requests that the
8 receivership estate be closed.

9 **II. EXECUTIVE SUMMARY**

10 The Receiver's investigation shows that the Receivership Entities raised
11 approximately \$24.5 million from approximately 380 investors. Approximately
12 \$6 million of the monies raised from investors were used to purchase securities.
13 The Receiver was able to recover a total of \$5,509,846.81 from various sources,
14 including Receivership Entity bank accounts, insurance policies, partnership
15 distributions, the sale of (a) securities, (b) office furniture and equipment, and
16 (c) jewelry, and interest earned on those amounts.

17 With the assistance of his forensic accountant, the Receiver completed a
18 forensic accounting reconstruction of the Receivership Entities. The accounting
19 reconstruction served as the foundation for the Receiver's review and investigation
20 of (a) the flow of funds into, among, and out of the Receivership Entities,
21 (b) transfers to third parties, and (c) claims asserted by investors and other creditors
22 against the receivership estate.

23 The Receiver received a total of 411 claims with a total face amount of
24 \$23,400,064.56. Pursuant to the Receiver's review and recommendations regarding
25 the allowed amount of claims, and the Court's order approving such
26 recommendations, the total of allowed claims is \$22,807,879.76. Of this amount,
27 \$811,926.09 were claims for unpaid taxes and wages which were given priority.
28 The remaining \$21,995,953.67 were claims for investor losses and amounts owed to

1 creditors which were paid on a pro rata basis after priority claims. Pursuant to the
2 claims approval order, \$2,999,999.70,¹ has been distributed to the holders of
3 allowed claims. \$811,926.09 went to pay priority claims in full, and \$2,188,073.61
4 was distributed pro rata to investors and creditors with allowed claims. This
5 translated to almost exactly 10 cents on each dollar of investor and creditor claims.

6 Finally, there was the question of how to maximize the value of the
7 non-public stock holdings of the Receivership Entities. Ultimately, in consultation
8 with the Court and SEC counsel, the Receiver determined that transferring the
9 non-public stocks to a liquidating trust was the best approach to preserving their
10 potential value. On December 13, 2010, the Court approved the Liquidating Trust
11 Agreement with Howard Grobstein as Trustee. Pursuant thereto, the Liquidating
12 Trust has been established, the stocks and limited partnership interests have been
13 transferred to the trust, and notice has been provided to all beneficiaries. Mr.
14 Grobstein has advised that one of the stocks is now trading publicly, and therefore
15 will be sold pursuant to the terms of the Liquidating Trust Agreement.
16 Mr. Grobstein expects the sale to generate approximately \$150,000 for distribution
17 to beneficiaries.

18 Therefore, at this point, all assets of value of the receivership estate have been
19 either converted to liquid assets or transferred to the Liquidating Trust.
20 Concurrently herewith, the Receiver has filed final applications for approval of fees
21 and costs for himself and his professionals. A final accounting is attached hereto as
22 Exhibit A. A summary of the final accounting is as follows:

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¹ The order authorized distribution of a total of \$3 million.

1	Total Recovered	\$5,509,846.81
2	Interim Distribution	\$2,999,999.70
3	Administrative Expenses	\$275,477.31
4	Receiver and Professional Fees and Costs	
5	Approved and Paid on an Interim Basis	\$921,098.55
6	Yet to be Approved	\$131,522.19
7	Total	\$1,052,620.74
8	Final Distribution ²	\$1,181,749.06

9

10 **III. PROCEDURAL BACKGROUND**

11 On June 6, 2008, the Securities and Exchange Commission filed its
12 Complaint for Violations of the Federal Securities Laws ("Complaint") and Ex Parte
13 Application for Temporary Restraining Order and Orders: (1) Freezing Assets;
14 (2) Requiring Accountings; (3) Prohibiting the Destruction of Documents;
15 (4) Expediting Discovery; (5) Appointing a Temporary Receiver; and Order to
16 Show Cause re Preliminary Injunction and Appointment of a Permanent Receiver
17 ("Ex Parte Application"). After a hearing held the same day, the Court granted the
18 Ex Parte Application and entered the requested TRO and accompanying orders,
19 including appointment of James H. Donell as temporary receiver for the
20 Receivership Entities. The Court set a hearing on the Order to Show Cause for
21 June 19, 2008.

22 After the June 19 hearing, the Court entered the Preliminary Injunction and
23 Orders: (1) Freezing Assets; (2) Prohibiting the Destruction of Documents; and
24 (3) Appointing a Permanent Receiver ("Preliminary Injunction Order"). The
25 Preliminary Injunction Order makes the Receiver's appointment permanent.
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28 ² If all Receiver and professional fees and costs are approved on a final basis.

1 **IV. SUMMARY OF RECEIVER'S RECENT ACTIVITIES**

2 Since the Third Report was filed on April 9, 2010, the Receiver and his
3 professionals have focused on the following primary tasks:

4 1) Making distributions to holders of allowed claims pursuant to the
5 Court-approved Distribution Plan;

6 2) Negotiating, drafting, executing and obtaining Court approval of the
7 Liquidating Trust Agreement;

8 3) Setting up the Liquidating Trust, including transferring the non-public
9 stocks and limited partnership interests to the trust;

10 4) Selling publicly traded stocks;

11 5) Investigating potential claims for recovery of fraudulent transfers and other
12 amounts from third parties; and

13 6) Responding to inquiries and otherwise keeping the holders of allowed
14 claims informed on the status of the case.

15 Each of these tasks is discussed further below. All tasks have been
16 undertaken with a consistent effort to minimize administrative fees and expenses.

17 **A. Claims and Distributions**

18 As noted above, the Receiver filed his Claims Approval Motion on May 14,
19 2010. The Claims Approval Order was entered on June 21, 2010. Pursuant thereto,
20 the Receiver issued distribution checks to holders of allowed claims. A total of
21 \$2,999,999.70 was distributed. Priority claims were paid in full. Non-priority
22 claims were paid a pro rata share of the amount remaining after payment of priority
23 claims. The result was that investor/non-priority creditor claims received almost
24 exactly 10 cents of every dollar of their claims.

25 **B. Disposition of Public Stock Holdings**

26 As noted above, pursuant to the authority granted to him by the Court, the
27 Receiver has sold the publicly traded stocks through an experienced investment
28

1 broker. The final public stocks were sold in December 2010 and January 2011. The
2 estate recovered \$1,587,774.36 from the sale of public stocks.

3 **C. The Liquidating Trust**

4 From early in the case, the Receiver explored and weighed various options for
5 disposing of the non-public stock holdings of the Receivership Entities in a manner
6 that maximizes the return to holders of allowed claims. The Receiver researched the
7 stocks and the issuing companies, and consulted with various investment advisors to
8 determine if a sale of the stocks at this time would be beneficial to the receivership
9 estate. Based on this research, the Receiver concluded that it would be in the best
10 interests of the estate to hold the stocks for possible future appreciation rather than
11 liquidating them at the present time. The issuing companies are start-up,
12 privately-held, biotechnology companies with potential future value if they can get
13 FDA approval for one or more of their products, obtain continued funding, and go
14 public or sell to a larger company.

15 The Receiver discussed with the Court and counsel for the SEC his idea and
16 preference to set up a liquidating trust for the stocks, as opposed to an immediate
17 liquidation which would likely provide only a nominal recovery, if any. The basic
18 concept discussed was to transfer the stocks to the liquidating trust and fund the trust
19 with a cash transfer from the receivership estate sufficient to cover the projected
20 fees and expenses of the trust. The trust would preserve the possibility of a larger
21 recovery, and in the meantime, allow the Court to terminate the receivership.

22 Initially, a bank had expressed interest and provided a preliminary fee
23 schedule for acting as trustee. With the assistance of counsel, the Receiver drafted a
24 Liquidating Trust Agreement for the bank's review. Unfortunately, the bank then
25 changed its mind and decided that it did not wish to act as trustee.

26 The Receiver promptly explored other options for a suitable trustee. Howard
27 Grobstein of Crowe Horwath, LLP, the Receiver's forensic accountant in this case,
28 volunteered to act as trustee and agreed to cap his fees as trustee to the original

1 amounts proposed by the bank. The Liquidating Trust Agreement was modified
2 accordingly and executed by the Receiver and Mr. Grobstein, subject to Court
3 approval.

4 On November 11, 2010, the Receiver moved for Court approval of the
5 Liquidating Trust Agreement. The motion, which was supported by the SEC, was
6 granted by order entered December 13, 2010. Pursuant thereto, the Liquidating
7 Trust has been established, the stocks and limited partnership interests have been
8 transferred to the trust, and notice has been provided to all beneficiaries. As noted
9 above, Mr. Grobstein has advised that one of the stocks is now trading, and
10 therefore will be sold pursuant to the terms of the Liquidating Trust Agreement.
11 Mr. Grobstein expects the sale to generate approximately \$150,000 for distribution
12 to beneficiaries.

13 **D. Sale of Jewelry**

14 The Receiver had the jewelry turned over by defendant Carver appraised,
15 obtained Court authority to sell the jewelry, and listed the jewelry for online auction.
16 No offers for the jewelry were received. Therefore, the Receiver had the jewelry
17 auctioned by licensed, experienced auctioneer R. L. Spear Co., Inc. The estate
18 recovered \$11,849.00 from the sale of the jewelry.

19 **E. Investigation of Potential Recovery Claims**

20 The Receiver's accounting reconstruction shows transfers from the
21 Receivership Entities to certain companies and individuals, the nature of which was
22 unknown. It was also not clear whether any goods, services or other reasonably
23 equivalent value was received in exchange for the amounts transferred. Finally, it
24 appeared that a few investors received small profits, *i.e.*, payments in excess of
25 amounts invested.

26 In order to conserve receivership resources, and rather than attempt to contact
27 each transfer recipient one by one, the Receiver's original approach was to request a
28 meeting with Defendants Carver and Carver II to discuss the relevant transfers. This

1 request was first made in July 2009. In response, the Receiver was contacted by
2 Kelley Munoz, appointed criminal defense counsel for Mr. Carver. Ms. Munoz
3 stated that, due to a criminal investigation, her client would not meet with the
4 Receiver. In the hope that an arrangement could be made under which the Carver
5 Defendants would agree to provide information about the relevant transfers, the
6 Receiver and his counsel had several calls with Ms. Munoz and Assistant United
7 States Attorney Jennifer Waire, attended an in-person meeting at Ms. Waire's office,
8 produced requested information regarding investor claims, and granted access to
9 review and copy investor claims.³ The Receiver understands that the Carver
10 Defendants were indicted on or about March 16, 2011. To date, a meeting with the
11 Carver Defendants has not taken place.

12 Accordingly, with the assistance of counsel, the Receiver proceeded to
13 investigate the relevant transfers, including locating addresses, issuing demand
14 letters and subpoenas, reviewing relevant documents and conducting telephone
15 interviews. Although not every recipient of funds from the Receivership Entities
16 could be reached, the Receiver made contact with the vast majority of third parties
17 that received significant sums. The Receiver did not identify any transfers that
18 warranted pursuit in actions to recover fraudulent transfers. Rather, the
19 investigation revealed that the Receivership Entities spent large sums advertising
20 and promoting themselves, attracting and entertaining clients, and otherwise
21 increasing their public profile. Although these transfers did not ultimately benefit
22 the Receivership Entities or their investors, the funds were used to purchase goods
23 and services from unrelated third parties, and therefore would not be recoverable as
24 fraudulent transfers. As a result, in consultation with counsel, the Receiver

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³ Ms. Waire and Ms. Munoz agreed that information contained on investor claims would be kept confidential and that copies would be destroyed when no longer needed.

1 determined that further investigation and pursuit of fraudulent transfers would not
2 be a productive use of receivership estate resources.

3 **F. Preparation of Tax Returns**

4 With the assistance of Crowe Horwath, the Receiver prepared and filed
5 federal and state tax returns for the receivership entities, including final tax returns
6 for the year 2011. The Receiver also responded to an inquiry from the Franchise
7 Tax Board regarding MacAuslan Capital Partners, LLC. As discussed below, the
8 Receiver explained that MacAuslan Capital Partners is not a receivership entity, and
9 therefore he cannot file tax returns on its behalf.

10 **G. Communications with Investors and other Creditors**

11 As he has throughout the case, the Receiver has continued to promptly
12 respond to all investor and creditor inquiries. The Receiver's website,
13 www.fedreceiver.com, includes a webpage dedicated to this case. The webpage
14 includes a case summary, extensive list of Court filings relevant to investors and
15 other creditors, Frequently Asked Questions tailored to this case, and other updates.
16 The website has been a cost-efficient means of disseminating information to
17 investors and other interested parties.

18 **V. PENDING AND POTENTIAL LITIGATION**

19 The Receiver is not aware of any pending litigation in which the Receivership
20 Entities are parties.

21 **VI. CONSENT TO FINAL JUDGMENT OF**
22 **PERMANENT INJUNCTION**

23 The SEC has prepared the Consent to Final Judgment ("Consent") and Final
24 Judgment of Permanent Injunction of Defendants Lincoln Funds International, Inc.
25 ("LFI") and Paropes Corporation f/k/a Brookstone Capital, Inc. ("BCI") attached
26 hereto as Exhibits B and C respectively. The Receiver's investigation supports and
27 confirms the allegations in the SEC's complaint. Accordingly, the Receiver requests
28 authority to sign the Consent such that the Final Judgment of Permanent Injunction

1 may be entered against LFI and BCI. The SEC has advised the Receiver that it will
2 stipulate to dismiss its claims against the relief defendants.

3 **VII. FINAL ACCOUNTING AND DISTRIBUTION**

4 A final report on the receivership accounts as of July 19, 2011 is attached
5 hereto as Exhibit A. As of that date, there was \$1,319,968.89 in cash on hand in the
6 estate. The total amount recovered by the Receiver, \$5,509,846.81, includes, among
7 other things, funds recovered from the Receivership Entities (\$3,223,083), dividends
8 paid from one of the investment holdings (\$582,048.77), proceeds from the auction
9 of office furniture and equipment (\$24,714.02), proceeds from the sale of public
10 stocks (\$1,587,774.36), proceeds from the auction of jewelry (\$11,849.00), and
11 interest earned on those amounts.

12 From the amounts recovered, the Receiver has distributed \$2,999,999.70 to
13 the holders of allowed claims pursuant to the Court's order approving claims and
14 authorizing an interim distribution. This includes distributions of \$811,926.09 to
15 priority tax and wage claimants, and \$2,188,073.61 to investors and creditors with
16 allowed claims. The Receiver has also paid (a) ordinary administrative expenses of
17 \$134,426, including post-receivership rent due under existing leases (\$72,061.07),
18 costs to store company documents and hardware (35,742.41), copying and
19 messenger costs (\$9,027.78), costs to file federal and state tax returns (\$6,377.95),
20 payroll taxes (\$2,368.34), bank charges (\$1,287.20), and insurance covering the
21 removal of the office furniture and equipment sold, as required by the landlord
22 (\$685.94), and (b) amounts specifically approved and authorized by the Court of
23 \$1,055,453.60, including amounts unfrozen and paid to the Carver defendants for
24 living expenses and attorney fees (\$42,020), costs associated with the
25 Court-approved auction of office furniture and equipment (\$5,724.91) and sale of
26 the jewelry (\$879.50), costs of publishing the Court-approved notice of claims
27 procedures (\$10,730.72), the amount necessary to fund the Liquidating Trust
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1 (\$75,000), and Court-approved fees and costs of the Receiver and his professionals
2 paid on an interim basis (\$921,098.55).

3 Contemporaneously herewith, the Receiver has filed final applications for
4 approval of fees and costs for himself and his professionals ("Final Fee
5 Applications"). The Final Fee Applications seek final approval and payment of
6 (a) all fees and costs approved and paid on an interim basis, (b) fees and costs
7 incurred since August 1, 2010, (c) the ten (10%) percent of fees held back from the
8 Fifth Interim Fee Applications of the Receiver and his professionals, and (d) an
9 estimate for the Receiver and Allen Matkins for fees and costs to be incurred
10 through completion and closure of the receivership estate. The tasks remaining to
11 be completed are discussed below.

12 If the Final Fee Applications are approved, the cash remaining in the estate, a
13 total of \$1,181,749.06 will be promptly distributed to the holders of allowed claims.
14 For any distribution checks that remain uncashed after 90 days, the Receiver will
15 use reasonable efforts, in his sole discretion, to locate current addresses for the
16 relevant claimants. If such current addresses cannot be located after 180 days, the
17 funds will be transferred to the LFI Liquidating Trust for pro rata distribution to the
18 beneficiaries of the trust (*i.e.*, holders of allowed claims).

19 As noted above, investors and creditors with allowed claims received
20 \$2,118,073.61 from the interim distribution, about 10 cents on each dollar of their
21 claims. The final distribution, \$1,181,749.06, will translate to another just over
22 5 cents on the dollar, for a total of just over 15 cents on the dollar. These claimants
23 also stand to receive additional distributions from the Liquidating Trust.

24 **VIII. OUTSTANDING TASKS**

25 The following additional tasks will be completed by the Receiver before the
26 receivership is closed:

27 a) Issue final distribution checks from the receivership estate and monitor the
28 deposit of same by holders of allowed claims;

1 b) Retain the claim files and all other files in possession of the Receiver for
2 180 days; and

3 c) Transfer the files to Howard Grobstein, the Liquidating Trustee.

4 The issuance and monitoring of final distribution checks is discussed above.
5 Transfer of the claim files to Mr. Grobstein is necessary so that he has access to
6 these records in the event that any questions or disputes arise regarding the nature or
7 amount of beneficial interest in the Liquidating Trust. Beneficial interests in the
8 Liquidating Trust are based on each beneficiary's allowed claim amount. The
9 Receiver will retain the claim files until all final distribution checks have been
10 cashed or, in the event that any checks remained uncashed, the remaining balance in
11 the receivership account is transferred to the Liquidating Trust. As noted above, this
12 will occur 180 days from when final distribution checks are issued.

13 **IX. RELIEF REGARDING TAX RETURNS AND TAXES**
14 **FOR THE RECEIVERSHIP ENTITIES**

15 Earlier in the case, the Franchise Tax Board ("FTB") filed claims for
16 pre-receivership income taxes it claimed were owed by the Receivership Entities
17 based on an estimate of income the FTB derived from payroll taxes. The
18 Receivership Entities never filed federal or state tax returns. The Receiver
19 contacted the FTB and the Internal Revenue Service ("IRS") in an attempt to reach a
20 consensus on all pre-receivership tax liabilities of the Receivership Entities. After
21 these initial discussions, it was determined that, in lieu of preparing the missing tax
22 returns, and in order to minimize administrative expenses, the Receiver would
23 provide the FTB and the IRS with a summary of the receivership entities' sources
24 and uses of funds, and a declaration from Mr. Grobstein of Crowe Horwath
25 regarding the nature of receipts and disbursements. Upon request, the Receiver also
26 provided the FTB with the entire database created by Crowe Horwath.

27 After reviewing the Receiver's sources and uses summary, however, the FTB
28 requested more detail regarding income and expenses. This required Crowe

1 Horwath to categorize the specific transactions for tax treatment (*i.e.*, capital,
2 income, operating expenses, etc.). Given the volume of transactions, this was a
3 time-consuming project. Once the categorization was complete, Crowe Horwath
4 evaluated the nature of the losses and gains, the affects of Net Operating Loss
5 carry-forwards, Alternative Minimum Tax issues, and other tax treatments. The end
6 product was a substantial reconstruction of the records, suitable for presentation in a
7 tax return. At the recommendation of Crowe Horwath, and in order to obtain
8 closure on all tax issues, the Receiver decided to file the missing federal and state
9 tax returns based on Crowe Horwath's analysis of available information.
10 Accordingly, Crowe Horwath prepared and filed the missing tax returns for the
11 receivership corporations that received funds either directly or as a general partner
12 for pass-through entities.

13 Ultimately, the Receiver objected to the FTB's claims for income taxes. The
14 FTB did not respond to the objection and the claims were disallowed. Resolution of
15 the FTB's income tax claims, however, delayed the claims administration process by
16 several months.

17 Recently, the FTB contacted the Receiver, demanding that the Receiver
18 prepare and file pre-receivership tax returns for LFI Securities, LLC and
19 EFX Capital, LLC, receivership entities formed in Nevada that were qualified to do
20 business in California. This again required additional work and delayed the filing of
21 this report. Similarly, the IRS recently asserted a claim for \$6,697.64 in unpaid
22 payroll taxes not included in its original claim of \$757,648.59. Subject to Court
23 approval, the Receiver agreed to pay these taxes, which the Receivership Entities
24 were required to hold in trust, provided that the IRS release any and all other claims
25 it might have against the Receivership Entities. The letter from the IRS confirming
26 this agreement is attached hereto as Exhibit D ("IRS Letter Agreement"). The
27 Receiver, therefore, requests authorization to pay \$6,697.64 to the IRS pursuant to
28 the IRS Letter Agreement.

1 With a final distribution about to be made, it is important that the receivership
2 estate and the Receiver have certainty and finality regarding tax requirements for the
3 receivership entities. Accordingly, the Receiver requests that the order approving
4 this report and discharging him as receiver also provide that the Receiver is not
5 responsible for filing any further tax returns or paying any additional taxes on behalf
6 of the receivership entities. The Receiver has served this report on the FTB and the
7 IRS.

8 **A. MacAuslan Capital Partners, LLC**

9 The FTB has also demanded that the Receiver prepare and file tax returns for
10 MacAuslan Capital Partners, LLC ("MCP"). The FTB noted that MCP was listed
11 on an exhibit to the Receiver's second report to the Court that listed Receivership
12 Entities. The Receiver explained that MCP was listed on the relevant exhibit
13 inadvertently, and that MCP is not a Receivership Entity, as demonstrated by the
14 Preliminary Injunction Order, which, with the exception of MCP, makes all entity
15 defendants and relief defendants Receivership Entities, and the Court's July 7, 2008
16 order directing MCP to return funds to the Receiver, which order would not have
17 been necessary had MCP been under the Receiver's control. Nevertheless, the FTB
18 has asked that the Receiver file a pleading with the Court clarifying the status of
19 MCP. Accordingly, the Receiver requests that the order approving this report
20 confirm that MCP is not a Receivership Entity.

21 **X. CONCLUSION**

22 Based on the foregoing, the Receiver requests entry of an order:

- 23 1. Approving this report;
- 24 2. Authorizing the Receiver to execute the Consent attached hereto as
25 Exhibit B.
- 26 3. Confirming that MCP is not a Receivership Entity;
- 27 4. Authorizing the Receiver to pay \$6,697.64 to the IRS;
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- 5. Authorizing the Receiver to make a final distribution to holders of allowed claims, pursuant to the Court-approved Distribution Plan, in the amount of all remaining funds in the receivership estate after payment of all approved fees and costs of the Receiver and his professionals;
- 6. Providing that the Receiver has no further duty or obligation to prepare or file further tax returns, or pay further taxes, on behalf of the Receivership Entities, and
- 7. Upon completion of the outstanding tasks discussed in Part VIII above:
 - a. closing the receivership estate, and
 - b. discharging the Receiver from all duties.

Dated: August 1 , 2011

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS, LLP

By: /s/ Ted Fates

TED FATES
Attorneys for Receiver
James H. Donell

EXHIBIT A

Receiver's Final Accounting

James H. Donell, Receiver
 12121 Wilshire Boulevard, Suite 1120
 Los Angeles, CA 90025

Case Number: SACV 08-00627-CJC(RNBx)
Case Name: Securities and Exchange Commission
 vs. Robert Louis Carver, et al; Lincoln Biotech Ventures, LP, et al
Cumulative Period: June 19, 2008 to July 19, 2011

Description	Prior Period 6/19/08-5/31/11	Period 7/1/11-7/19/11	Cumulative 6/19/08-7/19/11
CASH RECEIPTS:			
Funds turned over from MacCauslan Cap.	2,924,558.38	-	2,924,558.38
Funds turned over from FXCM	95,847.99	-	95,847.99
Funds turned over from Richard & Patel	22,000.00	-	22,000.00
Funds turned over from Penson Financial	106,937.16	-	106,937.16
Funds turned over from Employers Insurance	3,951.46	-	3,951.46
Funds turned over from BBV II Holdings	406.22	-	406.22
Funds turned over from Bank of America	73,335.42	-	73,335.42
Funds from Nspine	582,048.77	-	582,048.77
Funds from Auction	24,714.02	-	24,714.02
Funds from Sale of Jewelry	11,849.00	-	11,849.00
Refund from Alberta Ltd.	-	-	-
Refund from Blue Cross	1,605.00	-	1,605.00
Refund from EDD	8,094.92	-	8,094.92
Refund from Zurich Insurance	165.66	-	165.66
Stock Sales	1,587,774.36	-	1,587,774.36
Misc. Income	91.78	-	91.78
Interest Income	66,466.67	-	66,466.67
Total receipts	5,509,846.81	-	5,509,846.81
CASH DISBURSEMENTS:			
Accounting Fees & Costs	402,347.37	-	402,347.37
Bank Charges	1,287.20	-	1,287.20
Legal Document Copying	7,784.94	-	7,784.94
Legal Fees & Costs	235,813.22	-	235,813.22
Professional Fees	3,470.53	-	3,470.53
Postage/Delivery/Messenger Costs	1,242.84	-	1,242.84
Claims Procedure Notice - Advertising	10,730.72	-	10,730.72
Costa Mesa Office Lease	72,061.07	-	72,061.07
Payroll Taxes	2,368.34	-	2,368.34
Jewelry Appraisals/Expenses	879.50	-	879.50
Auction Expense	5,724.91	-	5,724.91
Storage Rental	35,277.41	465.00	35,742.41
Liability Insurance - Costa Mesa Office	685.94	-	685.94
General Maintenance	3,403.32	-	3,403.32
Receiver Fees & Costs	282,937.96	-	282,937.96
Filing of Federal/State Tax Returns	6,377.95	-	6,377.95
Distribution to Investors/Creditors/Agencies	2,999,999.70	-	2,999,999.70
Court Approved Disb. To Carver & Carver II	23,850.00	-	23,850.00
Court Approved Disb. J. Jeffrey Morris	18,170.00	-	18,170.00
Funds Transfer to Trustee (H. Grobstein)	75,000.00	-	75,000.00
Total disbursements	4,114,412.92	465.00	4,189,877.92
(Decrease)/Increase in Cash	1,395,433.89	(465.00)	1,319,968.89
Cash-Beginning of period	-	1,395,433.89	-
Cash-End of period	1,395,433.89	1,394,968.89	1,319,968.89
Outstanding Administrative Expenses/Costs			
Accounting Fees			
10% Withhold from 3/2010-7/2010 fees		4,937.17	
Fees 8/2010-4/2011		28,643.00	
Costs 8/2010-4/2011		597.87	34,178.04
Legal Fees			
10% Withhold from 3/2010-7/2010 fees		4,932.90	
Fees 8/2010-4/2011		54,483.50	
Costs 8/2010-4/2011		5,946.62	
Estimated Final fees & costs		5,600.00	70,963.02
Receiver Fees			
10% Withhold from 3/2010-7/2010 fees		2,322.05	
Fees 8/2010-4/2011		18,744.50	
Costs 8/2010-4/2011		925.08	
Estimated Final fees & costs		4,389.50	26,381.13
Final IRS Payment		6,697.64	6,697.64
Total Outstanding Expenses/Costs			138,219.83
Total Amount of Final Distribution			1,181,749.06

EXHIBIT B

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2 MEGAN M. BERGSTROM, Cal. Bar No. 228289
E-mail: bergstromm@sec.gov
3

4 Attorneys for Plaintiff
Securities and Exchange Commission
Rosalind R. Tyson, Regional Director
5 Michele Wein Layne, Associate Regional Director
5670 Wilshire Boulevard, 11th Floor
6 Los Angeles, California 90036
Telephone: (323) 965-3998
7 Facsimile: (323) 965-3908
8

9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SOUTHERN DIVISION**

12 SECURITIES AND EXCHANGE
13 COMMISSION,

14 Plaintiff,

15 vs.

16 ROBERT LOUIS CARVER; ROBERT
LOUIS CARVER, II; JAMES LOWELL
17 DEMERS; LINCOLN FUNDS
INTERNATIONAL, INC., a Nevada
18 corporation; and PAROPES
CORPORATION, f/k/a BROOKSTONE
19 CAPITAL, INC., a Nevada corporation,

20 Defendants,

21 LINCOLN BIOTECH VENTURES, L.P.;
LINCOLN BIOTECH VENTURES II, L.P.;
22 LINCOLN BIOTECH VENTURES III,
L.P., and MacAUSLAN CAPITAL
23 PARTNERS, LLC,

24 Relief Defendants.
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Case No. SACV 08-627 CJC (RNBx)

**CONSENT TO FINAL JUDGMENT OF
PERMANENT INJUNCTION OF
DEFENDANTS LINCOLN FUNDS
INTERNATIONAL, INC., AND
PAROPES CORPORATION F/K/A/
BROOKSTONE CAPITAL, INC.**

1 1. Defendants Lincoln Funds International, Inc. and Paropes Corporation
2 f/k/a Brookstone Capital, Inc. (collectively “Defendants”) acknowledge having
3 been served with the complaint in this action, enter a general appearance, and
4 admit the Court’s jurisdiction over Defendants and over the subject matter of this
5 action.

6 2. Without admitting or denying the allegations of the complaint (except
7 as to personal and subject matter jurisdiction, which Defendants admit),
8 Defendants hereby consent to the entry of a Final Judgment (“Final Judgment”),
9 which, among other things:

- 10 (a) permanently restrains and enjoins Defendants from violation of
11 5(a) and 5(c) of the Securities Act of 1933 (“Securities Act”),
12 15 U.S.C. §§ 77e(a) and 77e(c); Section 17(a) of the Securities
13 Act, 15 U.S.C. § 77q(a); Section 10(b) of the Securities
14 Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. § 78j(b),
15 and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5; Sections
16 206(1) and 206(2) of the Investment Advisers Act of 1940
17 (“Advisers Act”), 15 U.S.C. § 80b-6(1) and 80b-6(2); and
18 (b) permanently restrains and enjoins Defendant Lincoln Funds
19 from violation of Section 206(4) of the Advisers Act, 15 U.S.C.
20 § 80b-6(4), and Rule 206(4)-8 thereunder, 17 C.F.R. §
21 275.206(4)-8.

22 3. Defendants waive the entry of findings of fact and conclusions of law
23 pursuant to Rule 52 of the Federal Rules of Civil Procedure.

24 4. Defendants waive the right, if any, to a jury trial and to appeal from
25 the entry of the Judgment.

26 5. Defendants enter into this Consent voluntarily and represent that no
27 threats, offers, promises, or inducements of any kind have been made by the
28 Commission or any member, officer, employee, agent, or representative of the

1 Commission to induce Defendants to enter into this Consent.

2 6. Defendants agree that this Consent shall be incorporated into the
3 Judgment with the same force and effect as if fully set forth therein.

4 7. Defendants will not oppose the enforcement of the Judgment on the
5 ground, if any exists, that it fails to comply with Rule 65(d) of the Federal Rules of
6 Civil Procedure, and hereby waive any objection based thereon.

7 8. Defendants waive service of the Judgment and agree that entry of the
8 Judgment by the Court and filing with the Clerk of the Court will constitute notice
9 to Defendants of its terms and conditions.

10 9. Consistent with 17 C.F.R. 202.5(f), this Consent resolves only the
11 claims asserted against Defendants in this civil proceeding. Defendants
12 acknowledge that no promise or representation has been made by the Commission
13 or any member, officer, employee, agent, or representative of the Commission with
14 regard to any criminal liability that may have arisen or may arise from the facts
15 underlying this action or immunity from any such criminal liability. Defendants
16 waive any claim of Double Jeopardy based upon the settlement of this proceeding,
17 including the imposition of any remedy or civil penalty herein. Defendants further
18 acknowledge that the Court's entry of a permanent injunction may have collateral
19 consequences under federal or state law and the rules and regulations of self-
20 regulatory organizations, licensing boards, and other regulatory organizations. Such
21 collateral consequences include, but are not limited to, a statutory disqualification
22 with respect to membership or participation in, or association with a member of, a
23 self-regulatory organization. This statutory disqualification has consequences that
24 are separate from any sanction imposed in an administrative proceeding. In
25 addition, in any disciplinary proceeding before the Commission based on the entry
26 of the injunction in this action, Defendants understand that they shall not be
27 permitted to contest the factual allegations of the complaint in this action.

28 10. Defendants understand and agree to comply with the Commission's

1 policy “not to permit a defendant or respondent to consent to a judgment or order
2 that imposes a sanction while denying the allegation in the complaint or order for
3 proceedings.” 17 C.F.R. § 202.5. In compliance with this policy, Defendants
4 agree: (i) not to take any action or to make or permit to be made any public
5 statement denying, directly or indirectly, any allegation in the complaint or
6 creating the impression that the complaint is without factual basis; and (ii) that
7 upon the filing of this Consent, Defendants hereby withdraw any papers filed in
8 this action to the extent that they deny any allegation in the complaint. If
9 Defendants breach this agreement, the Commission may petition the Court to
10 vacate the Judgment and restore this action to its active docket. Nothing in this
11 paragraph affects Defendants’: (i) testimonial obligations; or (ii) right to take legal
12 or factual positions in litigation or other legal proceedings in which the
13 Commission is not a party.

14 11. Defendants hereby waive any rights under the Equal Access to Justice
15 Act, the Small Business Regulatory Enforcement Fairness Act of 1996, or any
16 other provision of law to seek from the United States, or any agency, or any
17 official of the United States acting in his or her official capacity, directly or
18 indirectly, reimbursement of attorney’s fees or other fees, expenses, or costs
19 expended by Defendants to defend against this action. For these purposes,
20 Defendants agree that they are not the prevailing party in this action since the
21 parties have reached a good faith settlement.

22 12. Defendants agree that the Commission may present the Judgment to
23 the Court for signature and entry without further notice.

24 13. Defendants agree that this Court shall retain jurisdiction over this
25 matter for the purpose of enforcing the terms of the Judgment, as well as
26 determining disgorgement, prejudgment interest, and civil penalties.

27
28 Dated: _____, 2011 Defendants Lincoln Funds International, Inc.
and Paropes Corporation f/k/a Brookstone

Capital, Inc.

BY: JAMES H. DONELL as Permanent Receiver for Defendants

By: _____
James H. Donell

Approved as to form:

Ted Fates, Esq.
Allen Matkins Leck Gamble Mallory & Natsis LLP
Attorneys for James H. Donell as Permanent Receiver for Defendants Lincoln Funds International, Inc. and Paropes Corporation f/k/a Brookstone Capital, Inc.,

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EXHIBIT C

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2 JOHN B. BULGOZDY, Cal. Bar No. 219897
E-mail: bulgozdyj@sec.gov
3 MEGAN M. BERGSTROM, Cal. Bar No. 228289
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4 Attorneys for Plaintiff
5 Securities and Exchange Commission
6 Rosalind R. Tyson, Regional Director
7 Michele Wein Layne, Associate Regional Director
8 5670 Wilshire Boulevard, 11th Floor
9 Los Angeles, California 90036
Telephone: (323) 965-3998
Facsimile: (323) 965-3908

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

13 SECURITIES AND EXCHANGE
14 COMMISSION,

15 Plaintiff,

16 vs.

17 ROBERT LOUIS CARVER; ROBERT
18 LOUIS CARVER, II; JAMES LOWELL
19 DEMERS; LINCOLN FUNDS
20 INTERNATIONAL, INC., a Nevada
21 corporation; and PAROPES
CORPORATION, f/k/a BROOKSTONE
CAPITAL, INC., a Nevada corporation,

22 Defendants,

23 LINCOLN BIOTECH VENTURES, L.P.;
24 LINCOLN BIOTECH VENTURES II, L.P.;
25 LINCOLN BIOTECH VENTURES III,
26 L.P., and MacAUSLAN CAPITAL
27 PARTNERS, LLC,

28 Relief Defendants.

Case No. SACV 08-627 CJC (RNBx)

**FINAL JUDGMENT AS TO DEFENDANTS
LINCOLN FUNDS INTERNATIONAL,
INC., AND
PAROPES CORPORATION F/K/A/
BROOKSTONE CAPITAL, INC.**

1 Plaintiff Securities and Exchange Commission (“Commission”) having filed
2 a complaint in this matter, and Defendants Lincoln Funds International, Inc.
3 (“Lincoln”) and Paropes Corporation f/k/a Brookstone Capital, Inc. (collectively
4 “Defendants”) having entered a general appearance; consented to the Court’s
5 jurisdiction over Defendants and the subject matter of this action; consented to
6 entry of this Final Judgment without admitting or denying the allegations of the
7 Complaint (except as to jurisdiction); waived findings of fact and conclusions of
8 law; and waived any right to appeal from this Judgment:

9 **I.**

10 IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that
11 Defendants and their agents, servants, employees, attorneys, and all persons in
12 active concert or participation with them who receive actual notice of this
13 Judgment by personal service or otherwise are permanently restrained and enjoined
14 from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act
15 of 1934 (the “Exchange Act”), 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated
16 thereunder, 17 C.F.R. § 240.10b-5, by using any means or instrumentality of
17 interstate commerce, or of the mails, or of any facility of any national securities
18 exchange, in connection with the purchase or sale of any security:

- 19 (a) to employ any device, scheme, or artifice to defraud;
20 (b) to make any untrue statement of a material fact or to omit to state a
21 material fact necessary in order to make the statements made, in the
22 light of the circumstances under which they were made, not
23 misleading; or
24 (c) to engage in any act, practice, or course of business which operates or
25 would operate as a fraud or deceit upon any person.

26 **II.**

27 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that
28 Defendants and their agents, servants, employees, attorneys, and all persons in

1 active concert or participation with them who receive actual notice of this
2 Judgment by personal service or otherwise are permanently restrained and enjoined
3 from violating Section 17(a) of the Securities Act of 1933 (the “Securities Act”),
4 15 U.S.C. § 77q(a), in the offer or sale of any security by the use of any means or
5 instruments of transportation or communication in interstate commerce or by use
6 of the mails, directly or indirectly:

- 7 (a) to employ any device, scheme, or artifice to defraud;
- 8 (b) to obtain money or property by means of any untrue statement of a
9 material fact or any omission of a material fact necessary in order to
10 make the statements made, in light of the circumstances under which
11 they were made, not misleading; or
- 12 (c) to engage in any transaction, practice, or course of business which
13 operates or would operate as a fraud or deceit upon the purchaser.

14 **III.**

15 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that
16 Defendants and their agents, servants, employees, attorneys, and all persons in
17 active concert or participation with them who receive actual notice of this
18 Judgment by personal service or otherwise are permanently restrained and enjoined
19 from violating Section 5 of the Securities Act, 15 U.S.C. § 77e, by, directly or
20 indirectly:

- 21 (a) unless a registration statement is in effect as to a security, making use
22 of any means or instruments of transportation or communication in
23 interstate commerce or of the mails to sell such security through the
24 use or medium of any prospectus or otherwise;
- 25 (b) unless a registration statement is in effect as to a security, carrying or
26 causing to be carried through the mails or in interstate commerce, by
27 any means or instruments of transportation, any such security for the
28 purpose of sale or for delivery after sale; or

1 (c) making use of any means or instruments of transportation or
2 communication in interstate commerce or of the mails to offer to sell
3 or offer to buy through the use or medium of any prospectus or
4 otherwise any security, unless a registration statement has been filed
5 with the Commission as to such security, or while the registration
6 statement is the subject of a refusal order or stop order or (prior to the
7 effective date of the registration statement) any public proceeding or
8 examination under Section 8 of the Securities Act, 15 U.S.C. § 77h.

9 **IV.**

10 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that
11 Defendants and their agents, servants, employees, attorneys, and all persons in
12 active concert or participation with them who receive actual notice of this
13 Judgment by personal service or otherwise are permanently restrained and enjoined
14 from violating, directly or indirectly, Section 206(1) and (2) of the Investment
15 Advisers Act of 1940 (the “Advisers Act”), 15 U.S.C. § 80b-6, by using the mails
16 or any means or instrumentality of interstate commerce:

- 17 (a) to employ any device, scheme, or artifice to defraud any client or
18 prospective client; or
19 (b) to engage in any act, practice, or course of business which operates as
20 a fraud or deceit upon any client or prospective client.

21 **V.**

22 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that
23 Defendant Lincoln Funds and its agents, servants, employees, attorneys, and all
24 persons in active concert or participation with them who receive actual notice of
25 this Judgment by personal service or otherwise are permanently restrained and
26 enjoined from violating, directly or indirectly, Section 206(4) of the Advisers Act,
27 15 U.S.C. § 80b-6, and Rule 206(4)-8 thereunder, 17 C.F.R. § 275.206(4)-8, by
28 using the mails or any means or instrumentality of interstate commerce:

1 (a) to engage in any act, practice, or course of business which is
2 fraudulent, deceptive, or manipulative; or

3 (b) to make any untrue statement of material fact or to omit to state a
4 material fact necessary to make the statements made, in light of the
5 circumstances under which they were made, not misleading,
6 to any investor or prospective investor in a pooled investment vehicle.

7 **VI.**

8 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that the
9 Consent is incorporated herein with the same force and effect as if fully set forth
10 herein, and that Defendants shall comply with all of the undertakings and
11 agreements set forth therein.

12 **VI.**

13 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that except
14 as expressly modified herein, all prior orders of the Court issued in this action,
15 shall remain in full force and effect.

16 **VII.**

17 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that this
18 Court shall retain jurisdiction of this matter for all purposes, including enforcing
19 the terms of this Final Judgment.

20
21
22 Dated: _____

23 HONORABLE CORMAC A. CARNEY
24 UNITED STATES DISTRICT JUDGE
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EXHIBIT D



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, D.C. 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION
Insolvency Unit, Area West, Territory 14, Gp 3
Mail Stop 5503
24000 Avila Road
Laguna Niguel, CA 92677
Ph: 949-389-4140
Fax: 949-389-5004

June 14, 2011

RECEIVED
JUN 16 2011
Offices of James H. Donell, Receiver

James Donell, Receiver
12121 Wilshire Blvd., Ste. 301
Los Angeles, CA 90025

Re: SEC vs. Robert Louis Carver, Et Al
Cs.No. SACV08-00627 CJC (RNBX)
Lincoln Funds International, Inc., EIN: 90-0322871
Brookstone Capital Inc. EIN: 88-0429615

Dear Mr. Donell,

This letter serves to agree with your request for IRS to release all claims against the Receivership Estate of Robert Louis Carver, et al, in the above referenced case in exchange for payment of the trust funds amounts still due from Brookstone Capital Inc., for periods ending March 31, 2007 and December 31, 2007.

The amount of the trust fund due is \$3,348.82 for each period totaling \$6,697.64.

Please provide two separate checks. Annotate each check for each period to be "applied to trust fund only".

The general rule in a receivership is that a creditor can only claim interest to the commencement date of the proceeding. Exception is if the IRS has filed pre commencement Notice of Federal Tax Lien. There were no liens filed.

The trust fund problem arose because the proceeds received on July 6, 2010 were not enough to satisfy the non trust fund, trust fund, interest and penalty for all the periods on the claim. The above amount will satisfy the trust fund amount still outstanding.

Thank-you for all your attention and consideration in this matter and if you have any questions or concerns, please call me at 949-389-4140.

Sincerely yours,

A handwritten signature in blue ink that reads "Lynne Davis".

Lynne Davis
Bankruptcy Advisor
Employee I.D.# 33-04642