

1 DAVID R. ZARO (BAR NO. 124334)
TED FATES (BAR NO. 227809)
2 KIM A. BUI (BAR NO. 274113)
ALLEN MATKINS LECK GAMBLE
3 MALLORY & NATSIS LLP
515 South Figueroa Street, Ninth Floor
4 Los Angeles, California 90071-3309
Phone: (213) 622-5555
5 Fax: (213) 620-8816
E-Mail: dzaro@allenmatkins.com
6 tfates@allenmatkins.com
kbui@allenmatkins.com
7

8 **UNITED STATES DISTRICT COURT**
9 **NORTHERN DISTRICT OF CALIFORNIA**

10
11 SECURITIES AND EXCHANGE
COMMISSION,

12 Plaintiff,

13 vs.

14 SMALL BUSINESS CAPITAL CORP.;
15 MARK FEATHERS; INVESTORS PRIME
FUND, LLC; and SBC PORTFOLIO
16 FUND, LLC,

17 Defendants.

Case No. CV12-03237

**RECEIVER'S FIRST STATUS REPORT
AND INVENTORY**

Date: July 10, 2012
Time: 10:00 a.m.
Ctrm: 4 - 5th Floor
Judge: Hon. Edward J. Davila

18
19 By order of this Court, on June 26, 2012, Thomas A. Seaman ("Receiver") was appointed
20 temporary receiver for defendants Small Business Capital Corp. ("SB Capital"), Investors Prime
21 Fund, LLC ("IPF"), SBC Portfolio Fund, LLC ("SPF"), and their subsidiaries and affiliates
22 (collectively, the "Receivership Entities"), with full powers of an equity receiver, including, but
23 not limited to, full power over all funds, assets, collateral, premises (whether owned, leased,
24 occupied or otherwise controlled), choses in action, books, records, papers and other property
25 belonging to, being managed by or in the possession of or control of the Receivership Entities, and
26 was immediately authorized, empowered and directed to take certain actions as set forth in the
27 TRO (defined below).
28

1 Pursuant to the TRO and law governing federal equity receivers, the Receiver has been
2 charged with, among other things, (1) assuming control over the Receivership Entities and their
3 assets ("Receivership Assets"), (2) performing an accounting of the assets and financial condition
4 of the Receivership Entities, (3) investigating, locating, and recovering Receivership Assets, and
5 (4) preparing reports for the Court. Although the Receiver has successfully obtained documents
6 and records from the sources identified below, his document recovery and analysis efforts are
7 preliminary at this early stage of the proceeding. As described more thoroughly below, the
8 documents and records obtained to date provide only a partial explanation of the past and present
9 financial condition of the Receivership Entities, including the financial transactions and business
10 in which they engaged.

11 The Receiver is preparing an accounting of the sources and uses of funds for the
12 Receivership Entities which cannot be completed until additional banking records are obtained.
13 However, the Receiver has reviewed the financial records of the company and is able to provide
14 the Court and the parties a preliminary assessment of the assets and liabilities and the expected
15 cash flow of the Receivership Entities.

16 *Due to the volume and nature of the information acquired to date, the short amount of*
17 *time between receipt of the information and the date of this Report, the complexity of the*
18 *matters analyzed, and the need for significant additional information, this Report is*
19 *preliminary. Its contents may need to be materially modified after further investigation and*
20 *consideration. As discussed below, although the Receiver and his professionals have made*
21 *significant progress in a short period of time, a great deal of work remains to be done. In*
22 *Section IX, the Receiver has set out his recommendations for proceeding if he is to be retained*
23 *as the permanent Receiver.*

24 **I. PROCEDURAL BACKGROUND**

25 On June 21, 2012, the Securities and Exchange Commission ("Commission") filed its
26 Complaint against SB Capital, Mark Feathers ("Mr. Feathers"), IPF and SPF (collectively,
27 "Defendants"). The Commission simultaneously filed an Ex Parte Application for Temporary
28 Restraining Order and Order to Show Cause and an Ex Parte Application to Temporarily Seal the

1 Court's File for the Case. After a hearing held on June 26, 2012, the Court issued the Temporary
2 Restraining Order and Orders (1) Freezing Assets, (2) Prohibiting the Destruction of Documents,
3 (3) Granting Expedited Discovery, (4) Requiring Accountings, and (5) Appointing a Temporary
4 Receiver; and Order to Show Cause re Preliminary Injunction and Appointment of a Permanent
5 Receiver ("TRO"). The TRO, which is discussed in more detail below, appointed Thomas
6 Seaman temporary receiver for the Receivership Entities, and sets an Order to Show Cause re:
7 Preliminary Junction for July 10, 2012.

8 **II. THE COMPLAINT**

9 The Complaint alleges that, in violation of federal securities laws, (a) Defendants
10 committed fraud in the offer and sale of IPF and SPF securities, and (b) SB Capital offered and
11 sold securities without being registered with the Commission as a broker. Specifically, the
12 Complaint alleges that Defendants took the following actions contrary to representations they
13 made to their investors:

14 (1) Paid returns to investors in excess of profits generated by IPF and SPF in a Ponzi-like
15 fashion;

16 (2) Transferred more than \$6 million from IPF and SPF to SB Capital in order to pay
17 SB Capital operating expenses, including paying over \$485,850 to Mr. Feathers and companies he
18 controls; and

19 (3) Sold eight mortgage loans from SPF to IPF at a total premium of \$717,951 over the
20 outstanding balances of the loans and used the premiums paid to SPF to pay management fees to
21 SB Capital.

22 The Complaint also asserts that Mr. Feathers, as a person who controlled SB Capital, IPF
23 and SPF, is jointly and severally liable with them and likewise that SB Capital, as a person who
24 controlled IPF and SPF, is jointly and severally liable with them.

25 **III. THE TEMPORARY RESTRAINING ORDER**

26 As noted above, on June 26, 2012, the Court entered the TRO. The TRO, among other
27 things, authorizes, empowers and directs the Receiver to:

28

1 (a) "take custody, control, possession and charge . . . of all funds, assets,
2 collateral, premises . . . and other real or personal property" of the Receivership
3 Entities;

4 (b) "to have control of, and to be added as the sole authorized signatory for, all
5 accounts" of the Receivership Entities at any bank, title company, escrow agent,
6 financial institution or brokerage firm;

7 (c) "to conduct such investigation and discovery as may be necessary to locate,
8 account for and recover all of the assets of or managed by" the Receivership
9 Entities, "and to engage and employ attorneys, accountants and other persons to
10 assist in such investigation and discovery";

11 (d) "to take such action as is necessary and appropriate to preserve and . . .
12 prevent the dissipation, concealment or disposition of any assets of or managed
13 by" the Receivership Entities;

14 (e) "to make an accounting, as soon as practicable, to this Court and the
15 Commission";

16 (f) "to make such payments and disbursements from the funds and assets . . . as
17 may be necessary and advisable in discharging his or her duties as temporary
18 receiver";

19 (g) "to employ attorneys, accountants and others to investigate and, where
20 appropriate, to institute, pursue, and prosecute all claims and causes of action of
21 whatever kind and nature"; and

22 (h) "to have access to and monitor all mail, electronic mail, and video phone" of
23 the Receivership Entities.

24 TRO, Part VII.

25 The TRO also restrains and enjoins all persons seeking relief of any kind against the
26 Receivership Entities from (a) "commencing, prosecuting, continuing or enforcing any suit or
27 proceeding"; (b) "using self-help or executing or issuing or causing the execution or issuance of
28 any court attachment, subpoena, replevin, execution or other process for the purpose of

1 impounding or taking possession of or interfering with or creating or enforcing a lien upon any
2 property or property interests" of SB Capital, IPF and SPF; and (c) "doing any act or thing
3 whatsoever to interfere with taking control, possession or management by the temporary receiver
4 appointed hereunder of the property and assets" of SB Capital, IPF and SPF, "or in any way to
5 interfere with or harass the temporary receiver or his or her attorneys, accountants, employees or
6 agents or to interfere in any manner with the discharge of the temporary receiver's duties and
7 responsibilities hereunder." TRO, Part X.

8 Among other things, the TRO orders Mr. Feathers to (a) cooperate and assist the Receiver
9 and not to take any action to directly or indirectly hinder, obstruct or interfere with the Receiver's
10 conduct of his duties, and (b) to prepare and deliver to the Commission a detailed and complete
11 schedule of his personal assets exceeding \$5,000 in value, as well as all bank, securities, futures
12 and other accounts. TRO, Parts XI and XVII.

13 Finally the TRO orders Defendants to appear on July 10, 2012, at 10:00 a.m. and show
14 cause why a preliminary injunction should not be granted and a permanent receiver not appointed.
15 Opposition papers were due on July 3, 2012, by 5:00 p.m., and reply papers are due on July 9,
16 2012, by 10:00 a.m. TRO, Part XXII.

17 **IV. SUMMARY OF RECEIVER'S ACTIVITIES**

18 A. Description of Take-Over of Receivership Entities, and Operations and Results of 19 Preliminary Accounting Work.

20 1. Control Over Premises and Documents

21 The Receiver assumed control of the Receivership Entities on the evening of June 26,
22 2012. The Receiver took possession of the premises located at 419 S. San Antonio Road in
23 Los Altos, California (the "Premises"). The Receiver identified several locations where the
24 Receivership Entities did business or stored documents. The Receiver immediately had the locks
25 on the doors of Premises and secured the documents at the other locations. On the morning of
26 June 27, 2012, the Receiver assumed control over the operations including the loan servicing
27 business.

28

1 2. Control of Bank Accounts and the \$100,000 Cashier's Check

2 The Receiver also caused himself to be added as the sole authorized signatory for all bank
3 accounts of the Receivership Entities in accordance with the TRO. It appears that the Receiver
4 has or will shortly be in possession of funds in the amount of \$10,184,613.50.

5 Upon taking control of the Premises, the Receiver found a cashier's check payable to
6 Defendant Mark Feathers in the amount of \$100,000. The check was dated June 26, 2012 and was
7 withdrawn at the instruction of Mark Feathers to Heritage Bank of Commerce ("Heritage") at
8 4:55 p.m. Heritage acknowledged to the Receiver that it had received the asset freeze order at
9 3:15 p.m. The Receiver learned from individual interviews with the employees that shortly after
10 3:00 p.m. on June 12, 2012, Heritage employees came to the Los Altos Premises to inform
11 Mr. Feathers that it had been ordered to freeze the bank accounts. It appears that after hearing
12 from Heritage that the Court had issued an asset freeze, Mr. Feathers asked Heritage to issue him a
13 \$100,000 cashier's check, drawn on a frozen account. It is of concern that a financial institution
14 apparently ignored the Court's order. Fortunately, the Receiver recovered the check on the
15 evening of June 26, 2012, before the check was cashed. The Receiver served Mr. Feathers with
16 the TRO on June 27, 2012 at approximately 8:30 a.m. However, the Receiver has been informed
17 by the SEC that another bank, California Business Bank, also contacted Mr. Feathers on the
18 afternoon of June 26, 2012, to inform him of the asset freeze.

19 3. Employees and Mr. Feathers

20 The Receiver met with Mr. Feathers and the employees working at the Los Altos Premises
21 on June 27, 2012. The Receiver retained four key employees and terminated 24 employees,
22 including Mr. Feathers and his spouse. Mr. Feathers' two 9 year old sons and a caregiver were
23 also on the payroll. The Receiver also ceased payments to them.

24 4. Business Operations, Loan Portfolio and Servicing

25 On June 27, 2011, the Receiver took control of the loan portfolios and operations of the
26 Receivership Entities. It appears that the Receivership Entities own loans in the aggregate amount
27 of approximately \$25.4 million, of which approximately \$18.3 million appear to be performing
28 loans. The Receiver has identified 7 non-performing or impaired loans in the aggregate unpaid

1 principal amount of approximately \$7.1 million. In order to provide a more accurate picture of the
 2 likely recovery from the loans, the Receiver believes that an allowance for doubtful accounts is
 3 appropriate based on a review of the credit files and the underlying collateral. After deducting an
 4 allowance for doubtful accounts in the amount of \$3.0 million, it appears that the value of the
 5 Receivership Entities' loan portfolio is approximately \$22.4 million.

6 The impaired and non-performing loans and the allowance for doubtful accounts
 7 established by the Receiver are as follows:

	(\$ millions)	
Borrower	Loan Amount	Allowance for Doubtful Acct.
Rico Espana	\$1.104	\$.954
Four Brothers	\$1.215	\$.470
Sweet Fingers	\$.900	\$.288
Kallapa Rampur	\$2.171	\$1.147
Larry Mardock	\$.450	\$.045
Iguanas Burritas Zilla	\$.850	\$.085
695 Oak Grove	\$.400	\$.000

18 The Receivership Entities participated in several Small Business Administration ("SBA")
 19 loan program governed by HB 5297, The Small Business Jobs Act. One program, known as the
 20 504 program, provides SBA-guaranteed debenture funding for first trust deeds funded by the
 21 Receivership Entities. After the Receivership Entities would fund a first trust deed, 85% of the
 22 first trust deed would be sold. There are two such loans that were funded in the 60-90 days prior to
 23 the appointment of the Receiver. If the SBA allows these loans in the debenture pool, the
 24 Receivership Entities could receive \$4.216 in the short term. This amount is included in the total
 25 loan value set forth above. If the SBA does not allow the loans in the debenture pool, the Receiver
 26 may attempt to sell the loans to other investors. Similarly, the Receivership Entities own a
 27 traditional SBA 7-A guaranteed loan that was funded prior to the appointment of the Receiver in
 28

1 the amount of \$316,000. This loan could be sold and with the SBA guarantee, it could potentially
2 be sold at a premium to its face value.

3 The Receivership Entities also hold other assets which include real estate obtained from
4 previously foreclosed loans, however, the loans are still carried on the balance sheet of either IPF
5 or SPF with SB Capital as the borrower. For example, the Receivership Entities own real estate in
6 San Leandro, that has been improved with an operating restaurant. The balance sheet of SB
7 Capital reflects an asset value of \$662,053. There is a corresponding liability of \$900,000 owing
8 to IPF, and SB Capital is making interest payments to IPF from its purported profits. The
9 \$662,053 has not been included in the expected recovery.

10 The owned real estate also includes a condominium in San Francisco on Natoma Street.
11 The property is encumbered by a bank loan in the amount of \$400,000 and had been leased to a
12 former employee. After adjusting for costs of a potential sale by the Receiver, the Receiver has
13 estimated the condominium's value and included it herein at a value of \$244,000.

14 Small Business Capital, LLC holds an SBA lenders license which is capitalized at
15 \$750,000. The Receiver is investigating the ability to assign the license which may allow the
16 Receiver to sell all or a portion of the Receivership Entities as a going concern.

17 IPF owns 330,000 shares of California Business Bank. The shares have recently traded at
18 \$.99 per share but are very thinly traded. The shares are carried on the IPF balance sheet for
19 \$990,000. Based on the recent price, the Receiver believes the asset is more appropriately valued
20 at \$326,700.

21 The Receivership Entities also own a key man life insurance policy on the life of Mark
22 Feathers. The cash value of the policy is carried on the balance sheet at \$56,666.34.

23 The Receivership Entities' financial records reflect an accounts receivable from Mark
24 Feathers in the approximate amount of \$266,800. Given the asset freeze, the Receivership Entities
25 may not recover these funds. As such, the amount owing the Receivership Entities from
26 Mr. Feathers is excluded from the total recoverable assets set forth below.

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1 Attached as Exhibit A is a balance sheet reflecting the Receiver's preliminary estimate of
 2 the assets and liabilities of the Receivership Entities. The foregoing assets may be summarized as
 3 follows:

	(\$ millions)
4 Cash	10.185
5 Loan portfolio net of allowance for doubtful accounts	22.457 ¹
6 Misc. accounts receivable	.104
7 Real estate	.244
8 Bank stock	.327
9 SBA license	.750
10 Life insurance policy	.056
11 Total Assets	34.123

12 Based upon this preliminary assessment, it appears that the total recoverable assets are less
 13 than the amount invested. Investors appear to have unpaid principal of \$46.083 million.
 14 Assuming all of these figures are ultimately verified, there will be a likely shortfall of
 15 \$11.960 million.

16 At present, it appears that the interest income and servicing income generated by SB
 17 Capital's operations were not alone sufficient to fund payment of monthly distributions to
 18 investors at either 7.25% on IPF, or 9% on SPF and SBC Senior Commercial Mortgage Fund.
 19 Based on the Receiver's initial review of the accounting records, it appears that the enterprise
 20 would have needed approximately \$301,500 per month to make such interest distributions to
 21 investors. However, performing loans generated gross interest income of approximately \$87,200
 22 per month, and gross servicing income of approximately \$109,300 per month, for gross income of
 23 \$196,500 per month. Against this amount, SB Capital had substantial operating expenses, which
 24 have not yet been determined, but for example, May 2012 payroll expenses were over \$235,000 –
 25 or more than gross income. Office rent for the Los Altos Location is \$9,200 per month. Thus, the
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 27
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¹ Funded loans available for sale in the near term total approximately \$4.579 million.

1 loan interest and servicing income were insufficient to pay operating expenses, or to fully fund the
2 investor distributions.

3 The Receivership Entities' other source of income was to sell loans to unrelated investors.
4 In 2012, the Receivership Entities earned approximately \$1.068 million from the sale of loans, or
5 an average of \$180,000 per month. These sales were non-recurring sources of income. Even with
6 these sales proceeds, the Receivership Entities do not appear to have been generating sufficient
7 income to pay operating expenses and fund monthly distributions to investors.

8 It appears from the records that, in an effort to make up for the remaining shortfall, the
9 Receivership Entities transferred loans between themselves (sometimes at a premium representing
10 the present value of servicing income). As a result, it appears that new investor funds were used to
11 pay earlier investors, operating expenses, make new loans, and satisfy investor redemptions. The
12 Receiver has identified 17 such loans with an aggregate transferred loan value of approximately
13 \$28 million that were transferred between Receivership Entities. Some loans were transferred
14 more than once, however in all cases the loan transfer facilitated the payment of cash from the
15 acquiring entity.

16 The transfer of loans between the Receivership Entities also appeared to allow SB Capital
17 to declare a profit from the purported premium income. Twelve of the 17 loans provide servicing
18 income. The cash flow from servicing income was discounted and deemed to be premium income
19 which was recognized by the divesting entity. SB Capital would then take a portion of the
20 premium income as a management fee. In this manner, the Receivership Entities accrued
21 premium income of \$1.822 in 2012, of which SB Capital took \$1.424 million as additional
22 management fees.

23 5. Pending Loan Transactions

24 After taking control of the Receivership Entities, the Receiver promptly advised the Court
25 that the Receivership Entities were scheduled to fund three loan transactions on Friday, June 29,
26 2012. The total amount set to be loaned was approximately \$10 million, virtually all of the cash in
27 the Receivership Entities' bank accounts. There was considerable urgency in that the loans were
28 intended to be made under HR 5297, The Small Business Jobs Act (and specifically the 504 loan

1 program), an SBA loan program which would no longer be available after September, and the
2 loans needed to close promptly in order to qualify for the program. At the Receiver's request, the
3 Court held telephonic hearings on June 27, June 28, and July 2 to discuss whether the Receiver
4 should be authorized to close the loan transactions.

5 Several important issues came to light as the Receiver investigated and reviewed the loan
6 transactions. First, the Receivership Entities had underwritten each loan with an eye toward them
7 qualifying to be a part of a SBA loan program whereby the loans would be sold to a pool such that
8 the Receivership Entities would recover 85 percent of the funds advanced within 90 days. In other
9 words, 85% of investor's funds used for each loan would only be at risk for 60-90 days. In
10 addition, it is the Receiver's understanding that the Receivership Entities would only be funding a
11 portion of these loans and that other financial institutions were to participate in the funding. After
12 numerous discussions with the counsel for SBA and review of the SBA contracts, it also became
13 clear that the SBA would not support the inclusion of these loans as part of their program, even if
14 the Receiver could sign the required SBA contracts. As such, these loans would need to be held or
15 sold on the open market.

16 As a result of the foregoing and other issues, the loans posed a significantly higher risk of
17 loss to investors than had been originally contemplated. The Receiver therefore recommended
18 that the Court not authorize the loans to be made. The Court accepted the Receiver's
19 recommendation.

20 At least one of the potential borrowers has threatened to file a claim for damages arising
21 out of the Receivership Entities' failure to fund the loan. The Receiver is aware of the claims
22 allegation and does not believe that they represent a legitimate or substantial threat to the
23 receivership estate.

24 B. Territorial Jurisdiction Over Receivership Assets.

25 By filing the Complaint and TRO in other federal districts in the United States, the
26 territorial jurisdiction of this Court over Receivership Assets is extended to such districts.

27 28 U.S.C. § 754; *see also Haile v. Henderson Nat'l Bank*, 657 F.2d 816, 822 (6th Cir. 1981).

28 Based on information obtained to date regarding property owned by the Receivership Entities, or

1 in which they have security interests, and in conformity with § 754 and applicable federal law, the
2 Receiver has filed the Complaint and TRO in the United States District Courts for the Eastern,
3 Central and Southern Districts of California, the District of Maryland, the District of Arizona, the
4 District of Utah, the Northern District of New York, the Northern District of Indiana, the Northern
5 District of Illinois, the District of Hawaii, the Northern District of Ohio, the Western District of
6 Washington, the Middle District of Florida, and the District of West Virginia. The Receiver has
7 also caused the Complaint and TRO to be recorded in the property records for each county in
8 which the Receivership Entities are believed to own real property or have security interests in real
9 property. As additional information becomes available, the Receiver will file/record the
10 Complaint and Appointment Order in additional districts and counties.

11 C. Employment of Professionals.

12 Sections VII(C) and (G) of the TRO vest the Receiver with the authority to employ
13 professionals to assist in his efforts. Local Rule 66-2, however, states that receivers "may not
14 employ an attorney, accountant or investigator without a Court order." Accordingly, subject to
15 Court approval, the Receiver has engaged (i) the law firm of Allen Matkins Leck Gamble
16 Mallory & Natsis LLP to serve as his counsel, and (ii) Huron Legal to assist with preservation of
17 electronic data, including imaging of computer servers and hard drives. Concurrently with this
18 report, the Receiver has filed Allen Matkins employment application seeking approval of their
19 employment.

20 D. Document Recovery.

21 As of the date of the Appointment Order, the Receivership Entities operated a physical
22 office in Los Altos which is believed to be the primary repository of the business documents and
23 records relating to the Receivership Entities. The Receiver has also requested access to any
24 Receivership Entity documents and records possessed by the Commission. The Receiver's request
25 was granted and the Commission is producing to the Receiver a copy of all documents obtained
26 during its investigation. In addition, the Receiver has contacted lawyers and accountants who
27 were affiliated with the Receivership Entities in order to obtain their records. The Receiver
28 anticipates that he will need to subpoena records from certain of these professionals and others.

1 E. Assets of Defendant Mr. Feathers

2 As noted above, the TRO directs Mr. Feathers to provide a detailed and complete schedule
3 of his assets, including all real and personal property exceeding \$5,000 in value, and all bank,
4 securities, futures and other accounts, identified by institution, branch address, and account
5 number. As of this date, Mr. Feathers has not provided such a schedule.

6 **V. PENDING LITIGATION AND RELATED PROCEEDINGS**

7 Other than this action, it does not appear that the Receivership Entities are parties to any
8 pending litigation. A few of the outstanding loans are delinquent. Prior to the Receiver's
9 appointment, the Receivership Entities commenced foreclosure proceedings on one property,
10 which is a bed and breakfast located in Calistoga, California.

11 **VI. INVESTOR COMMUNICATIONS**

12 The Receiver has established a website dedicated to this case, sbcapitalreceiver.com, which
13 will be used to provide case information, regular updates, and answers to frequently asked
14 questions to investors and/or creditors.

15 **VII. RECOMMENDED FURTHER INVESTIGATION AND ACTIVITIES**

16 The Receiver's efforts to recover relevant Receivership Entity documents and records are
17 ongoing, and the materials obtained to date do not provide a complete understanding of the
18 Receivership Entities' history and financial activities, or the location and amounts of remaining
19 Receivership Assets.

20 In the near term, the Receiver and his professionals make the following recommendations
21 in connection with their efforts to better understand and document the financial condition and
22 activities of the Receivership Entities.

23 A. Document Recovery Efforts

24 The Receiver will obtain records from all financial institutions at which the Defendants
25 maintained accounts, as well as all attorneys and accountants engaged by the Receivership
26 Entities. The Receiver will serve document subpoenas, as necessary and appropriate, upon third
27 parties believed to be in possession of Receivership Entity documents or assets, or information
28

1 related thereto. In addition, the Receiver may decide to depose individuals or entities believed to
2 possess information relevant to his charge, as defined by the TRO.

3 B. Receivership Asset Recovery Efforts and Investigation

4 As additional documentary evidence is acquired, the Receiver will seek to locate any
5 presently unaccounted for Receivership Assets that may exists. If and when such assets are
6 located, the Receiver will proceed with recovery efforts, including seeking relief from the Court
7 against third parties who refuse to comply with the TRO and turnover Receivership Assets.

8 The Receiver also recommends exploring whether there were third parties who aided Mr.
9 Feathers and others in connection with this enterprise. As part of this investigation, the Receiver
10 will evaluate whether such third parties should be liable for damages caused to the Receivership
11 Entities. The Receiver will seek Court approval before pursuing any such claims.

12 C. Management and Disposition of Receivership Assets

13 The Receiver will continue to preserve, manage and protect all Receivership Assets. He
14 will evaluate each Receivership Asset and develop a strategy to maximize its value. If and when it
15 is appropriate to sell Receivership Assets, the Receiver will seek Court approval of such sales via
16 noticed motion.

17 D. Accounting

18 The Receiver will obtain the accounting records from the sources noted above and
19 complete his accounting to establish, among other things, where the funds for the Receivership
20 Entities came from and where they went after received by the Receivership Entities.

21 E. Reporting

22 The Receiver will file further reports on his activities and findings as directed by the Court.
23 In the Receiver's experience, filing reports on a quarterly basis strikes a good balance between
24 (a) keeping the Court and interested parties informed about the Receiver's activities, and
25 (b) minimizing administrative expenses.

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F. Plan for Distribution

The Receiver will evaluate the appropriate means and basis for distributing assets of the receivership estate to investors and other claimants. At this time, the Receiver has no recommendations as to how best distribute the assets.

VIII. CONCLUSION.

Based on the Receiver's preliminary investigation and findings as described above, the Receiver recommends and requests that the Court order that the receivership continue pursuant to the TRO and any supplemental orders issued by the Court. The Receiver also requests that the Court authorize his continuing investigation and approve this First Report.

Dated: July 9, 2012

By: Thomas A. Seaman
Thomas A. Seaman, Receiver

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP
DAVID R. ZARO

By: _____
DAVID R. ZARO
Attorneys for Receiver
Thomas A. Seaman

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MALLORY & NATSIS LLP
DAVID R. ZARO

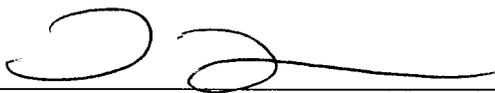
By:  _____
DAVID R. ZARO
Attorneys for Receiver
Thomas A. Seaman

EXHIBIT A

SB Capital, et al Receivership
Preliminary Pro Forma Balance Sheet
Prepared by: Thomas Seaman, Receiver

Entity:	6-Jul-12					
	IPF	Small Business Capital, llc	SPF	SBC Sr. Comm'l Loan Fund	SB Capital	Total
Cash	4,326,849.48	2,615,981.37	2,733,651.51	244,555.99	263,575.15	10,184,613.50
Loans	6,266,749.89	7,371,931.26	6,081,704.26	-	2,737,030.61	22,457,416.02
California Business Bank stock	326,700.00					326,700.00
Cash value life insurance	56,666.34					56,666.34
SBA license		750,000.00				750,000.00
Service Trust A/R		79,337.32				79,337.32
Misc. A/R		25,050.08				25,050.08
Natoma REO			244,000.00			244,000.00
Total Assets	10,976,965.71	10,842,300.03	9,059,355.77	244,555.99	3,000,605.76	34,123,783.26
Investors capital	32,040,023.21		10,258,706.73	3,783,761.72		46,082,491.66
Surplus/(shortage)	(21,063,057.50)	10,842,300.03	(1,199,350.96)	(3,539,205.73)	3,000,605.76	(11,958,708.40)