FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090191259O1

To: **Department of Enforcement**
FINRA

Re: **Jeffrey Allen Lindsey**
General Securities Representative, Municipal Securities Representative, General Securities Principal, Municipal Securities Principal and Options Principal
CRD No. 2285825

Pursuant to FINRA Rule 9216 of FINRA Code of Procedure, I, Jeffrey Allen Lindsey, submit this Letter of Acceptance, Waiver and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

Background

Lindsey entered the securities industry in November 1992. From May 1, 2002 through June 15, 2010, Lindsey was associated with Capital Financial Services, Inc. (CFS) and was registered with FINRA as a general securities representative, municipal securities principal, general securities principal, municipal securities principal and options principal.

Lindsey is not currently associated with any FINRA firm. However, FINRA retains jurisdiction over Lindsey pursuant to Article V, Section 4 of the FINRA By-Laws.

Relevant Disciplinary History

Lindsey has not been the subject of prior formal disciplinary action by FINRA.

Overview

Lindsey failed to conduct adequate due diligence of a private placement offered by Medical Capital Holdings, Inc. pursuant to Regulation D, thereby violating NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

Facts and Violative Conduct

Private Placement Offerings by Medical Capital Holdings, Inc.

Medical Capital Holdings, Inc. (MedCap) was a medical receivables financing company based in Anaheim, California. MedCap's core business was to provide financing to healthcare providers by purchasing their accounts receivable and making secured loans to the providers.

In 2001, MedCap began raising funds for its operations through the sales of promissory notes through FINRA-registered firms. These notes were securities that were not registered with the SEC but were sold under the registration exemption provided by Rule 506 of Regulation D of the Securities Act of 1933. Pursuant to that exemption, the notes could be sold only to accredited investors.

From 2001 through 2009, MedCap raised approximately $2.2 billion from over 20,000 investors through nine Regulation D offerings offered through FINRA firms and other sales avenues. Each investor purchased a minimum of $25,000 in promissory notes with maturities ranging from one to seven years. The notes promised annual interest rates from 8.25% to 10.50%.

MedCap made all interest and principal payments on these Regulation D offerings until July 2008. At that time, MedCap began experiencing liquidity problems and stopped making payments on two of its earlier offerings. Nevertheless, MedCap proceeded with its last Regulation D offering, called Medical Provider Funding Corporation VI (MPFC VI), which it offered through an August 5, 2008 private placement memorandum (PPM). In this offering, MedCap sought to sell up to $400,000,000 of promissory notes with two, three and six-year terms, with interest rates ranging from 9% to 9.5%. MPVC VI differed from some of MedCap's earlier offerings in several respects, including allowing MedCap to use up to 40% of the proceeds raised to invest in businesses other than medical receivables and limiting the trustee's power to oversee MedCap's operations.

In July 2009, the SEC filed a civil injunctive action in federal district court in which it sought and was granted a preliminary injunction to stop all MedCap sales. The SEC alleged that MedCap and its executives defrauded investors in MPFC VI by misappropriating approximately $18.5 million of investor funds. The SEC also alleged that MedCap had misrepresented that it had never defaulted on or had been late in making interest or principal payments, when in fact MedCap had defaulted or was late in paying nearly $1 billion in principal and interest on the notes from its Regulation D offerings. The court appointed a receiver to gather and conduct an inventory of MedCap's remaining assets. The SEC action is pending.

CFS Sales of MPFC VI

CFS began selling the MedCap Regulation D offerings in July 2003. From July 2003 through July 2008, CFS representatives visited MedCap's offices in Anaheim several times to review records and meet with MedCap's executives. CFS also received numerous third-party due diligence reports for MedCap's offerings. However, CFS never obtained financial information about MedCap and its offerings from independent sources, such as audited financial statements.

On July 30, 2008, CFS received an email from MedCap containing a draft PPM for MPFC VI and a selling agreement for CFS to sign if it chose to sell MPFC VI. MedCap informed CFS that the PPM would be finalized shortly without substantial revisions. CFS signed the selling agreement the very next day – on July 31, 2008. Other than reviewing the draft PPM, CFS conducted no due diligence on MPFC VI before approving this new product for sale by its brokers, even though this offering differed from some of MedCap's earlier offerings. On August 5, 2008, MedCap finalized the PPM, and CFS brokers began offering MPFC VI to their customers.

On August 7, 2008, CFS received a letter from MedCap. In this letter, MedCap stated that it was experiencing liquidity issues. MedCap further stated that it had not repaid principal to some clients but it expected to correct this problem within 30 days. Upon receipt of this letter, CFS suspended sales of MPFC VI.

On August 20 and 21, 2008, four CFS representatives visited MedCap's offices in Anaheim to review MedCap's records. The CFS representatives met with key MedCap personnel, toured the MedCap facility and reviewed financial information provided by MedCap. MedCap's executives blamed the national credit crisis for the liquidity issues and assured the CFS representatives that there would be no problems with the current MPFC VI offering. Based on this trip and other discussions with MedCap executives, CFS allowed its brokers to resume offering MPFC VI to their customers on August 28, 2008.

Despite MedCap's assurances, the problems with its Regulation D offerings continued. MedCap repeatedly stated to CFS representatives that the interest and principal payments would occur within a few weeks. MedCap made some interest payments but failed to pay substantial amounts of interest and principal owed to its investors. These unfulfilled promises continued until July 2009 when the SEC filed its civil action and MedCap's operations ceased.

In addition to MedCap's ongoing delays in making payments to its investors, CFS received other red flags relating to MedCap's problems throughout the fall of 2008. These red flags included the following:

- One of CFS's custodial firms refused to hold the MedCap notes, as it deemed them worthless based on MedCap's failure to make principal and interest payments and was unable to value these notes.

- CFS's clearing firm valued the MedCap notes at zero on its customers' account statements, again due to MedCap's failed payments and its inability to value these notes.

- CFS received two third-party due diligence reports that highlighted MedCap's failed payments and warned of further potential problems.

- CFS received communications from another third-party due diligence provider, who indicated that MedCap was not allowing access to all of its records, thereby making it impossible to conduct any credible due diligence.

Despite these red flags, CFS continued to allow its brokers to sell MPFC VI to their customers. In total, 36 CFS brokers sold $11,759,798.01 of MPFC VI to 145 customers. These sales occurred from August 5, 2008 through March 11, 2009.

Violations

Lindsey was a member of CFS's new products committee (Committee), which was responsible for conducting due diligence and approving new products at the firm. The Committee knew of MedCap's failure to make payments to its investors and was also aware of other indications of MedCap's problems throughout the fall of 2008. The Committee approved MPFC VI as a product available for CFS brokers to sell to their customers. The Committee also suspended the MPFC VI sales and then reopened the sales after further discussions with MedCap executives. The Committee allowed CFS brokers to continue selling MPFC VI despite MedCap's ongoing failure to make principal and interest payments and despite other red flags concerning MedCap's problems.

Lindsey, acting on behalf of CFS, failed to conduct adequate due diligence of the MPFC VI offering before allowing CFS brokers to sell this security. Without adequate due diligence, CFS could not identify and understand the inherent risks of the offering and therefore could not have a reasonable basis to sell the offering. By not conducting adequate due diligence, Lindsey violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

1. a six-month suspension from association with any FINRA firm in any principal capacity; and

2. a $10,000 fine.

The fine shall be due and payable either immediately upon reassociation with a FINRA firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II. WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

A. To have a Formal Complaint issued specifying the allegations against me;

B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;

C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

I understand that:

A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;

B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and

C. If accepted:

1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. I understand that if I am barred or suspended from associating with any FINRA firm in a principal capacity, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA firm in a principal capacity, during the period of the bar or suspension (*see* FINRA *Rules 8310 and 8311*). Furthermore, because I am subject to a statutory disqualification during the suspension, if I remain associated with a firm in a non-suspended capacity, an application to continue that association may be required.

E. I may attach a Statement of Corrective Action to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

Dec 1 2010
Date

JEFFREY ALLEN LINDSEY

Reviewed by:

Counsel for Jeffrey Allen Lindsey

Accepted by FINRA:

2-23-11
Date

Signed on behalf of the Director of ODA,
by delegated authority

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