

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

SECURITIES AND EXCHANGE COMMISSION, §

Plaintiff, §

v. §

Civil Action No. 3:05-CV-1328-(BD)

MEGAFUND CORPORATION, STANLEY A. §

LEITNER, SARDAUKAR HOLDINGS, IBC., §

and BRADLEY C. STARK, CIG, LTD., and §

JAMES A. RUMPF, Individually and d/b/a §

CILAK INTERNATIONAL, §

Defendants, §

and §

PAMELA C. STARK, §

Relief Defendant. §

ECF
Referred to the U.S. Magistrate Judge

**RECEIVER’S THIRD INTERIM APPLICATION TO ALLOW AND PAY (1)
RECEIVER’S FEES AND EXPENSES; (2) ATTORNEYS FEES AND EXPENSES; AND
(3) ACCOUNTANTS FEES AND EXPENSES WITH BRIEF IN SUPPORT
(SARDAUKAR HOLDINGS RECEIVERSHIP ESTATE)**

TO THE HONORABLE JEFF A. KAPLAN, UNITED STATES MAGISTRATE JUDGE:

Michael J. Quilling, Receiver, files this his Third Interim Application to Allow and Pay (1) Receiver’s Fees and Expenses; (2) Attorneys Fees and Expenses; and (3) Accountants Fees and Expenses (Sardaukar Holdings Receivership Estate) and in support of such would respectfully show unto the Court as follows:

BACKGROUND

1. On July 1, 2005 the Securities and Exchange Commission (“SEC”) filed its Complaint and request for appointment of a receiver. On July 5, 2005 the Court appointed Michael J. Quilling as Receiver in this case. On July 18, 2005 the SEC filed an Amended Complaint and

sought to add other individuals and entities to the receivership. On July 19, 2005 the Court issued an Amended Order Appointing Temporary Receiver (“Order Appointing Receiver”).

2. The Order Appointing Receiver authorizes the Receiver to employ such attorneys and accountants as is necessary and proper in connection with the claims process. Since his appointment, the Receiver employed the law firm of Quilling Selander Cumiskey & Lownds, P.C. (“QSCL”) as his general counsel. The Receiver is an attorney and a shareholder of the law firm and has rendered many of the legal services addressed in this Application as well as performing his duties as the Receiver. The Receiver also employed the accounting firm of Litzler Segner Shaw & McKenney, LLP (“LSSM”).

3. On August 12, 2005 the Receiver filed an Unopposed Motion to Designate Receivership Estates [Docket No. 48]. On August 15, 2005 the Court entered an Order [Docket No. 50] that established two receivership estates within these proceedings, the Megafund Corporation/CIG, Ltd. Receivership Estate and the Sardaukar Holdings Receivership Estate.

4. On January 17, 2006 the Receiver filed an Agreed Motion to Expand Receivership [Docket No. 83] to add Lancorp Financial Group, LLC to the receivership. On January 20, 2006 the Court entered an Agreed Order Expanding Receivership and Appointing Receiver [Docket No. 84], which effectively created a third receivership estate, the Lancorp Financial Group Receivership Estate.

5. On November 30, 2005 the Receiver filed his First Interim Application to Allow and Pay (1) Receiver’s Fees and Expenses and (2) Attorneys’ Fees and Expenses and Brief in Support. On February 22, 2006 the Court issued an Order approving the Application.

6. On April 11, 2006 the Receiver filed his Second Interim Application to Allow and Pay (1) Receiver’s Fees and Expenses; (2) Attorneys’ Fees and Expenses; and (3) Accountants Fees

and Expenses. On May 8, 2006 the Court issued an Order requiring the Receiver to file an amended application.

7. On May 18, 2006 the Receiver filed his Amended Second Interim Application to Allow and Pay (1) Receiver's Fees and Expenses; (2) Attorneys' Fees and Expenses; and (3) Accountants Fees and Expenses. On June 1, 2006 the Court issued an Order approving the Amended Application with modifications.

**APPLICATION FOR FEES AND EXPENSES
OF THE RECEIVER AND HIS ATTORNEYS**

8. This Application seeks the approval and payment of fees and reimbursable expenses for the Receiver and QSCL for the time period from April 1, 2006 through June 30, 2006 as to the Sardaukar Holdings Receivership Estate and only that estate.

9. Pursuant to this Court's Order of May 8, 2005 [Docket No. 139] **the monthly expenses incurred have already been paid.**

10. After all the adjustments described above, during the period covered by this Application, the Receiver has incurred fees and expenses with respect to his activities and those of QSCL on a monthly basis as follows:

Month	Fees	Expenses
April 2006	\$37,512.00	\$2,705.94
May 2006	\$23,193.00	\$1,353.75
June 2006	\$18,150.00	\$519.12
TOTAL:	\$78,855.00	\$4,578.81

11. Exhibit "A," which is attached hereto and incorporated herein by reference for all purposes conveys the following information for the time period of April 1, 2006 through June 30, 2006: (a) the number of hours worked by each attorney and staff member on a particular day; (b)

the manner and type of work performed by each attorney and staff member; (c) the customary billing rate for each person rendering service in this matter; and (d) the monetary value assigned to each task performed by a given attorney and/or staff member. Each of the invoices attached hereto as Exhibit "A" reflect aggregate expenses by category during a given month.

12. Attached hereto as Exhibit "B" are copies of each expense item which exceeds \$500.00 for the months covered by this Application.

13. Certification Regarding Travel Time. Clark Will of QSCL has reviewed the travel time on his invoices and he certifies that work was performed during the travel time such as review of bank records.

JOHNSON FACTORS

14. In support of this request for allowance of compensation and reimbursement of expenses, the Receiver respectfully directs this Court's attention to those factors generally considered by courts in awarding compensation to professionals for services performed in connection with the administration of a receivership estate. As stated by the Fifth Circuit Court of Appeals in *Migis v. Pearle Vision, Inc.*, 135 F.3d 1041, 1047 (5th Cir. 1998) "The calculation of attorneys fees involves a well-established process. First, the court calculates a 'lodestar' fee by multiplying the reasonable number of hours expended on the case by the reasonable hourly rates for the participating lawyers. (cite omitted.) The court then considers whether the lodestar figure should be adjusted upward or downward depending on the circumstances of the case. In making a lodestar adjustment the court should look at twelve factors, known as the Johnson factors, after *Johnson v. Georgia Highway Express, Inc.*, 488 F.2d 714 (5th Cir. 1974)." Those factors as applied to the services rendered in this case by the Receiver and QSCL are addressed below.

(a) The Time and Labor Required. The Receiver and QSCL respectfully refer the Court's attention to Exhibit "A" which details the involvement of the Receiver and QSCL's attorneys in this case during the period covered by this Application showing that more than 418 hours of attorney, Receiver, and paraprofessional time have been expended.

(b) The Novelty and Difficulty of the Questions. Many of the tasks reflected in Exhibit "A" involved factual and legal questions that were of substantial complexity.

(c) The Skill Requisite to Perform the Service. The Receiver believes that the services performed in this case have required individuals possessing considerable experience in asset seizure, tracing and liquidation. Both the Receiver and QSCL have considerable experience in such areas.

(d) The Preclusion of Other Employment Due to Acceptance of the Case. The Receiver and QSCL have not declined any representation solely because of their services as Receiver and counsel for the Receiver.

(e) The Customary Fee. The hourly rates sought herein are commensurate with or lower than the rates charged by other practitioners of similar experience levels in the Northern District of Texas. During the course of these proceedings, the following timekeepers at QSCL have performed legal services on behalf of the Receiver with respect to these proceedings:

Lawyers:

- Michael J. Quilling (\$350.00 per hour), licensed in Texas in 1982 and Texas Board Certified in Business Bankruptcy Law and Civil Trial Law, Texas Super Lawyer 2004-2006;
- Clark B. Will (\$350.00 per hour) licensed in Texas in 1980;
- D. Dee Raibourn (\$250.00 per hour) licensed in Texas in 1998;
- Michael D. Clark (\$225.00 per hour) licensed in Texas in 1997; and

- Brent Rodine (\$150.00 per hour) licensed in Texas in 2005.

QSCL Attorney Profiles of all lawyers are attached hereto as Exhibit "C". During the course of these proceedings, the following paralegals have performed services on behalf of the Receiver with respect to these proceedings:

Paralegals:

- Stephen M. Tomasky (\$110.00 per hour) senior claims administrator for six years, has processed thousands of claims in receivership cases; and
- Lisa Smith (\$100.00 per hour), claims administrator and investor relations for four years, has processed hundreds of claims in receivership proceedings.

(f) Whether the Fee is Fixed or Contingent. The Receiver's and QSCL's fees are fixed insofar as monies exist by way of Receivership Assets from which to pay such fees. Payment of such fees, however, is subject to Court approval.

(g) Time Limitations Imposed by the Client or Other Circumstances. The time requirements during the period covered by this Application have been substantial.

(h) The Amount Involved and the Results Obtained. As to the Sardaukar Holdings Receivership Estate, the primary assets were located in Riverside, California, south of Los Angeles. The Receiver has seized all known physical assets located there including numerous vehicles, storage unit contents and miscellaneous furniture and artwork. The Receiver has also seized all known computers and hard copy books and records.

Sardaukar Holdings received at least \$16 million of investor funds, most of which was improperly diverted by Bradley Stark. The Receiver has recovered approximately \$2.5 million of funds and is in the process of suing numerous entities and individuals to recover additional funds.

Other actions by the Receiver are described in the Interim Report submitted simultaneously with the Third Interim Fee Application.

(i) The Experience, Reputation and Ability of the Attorneys. QSCL has several attorneys who specialize exclusively in the practice of civil trial law. The practice of those attorneys regularly includes the representation of bankruptcy trustees and receivers. The reputation of QSCL's attorneys is recognized and respected in their community in Texas.

(j) The Undesirability of the Case. The representation of the Receiver incident to this case has not been undesirable.

(k) The Nature and Length of the Professional Relationship with the Client. QSCL did not represent the Receiver in these proceedings prior to being retained in these proceedings.

(l) Award in Similar Cases. QSCL believes that the fees requested in this case are less than or equal to those which have been awarded in similar cases in this District.

**APPLICATION FOR FEES AND EXPENSES
OF THE RECEIVER'S ACCOUNTANT**

15. This Application also seeks the approval and payment of fees and reimbursable expenses for LSSM for the time period from April 1, 2006 to June 30, 2006 in the total amount of \$6,060.00 as to the Sardaukar Holdings Receivership Estate and only that estate.

16. Exhibit "D," which is attached hereto and incorporated herein by reference for all purposes conveys the following information for the time period of April 1, 2006 through June 30, 2006: (a) the number of hours worked by each accountant and staff member on a particular day; (b) the manner and type of work performed by each accountant and staff member; (c) the customary billing rate for each person rendering service in this matter; and (d) the monetary value assigned to each task performed by a given accountant and/or staff member. Each of the invoices attached hereto as Exhibit "D" reflect aggregate expenses by category during a given month.

JOHNSON FACTORS

17. In support of this request for allowance of compensation and reimbursement of expenses, the Receiver respectfully directs this Court's attention to those factors generally considered by courts in awarding compensation to professionals for services performed in connection with the administration of a receivership estate. As stated by the Fifth Circuit Court of Appeals in *Migis v. Pearle Vision, Inc.*, 135 F.3d 1041, 1047 (5th Cir. 1998) "The calculation of attorneys fees involves a well-established process. First, the court calculates a 'lodestar' fee by multiplying the reasonable number of hours expended on the case by the reasonable hourly rates for the participating lawyers. (cite omitted.) The court then considers whether the lodestar figure should be adjusted upward or downward depending on the circumstances of the case. In making a lodestar adjustment the court should look at twelve factors, known as the Johnson factors, after *Johnson v. Georgia Highway Express, Inc.*, 488 F.2d 714 (5th Cir. 1974)." Those factors as applied to the services rendered in this case by the Receiver and QSCL are addressed below.

(a) The Time and Labor Required. The Receiver and LSSM respectfully refer the Court's attention to Exhibit "D" which details the involvement of LSSM's accountants in this case during the period covered by this Application showing that more than 46 hours of Accountant and staff time have been expended.

(b) Novelty and Difficulty of Questions Presented. The Receiver believes that the accounting and tracing questions encountered in representing the Receiver were of a complex and specialized nature.

(c) Skill Requisite to Perform Services Properly. The Accountants' firm has numerous members, including members who have performed services on behalf of the Receiver and who specialize exclusively in the practice of bankruptcy and insolvency accounting. Due to their

expertise and skill in this highly specialized realm, the Receiver believes far more time would have been expended by less experienced professionals and with considerably less rewarding results. The array of financial and accounting consideration presented in this proceeding and the prompt and skillful action taken upon those problems by the Accountants required a very high degree of expertise and experience. Prompt, skillful action was utilized by the Accountants in providing professional services to the Receiver in this proceeding.

(d) Exclusion of Other Employment. The Receiver is unable to estimate the extent of other employment the Accountants were precluded from accepting by reason of the employment as accountants for the Receiver herein, but does not believe it to be significant.

(e) Customary Fees. The fees applied for herein are equivalent to customary fees allowed in other proceedings for similar services rendered and results obtained.

(f) Whether the Fee is Fixed or Contingent. The fees of the Accountants are fixed insofar as funds exist with which to pay them from the Receivership Estate. Payment of such fees, however, is subject to Court approval.

(g) The Amount Involved and the Results Obtained. This case involves in excess of \$16 million invested by hundreds of persons and entities. The accounting and tracing issues are complex and the bank records are extensive and voluminous, encompassing over 2,200 line item entries. As a result of the efforts of the Accountants, much of the work has already been accomplished.

(h) The Experience, Reputation and Ability of Accountants. As stated above, the Accountants specialize in the practice of accounting and consultation. Much of the Accountants' practice has been devoted to asset management, accounting services, development of accounting data, preparation of tax returns for estates, formulation of plans of reorganization and consultation with creditors and estate representatives. The Accountants are recognized as experts in the

accounting field and possess a reputation of high quality, integrity, and ability. They are regularly employed in cases pending before the Court in this district. During the course of these proceedings, the following accountants have performed services on behalf of the Receiver with respect to these proceedings:

- Milo H. Segner (\$350.00 per hour) licensed in Texas in 1988; has in excess of 30 years experience providing forensic accounting services for receivership and bankruptcy estates. Mr. Segner has provided expert testimony in matters relating to insolvency and money tracing. He has been appointed Federal Bankruptcy Trustee and Receiver in both Federal and State courts;
- Reed Nordyke (\$110.00 per hour), paraprofessional with in excess of 20 years experience in information technology, database construction and management; and
- Scott Reese (\$90.00 per hour), paraprofessional with seven years experience in database construction and records management.

(i) Undesirability of the Case. The Receiver does not believe the subject case or the representation of the Receiver in this proceeding was “undesirable.”

(j) Nature and Length of the Professional Relationship with the Client. Prior to the institution of this proceeding, the Accountants have represented the Receiver from time to time with regard to general accounting matters and consultation in similar proceedings.

(k) Awards in Similar Cases. The Receiver believes that the services rendered herein for the Receiver have substantially benefitted this estate and that such services are of a reasonable value. The Receiver further represents that these fees are in conformity with fees allowed in similar proceedings for similar services rendered and results obtained.

WHEREFORE, the Receiver respectfully requests that the Court allow the requested compensation for professional services and expenses rendered by the Receiver, his legal counsel, and his accountants, and authorize the Receiver to pay QSCL \$78,855.00 (fees only) and LSSM \$6,060.00.

Respectfully submitted,

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By: /s/ Michael J. Quilling
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ATTORNEYS FOR RECEIVER

CERTIFICATE OF SERVICE

This is to certify that on the 10th day of July, 2006, a true a correct copy of the above and foregoing has been served on the attorneys for the parties in this matter via electronic notice.

This Application will also be posted on the Receiver's website, www.secreceiver.com after filing.

/s/ Michael J. Quilling