

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022297501**

To: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

Re: Doran Lynn Follis, Respondent
General Securities Representative
CRD No. 1682642

Pursuant to FINRA Rule 9216 of FINRA Code of Procedure, Respondent Doran Lynn Follis submits 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, 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

Doran Lynn Follis entered the securities industry on June 7, 1989 and has been associated with four FINRA-registered firms. He was associated with Cullum & Burks Securities, Inc. from May 2004 through May 24, 2010. Follis, who holds Series 6, 7 and 66 securities licenses, is currently registered with a FINRA firm.

RELEVANT DISCIPLINARY HISTORY

Doran Lynn Follis has no disciplinary history.

OVERVIEW

From October 2008 through March 2009, while employed as a registered representative at the now-defunct FINRA-registered firm Cullum & Burks Securities, Inc., Doran Lynn Follis sold the Medical Capital Holdings, Inc. MPFC VI private placement offering to nine customers who invested a total of \$457,000. Follis did not have a reasonable basis for believing that

his recommendations of the MPFC VI offering to the nine customers was suitable for those customers or any other customers in light of the fact that he was aware that Medical Capital had missed interest payments and defaulted on earlier affiliated offerings. Even after becoming aware of the negative information about Medical Capital, Follis failed to conduct adequate due diligence on the MPFC VI offering before continuing with sales of the offering to customers. By engaging in this conduct, Follis violated NASD Conduct Rules 2310 and 2110.

FACTS AND VIOLATIVE CONDUCT

Private Placement Offerings by Medical Capital Holdings, Inc.

Medical Capital Holdings, Inc. was a medical receivables financing company based in Anaheim, California. Its core business was to provide financing to healthcare providers by purchasing their accounts receivable and making secured loans to the providers. In 2001, Medical Capital began raising funds for its operations by selling 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, Medical Capital raised approximately \$2.2 billion from over 20,000 investors through nine Regulation D offerings offered through FINRA broker-dealers 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 payments at annual interest rates ranging from 8.25% to 10.50%. During this entire period of time, however, Medical Capital never obtained any audited financial statements with respect to any of these offerings.

Medical Capital made all interest and principal payments on these Regulation D offerings until July 2008. At that time, Medical Capital began experiencing liquidity problems and stopped making payments on two of its earlier offerings. Nevertheless, Medical Capital proceeded with its last Regulation D offering, called MPFC VI, which it offered through an August 5, 2008 private placement memorandum. In this offering, Medical Capital sought to sell up to \$400,000,000 of promissory notes with two, three and six-year terms, at annual rates of return ranging from 9% to 9.5%.

On November 10, 2008, Wells Fargo Bank, the trustee for MPFC III offering, sent a notice of default to all note holders of the offering. The Bank of New York Mellon, the trustee for MPFC II offering, sent a similar

default notice as to that offering on November 28, 2008. The trustees later held conference calls with the note holders relating to the defaults and the status of Medical Capital. Broker-dealers were aware of the November 2008 correspondence and the conference calls.

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 Medical Capital sales. The SEC alleged that Medical Capital and its executives defrauded investors in MPFC VI by misappropriating approximately \$18.5 million of investor funds. The SEC also alleged that Medical Capital had misrepresented that it had never defaulted on or been late in making interest or principal payments, when in fact Medical Capital 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 Medical Capital's remaining assets. The SEC action is pending.

Follis' Sales of the MPFC VI Regulation D offering

From October 2008 through March 2009, Follis recommended and sold MPFC VI to nine customers who invested a total of \$457,000. Follis became aware of the missed interest payments in earlier Medical Capital offerings in October 2008, and was also aware of the November 2008 default notice from Wells Fargo Bank regarding the MPFC III offering. After learning the negative information about Medical Capital, Follis failed to conduct any independent due diligence. He relied solely on Medical Capital's explanation that its liquidity problems were temporary and that interest payments would resume. Follis subsequently recommended and sold the MPFC VI offering to the nine investors without disclosing the late payments and default of an earlier Medical Capital offering.

Violations

NASD Conduct Rule 2310 requires that a registered representative, when making a recommendation to a customer to purchase or sell a security, have reasonable grounds to believe that the recommendation is suitable for such customer. To comply with Rule 2310, a registered representative must have an understanding of the potential risks and rewards of the security. A registered representative must conduct due diligence on the securities products he sells in order to understand the inherent risks of these products and to determine whether these products are suitable for its customers. This due diligence is especially important for alternative investments such as Regulation D offerings, where there is no registration of the securities with the SEC. Rule 2310 may be violated if a registered representative has no reasonable grounds to believe that the security is suitable for any customer.

Unlike the earlier Medical Capital offerings, there were serious red flags as to the viability of the MPFC VI offering. Starting in July 2008, Medical Capital was having trouble making both principal and interest payments to its investors in the earlier affiliated offerings. Without adequate due diligence, Follis could not identify and understand the inherent risks of the MPFC VI offering. After he became aware of negative information concerning liquidity problems, delinquencies and defaults of earlier affiliated offerings that should have alerted him to the fact that MPFC VI offering was also susceptible to delinquencies or default and therefore not suitable for his customers.

Follis failed to conduct adequate due diligence on the MPFC VI private placement offered by Medical Capital and had no reasonable basis for believing that his recommendation of the offering to his nine customers was suitable in light of the fact that he was aware of the delinquencies and defaults of earlier Medical Capital affiliated offering.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2310 and 2110; and from December 15, 2008 through March 23, 2009, violations of NASD Rule 2310 and FINRA Rule 2010 by Doran Lynn Follis.

B. Respondent also consents to the imposition of the following sanction:

A six-month suspension from association with any FINRA member firm in any capacity.

Respondent has submitted a sworn financial statement and demonstrated an inability to pay. In light of Respondent's financial status, no monetary sanctions have been imposed.

Respondent understands that if he barred or suspended from associating with any FINRA member, he becomes 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, Respondent may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against him;
- B. To be notified of the 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, Respondent specifically and voluntarily waives any right to claim bias or prejudice 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.

Respondent further specifically and voluntarily waives 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

Respondent understands 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;
- A. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 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. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understand that he 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.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has 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 Respondent to submit it.

7/30/2012
Date

Doran Lynn Follis
Doran Lynn Follis, Respondent

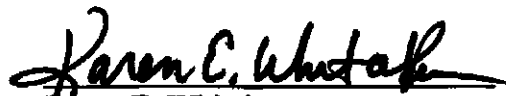
Reviewed by:

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8/8/2012
Date

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



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