

**Carl F. Schoeppl, Esq., Receiver
U.S. CAPITAL FUNDING, INC.
RECEIVERSHIP ESTATE
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February 6, 2006

Re: SEC v. First Capital Services, Inc., U.S. Capital Funding, Inc., Larry Schwartz, and Raphael “Ray” Levy, Case No. 00-8445-CIV-MIDDLEBROOKS (S.D. Fla.) (the “SEC Case”); and In re: First Capital Services, Inc., Case No. 00-32103-BKC-PGH (Bankr. S.D. Fla.) (the “First Capital Bankruptcy Case”)

Dear Investors and Potential Creditors:

As you are aware, I was appointed by the United States District Court for the Southern District of Florida (the “District Court”), to act as the Receiver for U.S. Capital Funding, Inc. (“U.S. Capital”) in the SEC Case, and my goal has been and will continue to be to recover assets of the Receivership Estate and to administer your claims against U.S. Capital through the claims procedure established by the District Court in the SEC Case. Since my last letter to you, a number of developments have taken place with respect to the U.S. Capital Receivership Estate which are described in detail below.

I. Completion of Claims Approval Procedure

Since my last letter to you, we have completed the claims approval procedure before the Court. A hearing was held before the Court, after which the Court accepted and adopted my recommendations regarding the reduction and/or disallowance of certain claims and disallowed claims totaling \$12,865,617.33, while approving claims in the total amount of \$32,381,080.62. There are approximately 460 allowed claims in total.

Finalizing the claims approval procedure is an important step since, for purposes of an eventual distribution, it is necessary that the Court formally approve those claims that are entitled to participate in the distribution of funds recovered on behalf of the Receivership and formally disallow the disapproved claims. While we are hopeful that ultimately, substantial assets can be recovered for the Receivership Estate, it is extremely unlikely that the approved claims will receive a final distribution for the full amount of the claim asserted and will instead, under a more realistic scenario, recover only a relatively small percentage of the total loss suffered.

I have also filed a Verified Accounting with the Court which sets forth the receipts and disbursements incurred to date on behalf of the Receivership. Thus, the Claims Approval Procedures are complete and we now have a Court-approved list of claims against the Receivership Estate.

As noted above there are well over 450 claimants who will be entitled to share in the assets recovered on behalf of the Receivership. As I indicated to you in my last Report, I had hoped that an interim distribution could be made to all approved claimants pending the eventual completion of the asset recovery efforts which have taken quite some time. Unfortunately, an assessment of the processing costs — the costs necessary to analyze the claims, determine the appropriate *pro rata* share to which each claimant is entitled, and prepare the appropriate checks, as well as the envelopes and appropriate postage for those checks — indicates that an interim distribution is not cost efficient and would require the expenditure of a significant percentage of the Receivership's assets simply to process the distribution. After discussion with the Securities and Exchange Commission, a decision was made to wait until all asset recovery efforts have been exhausted and, at that time, to make a single final distribution.

II. Progress on Asset Recovery

A. The First Capital Bankruptcy Case.

Before we can make a final distribution, we must complete all asset recovery efforts. These efforts have been greatly complicated because one of the largest assets of the Receivership is its interest, as the single largest creditor, in the assets of First Capital which is in bankruptcy. In the First Capital Bankruptcy Case, First Capital has recovered certain securities that bear a restricted designation and cannot be sold or transferred until the restrictions are lifted. First Capital is in the process of satisfying the restrictions in order to permit the securities to be sold but this process will take a number of months to complete although ultimately the sale of the securities will result in the recovery of additional proceeds for the Receivership Estate. Unfortunately, we are not in control of the First Capital Bankruptcy Case — although we do monitor the proceedings on a continuing basis — and consequently, we are unable to hasten the sale of those securities.

Once the securities in the First Capital Bankruptcy Case are sold and the bankruptcy proceedings near completion, any residual funds in the bankruptcy estate will be distributed. Such a distribution will also result in further assets for the Receivership Estate.

B. The Merchants Capital Litigation.

As I advised in my last Report to you, we have retained the preeminent firm of Fowler White Burnett, P.A. (“Fowler White”) to represent the interests of the U.S. Capital Receivership Estate in

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litigation pending against Merchants Capital and other parties, captioned *Merchants Capital Corp. v. U.S. Capital Funding Inc.*, Case No. 99-11927 AJ (Fla. Cir. Ct., Palm Beach County). We have recently been advised by Fowler White that, after obtaining a Default against a number of defendants, including Samarah Holding Company and Yasar Samarah, a motion seeking entry of a final default judgment in an amount of over \$11 million has been filed. Bear in mind that even if that motion is successful and the Court enters such a default judgment, there may be substantial problems in attempting to actually collect on the judgment, as well as issues relating to a possible appeal. Consequently, the Merchants Capital Litigation is unlikely to resolve in the next few months but, if we are ultimately successful in recovering even a partial amount of a default judgment, that litigation could result in the recovery of substantial assets for the Receivership Estate.

III. Criminal Fraud Convictions and Sentencing of Larry E. Schwartz and Raphael Raymond Levy

Since our last Report, the perpetrators of the fraud underlying the operations of U.S. Capital and First Capital were tried in federal court. During the criminal proceedings, I testified on behalf of the United States against Larry E. Schwartz and Raphael Raymond Levy, the primary perpetrators of the fraudulent scheme, regarding the losses caused by Schwartz and Levy to victims. A jury found Schwartz and Levy guilty of numerous counts of mail fraud and transportation of stolen property, conspiracy to commit fraud, conspiracy to commit money laundering and various money laundering counts. Among other penalties imposed, Judge Middlebrooks sentenced Schwartz to a prison term of 17 ½ years and Levy to a prison term of 19 ½ years. In addition, Edward Meyer, a coconspirator, was sentenced to a prison term of 4 years. Further, Ronalee Levy Orlick, Levy's daughter, was also convicted of conspiracy to commit fraud, mail fraud and money laundering.

As I have informed you in previous correspondence, neither I, nor my legal counsel, can give you individual legal advice concerning your claim or your rights, if any, against third parties, and you should consult with the attorney of your choice regarding your legal rights.

Sincerely,

U.S. CAPITAL FUNDING, INC. RECEIVERSHIP ESTATE

By: Carl F. Schoeppl, As Receiver

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