

**Carl F. Schoeppl, Esq., Receiver
U.S. CAPITAL FUNDING, INC.
RECEIVERSHIP ESTATE
Post Office Box 2545
Boca Raton, Florida 33427
Toll Free: (888) 670-4700**

January 5, 2007

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. As I advised in my last report to you, we have completed the claims approval procedure before the Court so that a distribution can be made to approved claimants upon completion of asset recovery for the Receivership Estate. I am writing now to keep you informed as to the status of asset recovery efforts on behalf of the Receivership Estate.

A. The First Capital Bankruptcy Case.

One of the assets of the Receivership is its interest, as the single largest creditor, in the assets of First Capital which is in bankruptcy. We do not control the First Capital Bankruptcy Case and must rely on the Bankruptcy Trustee's effort to recover assets for the First Capital Bankruptcy Estate which assets will then, in turn, flow to the Receivership Estate for ultimate distribution to approved claimants. In the First Capital Bankruptcy Case, the Bankruptcy Trustee has recovered certain securities that bore a restricted designation and could not be sold or transferred until the restrictions were lifted. Those restrictions have, however, now been lifted and the securities are in the process of being sold in an orderly manner by the Bankruptcy Trustee. We anticipate that those securities will be entirely sold by the end of the first quarter of 2007, the bankruptcy proceedings will wind down, and all proceeds due to the Receivership Estate will be paid over at that time.

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 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 been advised by Fowler White that a Default Judgment against a number of defendants, including

Samarah Holding Company and Yasar Samarah, in an amount of over \$11 million, has been entered. Bear in mind that there are likely to be substantial problems in attempting to actually collect on the Default Judgment and consequently, the Merchants Capital Litigation is unlikely to resolve in the next few months. If we are ultimately successful in recovering even a partial amount of the Default Judgment, such a recovery would obviously result in substantial assets for the Receivership Estate and significantly increase the distribution to approved claimants. Fowler White will advise us as to the status of their efforts to collect on the Default Judgment and we will reassess the situation periodically.

If, as anticipated, it appears that any recovery on the Default Judgment will be doubtful or will take a protracted period of time, we will seek the Court's approval to make a distribution to claimants after the Receivership's share of First Capital's assets are received at the close of the First Capital Bankruptcy Case which is expected to occur by the end of the first quarter of 2007.

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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