

Carl F. Schoeppl, Esq., Receiver
U.S. CAPITAL FUNDING, INC.
RECEIVERSHIP ESTATE
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August 27, 2004

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 seeking to recover assets of the Receivership Estate and providing you with a forum 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. Recovery of Substantial Additional Funds for U.S. Capital Receivership Estate, and Plans for an Initial Distribution to Aggrieved Investors and Creditors

Since my last letter to you, I have recovered an additional \$409,097.30 for the U.S. Capital Receivership Estate. Thus, I have recovered a total of \$869,531.05, less the costs of administering the Receivership Estate, since my appointment as Receiver. I expect that additional funds will be recovered for the U.S. Capital Receivership Estate from anticipated future distributions of assets to U. S. Capital from the First Capital Bankruptcy Case. As the largest single creditor of First Capital, the U.S. Capital Receivership Estate is entitled to the majority of all funds collected by First Capital in the First Capital Bankruptcy Case. At this time, it is not possible to predict with any degree of certainty as to when the next distribution of assets will be made by First Capital. Accordingly, I have determined that sufficient assets have been recovered in the U.S. Capital Receivership Estate to warrant an initial distribution to aggrieved investors and creditors.

II. Completion of Final Accounting of Claims Against the U.S. Capital Receivership Estate, Resolution of the Majority of Claims Against the U.S. Capital Receivership Estate, and Request for Hearing on Disputed Claims Against the U.S. Capital Receivership Estate

To enable the District Court to authorize me to make a distribution to you, I have completed the final accounting of all claims filed against the U.S. Capital Receivership Estate in connection with the Claims Procedure adopted by the District Court. In total, 569 Proofs of Claim were filed

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against the U.S. Capital Receivership Estate with aggregate claims totaling \$45,238,697.95. Of the total number of claims submitted, I have determined that 462 claims are justified in the amount of \$32,395,721.02. The remaining 107 claims should, in my view, be rejected, in whole or in part, due to various reasons, such as: (a) the failure by the claimant to reduce the claim by the total amount received as a return of principal investment; (b) the failure by the claimant to reduce the claim by the total amount of accrued interest received; (c) the failure by the claimant to provide any documentation to support the claim; or (d) the failure by the claimant to reduce the claim by the total amount received from settlements with third-parties. Accordingly, I have objected to 107 claims of the 569 total claims, and recommended that the District Court set a hearing date to determine whether each proposed rejected claim should be rejected by the District Court in whole or in part. Upon receiving a hearing date from the District Court, I have further recommended that the District Court authorize me to provide each of the 107 claimants with sufficient advance notice to afford them with a meaningful opportunity to be heard before the District Court. Once the District Court adjudicates the objections to these 107 claims, then I will be in a position to recommend a proposed initial plan of distribution to you.

III. The Circuit Court in the Merchants Capital Litigation Granted the Intervenor's Motion for Summary Final Judgment Against Merchants Capital Corp. for \$1,607,790.68

On July 19, 2004, the Circuit Court in *Merchants Capital Corp. v. U.S. Capital Funding Inc.*, Case No. 99-11927 AJ (Fla. Cir. Ct., Palm Beach County) granted the Intervenor's Amended Motion for Summary Final Judgment against Merchants Capital Corporation ("Merchants Capital") for \$1,607,790.68. Pursuant to a stipulation entered into between the Intervenor and the U.S. Capital Receivership Estate, the Intervenor is required to pay U.S. Capital any sums recovered from Merchants Capital that are in excess of \$472,897.63, after deduction of accrued interest and collection costs incurred by the Intervenor. Thus, if this Summary Final Judgment is fully satisfied by Merchants Capital, the U.S. Capital Receivership Estate could receive an infusion of substantial additional funds.

The U.S. Capital Receivership Estate also has substantial additional claims which are pending against Merchants Capital at this time. To maximize the likelihood of achieving a recovery in the Merchants Capital Litigation, I engaged, with the approval of the District Court, the law firm of Fowler White Burnett, P.A. ("Fowler White") to represent the interests of the U.S. Capital Receivership Estate against Merchants Capital and other responsible parties. Fowler White, a pre-eminent South Florida law firm, is aggressively prosecuting the case on behalf of U.S. Capital.

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While it is premature to speculate on the outcome of the Merchants Capital Litigation, it is likely that the recent favorable ruling on the Intervenor's Amended Motion for Partial Summary Judgment may benefit U.S. Capital in its attempt to obtain a summary final judgment against Merchants Capital because of the commonality of certain legal issues.

IV. The Architects of the Fraud Perpetrated Against the Aggrieved Investors of the U.S. Capital Receivership Estate have been Indicted for Their Roles in the Criminal Scheme by a Federal Grand Jury in the United States District Court for the Southern District of Florida

On March 2, 2004, a federal grand jury returned an indictment against Larry E. Schwartz ("Schwartz"), Raphael Raymond Levy ("Levy"), and others in *United States of America v. Larry E. Schwartz, et al.*, Case No. 04-CR-80032/MIDDLEBROOKS (S.D. Fla.) (the "U.S. Capital Criminal Case") for various alleged criminal violations arising out of a fraudulent scheme to enrich themselves by causing people to invest in promissory notes in U.S. Capital and First Capital based upon a wide variety of false representations and concealed facts. The criminal charges in the U.S. Capital Criminal Case against Schwartz and Levy range from, among other charges, conspiracy to commit mail fraud, mail fraud, conspiracy to commit money laundering, and money laundering. The Receiver has been cooperating with the Federal Bureau of Investigation in connection with the U.S. Capital Criminal Case, and has provided access to all records the Receiver seized from U.S. Capital, Levy and others. The Receiver expects that he may be called to testify on behalf of the United States in the trial against Schwartz, Levy, et al.

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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