

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

October 18, 2002

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:

I. Background of the Case

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. While I continue to be in contact with a significant number of investors and creditors personally or through their counsel, I felt it important to update you on the status of the Receivership Estate and, more specifically, the status of the claims procedure and the progress made with respect to the recovery of funds for the Receivership Estate.

II. Material Developments in the Receivership Estate Since the Last Report

In summary, the Receiver's extensive and necessary services for and on behalf of the Receivership Estate since the last report can be categorized as follows: (a) Asset Analysis and Recovery; (b) Case Administration; (c) Claims Administration and Objections; (d) Litigation; (e) Accounting Matters; and (f) Government Investigations, and are described in detail below.

(a) Asset Analysis and Recovery. Immediately upon my appointment as the Receiver for U.S. Capital, I was advised that U.S. Capital had no assets, and that approximately 600 individuals and/or entities, who had invested in U.S. Capital's promissory note program, were out over \$50 million. Thus, my primary goal became attempting to locate and recover as much money as possible for the Receivership Estate to ultimately be distributed to the aggrieved investors and potential creditors of U.S. Capital. As you are aware, I, along with Bankruptcy Counsel for the Receiver, entered into an agreement with counsel for First Capital Services, Inc. ("First Capital") in the First Capital Bankruptcy Case whereby First Capital agreed that it owed approximately \$33 million to U.S. Capital and that U.S. Capital, as the primary creditor of First Capital, was entitled to approximately 77% of all funds distributed by First Capital to unsecured creditors in the First Capital Bankruptcy Case. On September 19, 2002, the Receiver recovered \$460,433.75 from First Capital, representing approximately 77% of all cash on hand with First Capital. In addition, U.S.

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Capital has been promised that additional funds are forthcoming from First Capital. Specifically, First Capital presently has a substantial interest in a number of high-priced artifacts and treasures which, according to counsel for First Capital, will likely be sold for over \$1.5 million at an auction presently scheduled for June 2003. Once the property has been sold, First Capital will then distribute U.S. Capital's proportionate share to the Receivership Estate.

U.S. Capital's lawsuit against Merchants Capital Corp. ("Merchants Capital"), to recover approximately \$9 million in defaulted loans made by U.S. Capital to Merchants Capital, continues to proceed toward trial, with the trial scheduled to begin on or about March 24, 2003.

(b) **Case Administration.** The post office box and toll-free number established by the Receiver for investors and potential creditors have been regularly utilized. After identifying over 600 investors and potential creditors throughout the United States having potential claims against the assets of the Receivership Estate, the Receiver and his staff have continued to respond to inquiries concerning the affairs of the Receivership Estate, often on a daily basis, and have strived to keep investors, putative creditors, and other interested persons well informed of the progress of the Receivership Estate.

(c) **Claims Administration and Objections.** The Receiver mailed over 600 claim forms to potential claimants of the Receivership Estate, of which 562 claim forms were ultimately returned with aggregate claims totaling in excess of \$45 million. The Receiver has analyzed each of the various claim forms submitted by investors and putative creditors of U.S. Capital, and other interested persons, and has mailed to certain potential claimants notices of objections to invalid and/or insufficient claims requesting, in many instances, supplemental documentation and/or an amendment of the amount of their claim. As of this date, all claim forms and supplemental claim forms have been submitted to the Receiver and have been analyzed for a determination by the Receiver whether to accept the claim or reject the claim, in whole or in part. Final processing and resolution of all claims should be completed within the next few months, and the Receiver will then submit to the Court a Verified Accounting of All Claims timely filed and Omnibus Objection to Certain Claims. Simultaneous with the Verified Accounting and Omnibus Objection, the Receiver will be requesting the Court to set a hearing date for the potential claimants' objection to the Receiver's rejection, in whole or in part, of their claim. Once a hearing date has been set by the Court, the Receiver will mail to each claimant whose claims have been objected to in whole or in part by the Receiver a letter providing each such claimant with an explanation of the reason or reasons for said objection or objections and that the claimant should (1) respond to the Receiver's

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proposed rejection in writing to the Court, and (2) attend the hearing in person or through counsel to explain to the Court their objection to the Receiver's rejection of their claim.

(d) **Litigation.** The Receiver and his staff continue to worked diligently on litigation issues. As previously noted, the Receiver is closely monitoring U.S. Capital's lawsuit against Merchants Capital, with the hope that a satisfactory result can be obtained for the Receivership Estate. In addition, the Receiver, together with the forensic accountants for the Receiver, hopes to identify other potential sources of assets of the Receivership Estate, and, with the assistance of counsel for the Receiver, will pursue such sources if necessary.

(e) **Accounting Matters.** The Accountants for the Receiver have been and continue to be instrumental in strategy sessions on forensic accounting issues relating to the Receivership Estate. The Accountants for the Receiver are presently responsible for maintaining all of the original books and records seized from U.S. Capital, and for identifying whether additional funds may be recovered by the Receiver from third parties.

(f) **Government Investigations.** The Receiver and his staff continue to work with the United States Attorney's Office, the Federal Bureau of Investigation, and the Internal Revenue Service concerning their investigation of U.S. Capital, Raphael "Ray" Levy, and Larry Schwartz, and their activities in connection with U.S. Capital and First Capital. At this time, Levy remains incarcerated in the federal prison system in connection with his criminal activities in another matter.

III. Toll-Free Investor Hotline

In order to keep investors informed as to the progress of the Receivership proceedings in the District Court, I continue to maintain a **toll-free investor "Hotline" at (888) 670-4700**. This Hotline provides investors with a recorded message detailing brief highlights of the case, and an opportunity to leave recorded voice messages if they so desire. In the interest of conserving the limited assets of the Receivership Estate, and to maximize potential distributions to investors, all communications to me should be made in writing. In addition, you will continue to receive an updated report from me at least once every ninety (90) days informing you of the status of the Receivership.

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Finally, please be advised that neither I, nor my legal counsel, can give you individual legal advice concerning your claim, and that 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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