

**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**

February 18, 2003

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.

At the present time, the U.S. Capital Receivership Estate is awaiting the receipt of additional funds from First Capital in the First Capital Bankruptcy Case, from: (a) the proceeds of the sale of certain artifacts and treasures at an auction presently scheduled for October 2003; and (b) a monetary settlement reached between First Capital and Larry Schwartz, wherein Schwartz agreed to sell his home worth more than \$400,000.00 and pay additional sums to satisfy a \$600,000.00 judgment against him by First Capital. 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 through the auction, and the payment of settlement funds by Schwartz. Counsel for First Capital estimates that the artifacts and treasures are worth approximately \$5 million, and that the auction will net between \$2 million to \$4 million to the First Capital Bankruptcy Estate. In addition, counsel for First Capital has informed me that the next distribution of assets to creditors of First Capital, including the U.S. Capital Receivership Estate, will take place after the auction has taken place.

U.S. Capital is also engaged in litigation against Merchants Capital Corporation ("Merchants Capital") in the Palm Beach County, Florida Circuit Court in a case styled *Merchants Capital Corp. v. U.S. Capital Funding, Inc.*, Case No. CL99-11927 AJ (Fla. Cir. Ct., Palm Beach Count) (the "Merchants Capital Litigation"). In the Merchants Capital Litigation, U.S. Capital is seeking the recovery of approximately \$12 million of U.S. Capital funds transferred by Ray Levy, on behalf of U.S. Capital, to Merchants Capital pursuant to a so-called "Funding Agreement" between the companies. In exchange for the funds sent to Merchants Capital by U.S. Capital, Merchants Capital

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U.S. Capital Funding, Inc.
Receivership Estate

executed various promissory notes for U.S. Capital, which obligated Merchants Capital to repay the money "loaned" to it under the Funding Agreement, which Merchants Capital has since defaulted on.

The trial date of March 2003 in the Merchants Capital Litigation was continued due to the voluntary dissolution of Merchants Capital by its President, Yasar Samarah ("Samarah"). Thereafter, the Circuit Court granted U.S. Capital the right to amend its claim against Merchants Capital to add Samarah as a defendant to the case, both personally and as the trustee of the now-dissolved Merchants Capital. Samarah has since been added as a defendant in the Merchants Capital Litigation, and his deposition has been set to be taken next month. I will advise of the new trial date and any future material developments in this case.

Finally, the Receiver's final accounting of all 562 claims submitted to the Receivership Estate is expected to be completed within the next four to six months barring any unforeseen circumstances. Once the accounting is completed and filed with the District Court, the Receiver will send each claimant whose claim has been objected to by the Receiver, in part or in whole, a "Notice of Objection," which will notify the claimant of the specific objection by the Receiver to their claim and that the claimant, if he or she believes the Receiver's objection is not well-founded may, within thirty (30) days after the mailing of the Notice of Objection, file with the District Court a response to the Receiver's objection. All objections which are not resolved will then be heard by the District Court approximately sixty (60) days following the Notice of Objection. The Receiver will arrange a specific date with the District Court for the hearing, and will include the hearing date on the Notices of Objection mailed to the claimants.

As I have previously 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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