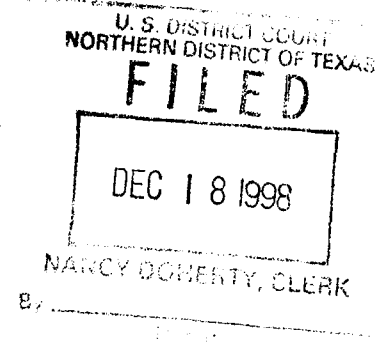


IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION



SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

VS.

CIVIL ACTION NO.
3:98-CV-2689-X

FUNDING RESOURCE GROUP, a/k/a FRG Trust;
QUENTIN HIX; GENE COULTER; STEVEN C.
ROBERTS; MVP NETWORK, INC., a Texas corporation,
a/k/a MVP Network (Trust); FMCI TRUST; FUNDERS
MARKETING COMPANY, INC., a Texas corporation;
RAYMOND G. PARR; WILLARD VEARL SMITH;
EARL D. McKINNEY; FORTUNE INVESTMENTS,
LTD., a Nevada corporation; ROBERT CORD, a/k/a
Robert F. Schoonover, Jr.; WINTERHAWK WEST
INDIES, INC.; IGW TRUST; CAROLYN
DON HICKS; and CARL LaDANE WEAVER,

Defendants,

and

HOWE FINANCIAL TRUST, an Indiana corporation;
TREDS FINANCIAL TRUST; and
MARY ANN BAUCE,

Defendants Solely for Purposes
of Equitable Relief.

PRELIMINARY REPORT OF RECEIVER

TO THE HONORABLE JOE KENDALL,
UNITED STATES DISTRICT JUDGE:

Michael J. Quilling, the Temporary Receiver appointed in these proceedings ("Receiver") files this his Preliminary Report regarding the known assets of the various Defendants as to which the Receivership applies. Since his appointment, the Receiver has worked diligently to locate, receive and obtain possession of any assets which are subject to the Order appointing the Receiver.

PRELIMINARY REPORT OF RECEIVER

Because of the number of defendants involved and the fact that they are located throughout the United States, the Receiver has, necessarily, had to focus his efforts on the major assets and those which are of the most urgency. This report is based upon the information gathered to date and is by no means complete.

1. **Funding Resource Group, Inc. a/k/a FRG Trust ("FRG").**

Very little is currently known by the Receiver as to the existence of assets belonging to this Defendant. Some assets may be the subject of a criminal forfeiture action pending before the United States District Court for the Southern District of Texas, Houston Division, in Civil Action No. H-97-2625, relating to Robert Cord (for more information see the discussion below relating to Cord). The Receiver also believes that this Defendant possesses causes of action against various third parties relating to dissipated assets including, but not limited to, \$675,000.00 received by Casavic Capital with respect to an alleged investment. The Receiver has already made demand for these monies and contemplates having to file suit.

2. **Quentin Hix ("Hix").**

The amount of funds received by and the assets owned by Hix are set forth in Defendant Quentin Hix's Response to the SEC's Motion for Preliminary Injunction and Request for Distribution of Order Freezing Assets filed in these proceedings. The Receiver has met with Hix and is in the process of negotiating and documenting a settlement with Hix whereby Hix will pay a certain amount (not yet agreed upon) to the Receiver in satisfaction of the Receiver's claims against him for monies received.

3. **Gene Coulter ("Coulter").**

The amount of funds received by and the assets owned by Coulter are set forth in Defendant Gene Coulter's Response to the SEC's Motion for Preliminary Injunction and Request for

Distribution of Order Freezing Assets filed in these proceedings. The Receiver has met with Coulter and is in the process of negotiating and documenting a settlement with Coulter whereby Coulter will pay the Receiver \$11,725.00 in satisfaction of the Receiver's claims against him for monies received.

4. **Steven C. Roberts ("Roberts").**

The only information currently known to the Receiver regarding the amount of funds received by and the assets owned by Roberts is set forth in the Affidavit of Steven C. Roberts filed in these proceedings.

5. **MVP Network, Inc. a/k/a MVP Network Trust ("MVP").**

a. **Bank Accounts at Bank of America.**

Subsequent to his appointment, the Receiver closed the following accounts and deposited the funds in them in his Receiver account.

MVP Network, Inc.	\$ 2,818.00
MVP Trust	\$19,979.95

b. **Monies Given to Airey Holdings, Inc.**

MVP Trust, at the direction of Earl McKinney, gave \$400,000.00 to Airey Holdings, Inc., a Panamanian company allegedly having offices in London and Moraco. The funds are believed to have been spent and may not be recoverable. The Receiver is investigating the assets of Airey Holdings, Ltd. and contemplates filing suit to recover the monies.

c. **Monies Invested with Howe Financial Trust.**

MVP Trust, at the direction of Earl McKinney, invested \$500,000.00 with Howe Financial Trust, pursuant to which MVP was to receive twelve monthly payments of \$141,666.67. Prior to the appointment of the Receiver, MVP received five payments totaling \$708,333.35. The funds were then paid to the "investors" in MVP Trust as a return on investment. It is not known how many

additional payments, if any, will ever be received (for more information, see the discussion of Howe Financial below).

6. **FMCI Trust ("FMCI").**

The Receiver does not have any information yet regarding the assets of FMCI.

7. **Funders Marketing Company, Inc. ("Funders Marketing").**

The Receiver does not have any information yet regarding the assets of Funders Marketing.

8. **Raymond G. Parr ("Parr").**

The only information currently known to the Receiver regarding the amount of funds received by and the assets owned by Parr is set forth in Defendant Raymond G. Parr's Response to SEC's Demand for Accounting filed in these proceedings.

9. **Willard Vearl Smith ("Smith").**

The Receiver has met with Smith and his counsel regarding the funds received by Smith. Smith has provided a financial statement to the Receiver which reflects that he does not have the ability to repay all monies he received. It is believed, however, that Smith can borrow funds in order to reach a financial settlement with the Receiver. The Receiver is currently negotiating a settlement with Smith whereby Smith will pay a certain amount (not yet agreed upon) to the Receiver in satisfaction of the Receiver's claims against him for monies received. In addition, the Receiver has closed a bank account belonging to Smith and has deposited those funds (\$3,228.68) in the Receiver's account.

10. **Earl D. McKinney ("McKinney").**

The primary assets of Earl McKinney consist of a home and furnishings located at 18350 Bearpath Trail, St. Paul, Minnesota. The house is believed to be worth between \$800,000.00 to \$900,000.00 and the furnishings to be worth \$30,000.00 to \$40,000.00. The Receiver has inspected

and photographed the house and furnishings and they are in very good condition and insured. The Receiver intends to market the property for sale in the spring unless McKinney is able to buy the house and furnishings from the Receiver in the interim.

11. Fortune Investments, Ltd. ("Fortune").

The Receiver has been told by Earl McKinney that Fortune is virtually a defunct entity and has no assets. The Receiver has not yet had an opportunity to determine if such a statement is true.

12. Robert Cord a/k/a Robert F. Schoonover, Jr. ("Cord").

The only assets of Cord known to the Receiver are the subject of a criminal forfeiture proceeding against Cord, Civil Action No. H-97-2625, pending before the United States District Court for the Southern District of Texas, Houston Division. The Receiver is currently negotiating with the United States Attorney and various claimants regarding a turnover of all those assets to the Receiver. Although the Receiver has not yet been able to obtain a detailed list of the assets which are the subject of the action, it is believed that they approximate \$3.5 million.

13. Winterhawk West Indies, Inc. ("Winterhawk").

Very little is currently known by the Receiver as to the existence of assets belonging to this Defendant. Some of the assets of Winterhawk may be the subject of the above-described criminal forfeiture proceeding against Cord.

14. IGW Trust ("IGW").

The Receiver does not have any information yet regarding the assets of IGW.

15. Carolyn Don Hicks ("Hicks").

The only information currently known to the Receiver regarding the amount of funds received by and the assets owned by Hicks is set forth in the Accounting of Don Hicks filed in these proceedings. In addition, immediately subsequent to his appointment, the Receiver took possession

proceedings. In addition, immediately subsequent to his appointment, the Receiver took possession of a 1996 Ford Explorer and a 38' Dutch Motorhome from Hicks. The Receiver has determined that there is no equity in either vehicle and intends to surrender each to the respective secured lender.

16. Carl LaDane Weaver ("Weaver").

The only information currently known to the Receiver regarding the amount of funds received by and the assets owned by Weaver is set forth in the Accounting of Carl Weaver filed in these proceedings.

17. Howe Financial Trust ("Howe Financial").

Shortly after the Court denied the motion of Howe Financial to dissolve the receivership, the Receiver met with representatives of Howe Financial at their offices. Howe Financial is a trust formed and operating in Elkhart, Indiana. Historically, the entity made its money by buying and refurbishing homes in low income areas. In February 1998, Howe Financial "invested" with Hammersmith Trust, LLC, then an entity organized and operating in Tennessee. The initial "investment" was structured such that Howe Financial made a \$250,000.00 loan to Hammersmith evidenced by a promissory note with a stated interest rate of 480% payable in twelve interest only monthly installments (\$100,000.00 per month) and all principal due at the time of the last interest payment. Supposedly, Hammersmith collateralized the note with a United States Treasury Bill (T-bill) which was to be held in a third party escrow account. The risk of the "investment" was to be, therefore, the monthly interest payment. If all the monthly interest payments were timely made, the note would create an "income stream" of \$1.2 million.

Shortly after entering into this first "investment" with Hammersmith, Howe Financial "sold" the \$1.2 million income stream to MVP Trust for \$500,000.00. Not only was MVP to receive the \$1.2 million income stream over twelve months, it would also be repaid the \$500,000.00 investment,

or a total of \$1.7 million over twelve months (\$141,666.77 per month). Payments by Hammersmith were to be made to James Conway, a lawyer in Kentucky. As escrow agent, Conway was to have verified the existence of the T-bill and was to hold the original of the note between Howe Financial and Hammersmith. In fact, he did neither.

Over the course of the next several months following the foregoing initial loan to Hammersmith and sale of the income stream to MVP, Howe Financial made several more "loans" to Hammersmith and sold several more income streams to other investment groups unrelated to this case. Attached hereto as Exhibit "A" is a chart reflecting each of the subsequent transactions. As of this time, Howe Financial has made a total of \$2,745,000.00 of "loans" to Hammersmith and Hammersmith is obligated to make monthly payments to Howe Financial (and those to whom the income streams were sold) through James Conway of approximately \$1.3 million. Hammersmith is currently delinquent in its November and December 1998 payments. Since his appointment the Receiver has had several telephone conferences with representatives of Hammersmith and has been advised that Hammersmith has closed all of its U.S. bank accounts and brokerage accounts and has been administratively dissolved. The entity has been recreated and all assets moved "offshore" to Nevus in the West Indies. Hammersmith claims to be an international hedge fund which trades in international currencies and claims to have suffered big losses in recent months due to currency fluctuations such that it can no longer timely meet its obligations to Howe Financial.

On December 15, 1998, the Receiver and his counsel met with representatives of Hammersmith and their counsel in Fort Lauderdale, Florida to discuss a resolution of the situation. The preliminary terms of the agreement reached as a result of the meeting are reflected in the letter attached hereto as Exhibit "B".

In addition to the claims Howe Financial has against Hammersmith, the Receiver believes that Howe Financial also has viable claims against its attorneys in this case for unreasonable and unmerciful billing practices and against James Conway, Jr. for malpractice and breach of escrow and fiduciary duties.

18. Treds Financial Trust ("Treds").

a. Bank Account at Norwest.

Treds maintained an account at Norwest in St. Paul, Minnesota. The account has been closed by the Receiver and Norwest is forwarding the funds to the Receiver (approximately \$25,000.00).

b. Monies Invested with Howe Financial Trust.

Treds invested \$100,000.00 with Howe Financial Trust pursuant to which Treds was to receive \$30,000.00 per month for 12 months. Prior to the Receiver being appointed, Howe had paid six of the twelve payments. Since his appointment, the Receiver has received two payments totaling \$60,000.00 from Howe Financial Trust which have been deposited in the Receiver's bank account. It is unknown how many additional payments will be received from Howe Financial Trust.

c. Monies Diverted from Treds.

At the instruction of Treds, Howe Financial forwarded two of the six payments totaling \$60,000.00 to attorney Eliot Lupkin/Dorothy Kerr in Fort Lauderdale, Florida in June and July 1998. The Receiver has made demand for a return of monies and contemplates having to file suit to recover the monies.

19. Mary Ann Bauce ("Bauce").

The Receiver has met with Bauce and her counsel. The only funds received by Bauce were allegedly interest or return on investment payments received by her as an investor in one of the programs. Bauce has provided a financial statement to the Receiver and possesses substantial assets,

more than sufficient to repay all monies she received. The Receiver is currently negotiating a settlement with Bauce whereby Bauce will pay a certain amount (not yet agreed upon) to the Receiver in satisfaction of the Receiver's claims against her for monies received.

DATED this 18th day of December, 1998.

Respectfully submitted,

QUILLING, SELANDER, CUMMISKEY,
CLUTTS & LOWNDS, P.C.
2800 One Dallas Centre
350 North St. Paul, Suite 2800
Dallas, Texas 75201-4240
(214) 871-2100 (Telephone)
(214) 871-2111 (Telecopy)

By: 

Michael J. Quilling
State Bar No. 16432300

TEMPORARY RECEIVER

CERTIFICATE OF SERVICE

I hereby certify that on the 18th day of December, 1998, a true and correct copy of the foregoing document was served via first class mail, postage pre-paid, to the following parties:

Garran J. Graner
38-11 Ditmars Boulevard
Long Island City, New York 11105

Wendell A. Odom, Jr.
440 Louisiana, Suite 800
Houston, Texas 77002

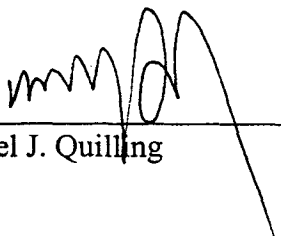
Robert B. Brunig
Securities & Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, Texas 76102

Dan R. Waller
Secore & Waller, LLC
13355 Noel Road, Suite 2290
Dallas, Texas 75240

Joel Held
Arter & Hadden
1717 Main Street, Suite 4100
Dallas, Texas 75201-7366

S. Cass Weiland
Capshaw, Weiland, Goss &
Bowers, LLP
901 Main Street, Suite 2600
Dallas, Texas 75202

Deborah Goodall
Goodall & Sooter
12830 Hillcrest Rd., Suite 111
Dallas, Texas 75230



Michael J. Quilling

HFT LOANS TO HAMMERSMITH

Date of Loan	Amount of Loan	Interest Rate	Monthly Payment	Maturity Date	CUSIP # (T-bill Trading No.)	Paid thru (date last payment made)
Feb. 26, 1998	\$250,000.00	480%	\$100,000.00	March 27, 1999	912795BU4 ¹	
Feb. 26, 1998	\$500,000.00	480%	\$200,000.00	April 13, 1999	912795BU4 ²	
June 8, 1998	\$250,000.00	480%	\$100,000.00	July 9, 1999	91281QE16 ³	
July 30, 1998	\$270,000.00	480%	\$108,000.00	Aug. 30, 1999		
July 30, 1998	\$620,000.00	600%	\$310,000.00	Aug. 30, 1999	912795CA7	
Aug. 27, 1998	\$1,125,000.00	600%	\$562,500.00	Sept. 28, 1998	912795CB5	

* Information shown according to Schedules A-1 ("Promissory Note"). Schedule C (Declaration of Trust) information is slightly different with respect to dates. The Declarations provide the CUSIP numbers. Contemporaneously with each Promissory Note executed after the original agreement (this appears to be the original loan dated 2/26/98 in the amt. of \$250,000, above) or soon thereafter, the parties would execute a "Hammersmith Modification Agreement" (HMA) which aggregated the newest loan amount with the existing loan and conditionally extended the term of the original agreement except for the promissory note attached to the original agreement, which "shall mature on the date first written..." In two instances, the HMAs also increased the interest rates on "all contracts ... to a total annual return of 600% per annum." These two instances are: (1) the loan dated 7/30/98 for \$620,000 and (2) the loan dated 8/27/98, above. Of course, there was no HMA executed after the original agreement.

** The loan dated 7/30/98 for \$270,000 is odd because there is no CUSIP number attached to it, and it throws off the total loan amount as indicated in subsequent HMAs. The total loan amount *without* this loan is \$2,745,000.00. *With* this loan the total is \$3,015,000.00. There is no Declaration of Trust accompanying the loan documents here.

¹ I assume. There is no Declaration of Trust accompanying the Promissory Note.

² See FN 1.

³ See FN 1.

QUILLING, SELANDER, CUMMISKEY, CLUTTS & LOWNDS

A PROFESSIONAL CORPORATION
ATTORNEYS AND COUNSELORS

ONE DALLAS CENTRE
350 NORTH ST. PAUL, SUITE 2800
DALLAS, TEXAS 75201-4240

CLARK B. WILL
DIRECT DIAL: (214) 880-1819

TELEPHONE: (214) 871-2100
TELECOPIER: (214) 871-2111

December 16, 1998

Mr. Michael R. Johns
DOVER & DIXON, P.A.
425 West Capitol, Suite 3700
Little Rock, AR 72201

*Via Facsimile to (501) 375-6484
and Via First Class Mail*

Re: Civil Action No. 3-98CV2689-X; *Securities and Exchange Commission vs. Funding Resource Group, et. al.*; in the United States District Court for the Northern District of Texas, Dallas Division

Dear Michael:

It was a pleasure meeting with you and Mr. Gilliland and Mr. Gunn in Fort Lauderdale yesterday. In furtherance to our conference, we entered into some oral agreements, and I would like to set forth my understanding of our agreements in this letter.

1. With reference to the subpoena served upon Mr. Gilliland yesterday, we have agreed to extend the date and time of the subpoena indefinitely. Your client will remain "under subpoena" and we will notify you of the date and time if necessary at a hopefully mutually agreeable time in the future.

2. Both Mr. Gilliland and Mr. Gunn have agreed to provide us copies of their file with reference to the Howe Financial Trust transactions. As we indicated in our conference, we feel we have the documents and version of the "story" from the Howe people, and would like to complete our file by reviewing your file documents. Naturally, to the extent that attorney-client privileged documents need to be sanitized or redacted, we would understand that action. While I know we are fast coming up on the holidays, we would like to get that information as quickly as possible. As we informed you at the meeting, Judge Kendall has instructed the receiver to proceed with the deposition of Mr. Gilliland. We believe, however, that we have some discretion as long as, in our opinion, Mr. Gilliland is cooperating in the general information and fact-finding function of the receiver.

3. With reference to Howe Financial Trust funds, we have agreed that Hammersmith, L.L.C. owes Howe \$2,745,000.00 plus interest at the rate of 15% per month from November 1, 1998, until such time as all interest and principal is paid. It is our understanding that there actually are

\$2,745,000.00 in T-bills but that those have been margined to the point that there is only 10% equity remaining. Mr. Gilliland has agreed that he will either liquidate the T-bills and provide us the equity therein, or transfer the T-bills to a stateside depository institution to be approved by the Securities and Exchange Commission.

We have agreed that it will take Hammersmith a reasonable amount of time to "unwind" the investment of the Howe funds, but that such should not take longer than 15 to 45 banking days. It is our understanding and agreement that Mr. Gilliland will inform us either directly or through you of when we can reasonably expect the return of the principal.

4. Finally, you have agreed and consented that to the extent Mr. Quilling needs to discuss anything with Mr. Gilliland, that he may contact him directly.

If the foregoing does not comply with our various agreements as you understand them, please let me know immediately.

Very truly yours,

QUILLING, SELANDER, CUMMISKEY,
CLUTTS & LOWNDS, P.C.

By: Clark B. Will
Clark B. Will, P.C.

CBW/cam

cc: Michael J. Quilling
Doug Gordimer

Via Facsimile