

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

UNITED STATES DISTRICT COURT  
DISTRICT OF OREGON

SECURITIES AND EXCHANGE  
COMMISSION,  
  
Plaintiff,  
  
v.  
  
C. WESLEY RHODES, JR., RHODES  
ECONOMETRICS, INC., THE RHODES  
COMPANY, and RESOURCE  
TRANSACTIONS, INC.,  
  
Defendants.

Case No. CV06 1353 PK  
  
PRELIMINARY REPORT OF RECEIVER  
MICHAEL A. GRASSMUECK

Michael A. Grassmueck is the duly appointed temporary receiver (the "Receiver") of Rhodes Econometrics, Inc. ("Econometrics"), The Rhodes Company and Resource Transactions, Inc. ("RTI"), as well as their subsidiaries and affiliates, including, but not limited to, Crossed Flags Farm, LLC, Corvette Specialties, Inc., Northwest Collector Cars, LLC, fka Northwest Muscle Cars, LLC, and Dollhouse Ventures, LLC (collectively, the "Entities in Receivership"). The Receiver's powers and obligations are set forth in the Temporary Restraining Order and Orders: (1) Freezing Assets; (2) Appointing a Temporary Receiver; (3) Prohibiting the Destruction of Documents; and (4) Requiring Accountings, etc., issued by the Court on September 21, 2006, and

1 the Order Continuing and Extending Temporary Restraining Order, etc., entered on  
2 October 3, 2006 (collectively, the "Orders").

3 The Receiver submits this Preliminary Report in order to inform the Court and all  
4 interested parties of the status of the Receiver's activities, investigations, analysis, conclusions and  
5 recommendations to date.

6 **I. SUMMARY OF REPORT AND PROCEDURES.**

7 The Receiver was appointed by this Court on September 21, 2006. This Preliminary  
8 Report reflects the results of the Receiver's initial investigation and efforts to locate, account for  
9 and recover the assets of the Entities in Receivership, and gives a preliminary accounting of the  
10 assets and financial condition of the Entities in Receivership.

11 The Receiver's duties, responsibilities and activities to date generally fall into two  
12 categories: (i) securing, protecting and recovering assets, including tangible and intangible assets,  
13 and choses in action; and (ii) preparing an accounting and investigating the basis for the  
14 receivership proceeding. This Preliminary Report does not reflect the value of the physical  
15 inventory, the contingent unliquidated claims against third parties who are potentially liable to the  
16 investors, nor assets in possession of third parties that may have been purchased with funds from  
17 the Entities in Receivership. Future reports will address these issues.

18 The Receiver's immediate focus has been to secure the identifiable physical assets, bank  
19 accounts, books and records of the Entities in Receivership and to take steps to ensure that the  
20 custodial accounts that had been managed by Defendant C. Wesley Rhodes, Jr. ("Wesley Rhodes")  
21 are safe and secure. The specific actions taken by the Receiver over the last month are detailed in  
22 Section II below.

23 The following circumstances have impacted the Receiver's investigation thus far:

- 24  There appears to be relatively complete records of the custodial accounts managed  
25 through Econometrics, and those accounts appear to have been free of unauthorized  
26 tampering. However, through interviews with investors and Wesley Rhodes  
27 himself, it is apparent that Wesley Rhodes solicited and obtained a significant  
28

1 number of investments outside of the context of Econometrics. The Receiver has  
2 yet to locate any significant records of these investments, and despite numerous  
3 requests, Wesley Rhodes has failed to provide even the most basic information  
4 (such as an investor contact list) about these investments.

- 5  The Receiver has employed various methods of identifying and reaching out to  
6 investors with some success. However, the failure of Wesley Rhodes to provide  
7 basic investor information has so far prevented the Receiver from making even  
8 preliminary findings regarding the total amounts invested with Wesley Rhodes  
9 and/or the Entities in Receivership, or the value of assets purchased with investor  
10 funds.
- 11  According to the SEC filings and Wesley Rhodes, a significant portion of the  
12 invested money went to the purchase, rehabilitation and resale of classic cars, as  
13 well as the purchase of a substantial quantity of sports, music and pop culture  
14 memorabilia. (There are numerous classic cars and a collection of memorabilia at  
15 Rhodes's personal residence.) However, Wesley Rhodes has not produced records  
16 of classic car transactions, and asserts that all such records are in the hands of the  
17 individual investors.
- 18  The Receiver has identified at least 22 entities that appear to be subsidiaries or  
19 affiliates of the Entities in Receivership.
- 20  There appears to have been significant commingling of funds between the various  
21 Entities in Receivership as well as the newly identified affiliates and subsidiaries of  
22 the Entities in Receivership.
- 23  The Receiver's investigation has been hampered by misleading or false information  
24 provided by Wesley Rhodes in the initial stages of the receivership. To give just  
25 one example, in an interview with Wesley Rhodes on the day after the TRO was  
26 issued, Mr. Rhodes, with his attorney present, told the Receiver that he did not  
27 maintain any records at his residence. An inspection of the Rhodes' residence on  
28

1 the day after the TRO issued revealed no significant records. A business associate  
2 of Mr. Rhodes later told the Receiver that he observed Mr. Rhodes packing boxes  
3 of documents at his residence on the afternoon that the original TRO was issued.  
4 Almost three weeks later, Wesley Rhodes' current counsel advised the Receiver  
5 that they would be producing approximately 52 banker boxes full of documents  
6 which, counsel asserted, had been stored at the residence.<sup>1</sup> Additional acts by  
7 Wesley Rhodes that have impacted the Receiver's ability to perform his duties are  
8 discussed as necessary below.

9 **II. INITIAL ACTIVITIES OF THE RECEIVER.**

10 Since being named temporary receiver on September 21, 2006, the Receiver has taken the  
11 following actions:

- 12 □ Took physical control of the Rhodes Company and Econometrics office located at  
13 4949 SW Meadows Road, No. 620, Lake Oswego, Oregon, as well as four self-  
14 storage units and a warehouse related to Dollhouse Properties;
- 15 □ Assured that over 35 bank and investment accounts held by various institutions in  
16 the name of one or more of the Entities in Receivership were frozen and accounted  
17 for and obtained custody of such funds as appropriate;
- 18 □ Conducted a detailed inventory of all personal property located at the residence of  
19 Wesley Rhodes, Rhodes Econometrics and other sites owned and/or managed by  
20 the Entities in Receivership;
- 21 □ Sent letters to all known customers and investors and conducted a series of five  
22 informational meetings with investors to explain the receivership and steps being  
23 taken by the Receiver;

24  
25  
26 <sup>1</sup> In order to maintain an accurate record of all records and documents discovered or received in  
27 this case, the Receiver is having all documents scanned and bates labeled. Rhodes' delay in  
28 producing the 52 boxes (after originally denying their existence) made a detailed review of  
these documents prior to the issuance of this Preliminary Report impossible. The Receiver  
will report on their contents in his next Receiver's Report.

- 1           □ Personally met and spoke with at least 35 individual investors, and formally
- 2           interviewed many employees, business acquaintances and relatives of Wesley
- 3           Rhodes and/or the Entities in Receivership;
- 4           □ Interviewed, with his attorney present, Wesley Rhodes;
- 5           □ Took control and/or possession of five mailboxes and incoming mail for the
- 6           Entities in Receivership;
- 7           □ Took control of websites used or managed by Wesley Rhodes and/or the Entities in
- 8           Receivership;
- 9           □ Performed an initial assessment of the viability of the Entities in Receivership;
- 10          □ Began an evaluation of insurance and security issues relating to the Entities in
- 11          Receivership;
- 12          □ Located and took mirror copies of the hard drives in approximately 12 computers,
- 13          laptops and other electronic devices owned and/or used by the Entities in
- 14          Receivership;
- 15          □ Began an accounting of the Entities in Receivership and investigated potential
- 16          liabilities of the Entities in Receivership, including investor liabilities and creditors;
- 17          and
- 18          □ Numerous other tasks associated with the management and investigation of the
- 19          Entities in Receivership.

### 20 **III. DESCRIPTION OF ENTITIES.**

#### 21 **A. Identified Entities and Assets.**

22 The Orders identified the following entities and assets:

- 23           □ four captioned parties (Wesley Rhodes, Econometrics, Rhodes Company and RTI);
- 24           □ four subsidiaries and affiliates (Crossed Flags Farm, LLC, Corvette Specialties,
- 25           Inc., Northwest Collector Cars, LLC (fka Northwest Muscle Cars, LLC), and
- 26           Dollhouse Ventures, LLC);
- 27           □ 33 bank and investment accounts;
- 28

- 1           ❑ one life insurance policy, and
- 2           ❑ 38 automobiles, certain of which are classified as "collector" automobiles.

3           The Receiver's work to date has identified the following potentially includable additional  
4 entities and assets:

- 5           ❑ two subsidiaries and affiliates (Estates in Miniature, LLC, and Wealth Strategies  
6           Corporation);
- 7           ❑ nine entities exhibiting ownership common to the named entities:
  - 8           ➢ Aloha Dog and Cat Hospital, P.C.
  - 9           ➢ Animal Allergy & Skin Clinic
  - 10          ➢ Animal Hospital Management, Inc.
  - 11          ➢ Classy Paws
  - 12          ➢ Forest Heights Veterinary Clinic, P.C.
  - 13          ➢ Glovc, Inc.
  - 14          ➢ Veterinary Clinic Properties, LLC
  - 15          ➢ Veterinary Management Company of Oregon, Inc.
  - 16          ➢ Village at Main Veterinary Hospital, P.C.
- 17          ❑ three predecessor entities:
  - 18          ➢ Crossed Flag Farm
  - 19          ➢ Dura-Craft, Inc.
  - 20          ➢ Spring Brook Marketing, Inc.
- 21          ❑ one EIN, i.e. xx-xxx8712, for Professional Practice Planning Services, Inc.
- 22          ❑ 20 bank and credit accounts:
  - 23          ➢ American Express xxxx-xxxxxx-x2003
  - 24          ➢ Bank of America xxxxxxxx7300
  - 25          ➢ Bank of America xxxxxxxxxxxx7907
  - 26          ➢ Cascade Title Co. xxxxxxxx5842
  - 27          ➢ Little Horn State Bank xxxxxxxxxxxx2952

- 1           > Riverview Community Bank (Vancouver) xxxxx0666
- 2           > State Street Bank xxxxx7333
- 3           > US Bank xxxxxxxx1421
- 4           > US Bank xxxxxxxx2354
- 5           > Umpqua Bank xxxx1778
- 6           > Umpqua Bank xx9535
- 7           > Umpqua Bank xxxxxx7285
- 8           > Umpqua Bank xxxx2485
- 9           > Umpqua Bank xx-xx8668
- 10          > Washington Mutual xxxxxxx2837
- 11          > Washington Mutual xxx-xxxx620-0
- 12          > Washington Mutual xxx-xxxx11-01
- 13          > Wells Fargo xxx-xxx8875
- 14          > Wells Fargo xxx-xxx5346
- 15          > Wells Fargo xxx-xxx9010
- 16          □ five investment accounts:
  - 17            > Fidelity Investments xxx-xxx920
  - 18            > Charles Schwab & Co., Inc. xxx8350
  - 19            > Charles Schwab & Co., Inc. xxx9108
  - 20            > Charles Schwab & Co., Inc. xxx9280
  - 21            > Charles Schwab & Co., Inc. xxx9529
- 22          □ one life insurance policy with Banner Life Ins. Co.

23           A brief description of each of the identified business entities is contained in Exhibit A  
24 attached hereto.

25           **B.    "PPPS".**

26           In interviews with the Receiver, Wesley Rhodes made numerous references to "PPPS."  
27 The following is what the Receiver has learned about PPPS through discussions with investors,  
28

1 Wesley Rhodes and others. During various conversations with the Receiver and his team, Wesley  
2 Rhodes referred to PPPS and its investors with varying names, including: "the Partnership," "the  
3 fund," "the investors," and "the participants." A detailed search of Oregon Secretary of State and  
4 all other state registries reveals that no corporation or limited or general partnership has been  
5 registered with the name "PPPS". (The Michigan Secretary of State records did reflect "PPPS"  
6 entities, but they and the parties appear unrelated to this matter.)

7 The Receiver has not located, and Wesley Rhodes has not identified, any state or federal  
8 tax returns associated with a "PPPS" partnership or corporation. Wesley Rhodes has produced a  
9 number of Form 1099's that purport to reflect income earned by investors in PPPS. Partnership  
10 income is normally reported on Form K-1. The Receiver has not located any Form K-1's  
11 associated with PPPS.

12 On September 21, 1998, Wesley Rhodes established a bank account using the name,  
13 "PPPS, Inc." and the EIN xx-xxx8712. According to Wesley Rhodes, deposits made into the  
14 account reflect "partnership" activity. This account is commingled with various other accounts  
15 and entities.

16 The same EIN was used in a purported "Corporate Resolution" for Professional Practice  
17 Planning Services, Inc., an inactive predecessor to The Rhodes Company. The document indicates  
18 that Dr. Douglas Gribskov accepted officer status (President and Secretary) of Professional  
19 Practice Planning Services, Inc. The officer designations were rescinded by Dr. Gribskov in  
20 September 2006.

21 Wesley Rhodes has identified certain initial "partners" in PPPS, including Dr. Gribskov.  
22 However, despite numerous requests by the Receiver and the SEC, Mr. Rhodes has not produced  
23 an investor list or any definitive records reflecting the names of investors and/or amount of their  
24 investments into PPPS.

25 During an interview with the Receiver, Dr. Gribskov stated that he had only recently heard  
26 PPPS referred to as a partnership, and that he hadn't heard that automobiles were part of PPPS  
27 investments until the TRO was issue. Dr. Gribskov told the Receiver that he believed his funds  
28

1 were invested in a bond fund that earned about 8% annually, according to information provided to  
2 him by Wesley Rhodes. However, in correspondence from Dr. Gribskov to the SEC after the SEC  
3 began its investigation, Dr. Gribskov states that he is a partner in PPPS. There is further evidence,  
4 developed by the SEC, that suggests that Mr. Rhodes only began using the "partnership" label  
5 after the State of Oregon and the SEC had begun their investigations of Mr. Rhodes.

6 In his interview with the Receiver, Wesley Rhodes stated that the cars and memorabilia at  
7 his residence were assets of PPPS. However, in a February 2005 loan application to Umpqua  
8 Bank, Mr Rhodes identifies the cars and memorabilia as assets of Crossed Flags Farm Museum,  
9 and refers to them in a flyer attached to the loan application as "heirlooms to be passed on to our  
10 children some fine day...". More investigation and discovery is needed to definitively determine  
11 what funds were used to purchase these assets.

12 Thus, it appears that the PPPS "partnership" was never formally established and its  
13 "partnership" label developed only recently. Further, investors have told the Receiver that Wesley  
14 Rhodes mislead them regarding the type(s) of investments that their money would be invested in.  
15 That is, if a party wanted bonds, then he/she was told by Rhodes that his/her funds were invested  
16 in bonds. In reality, however the majority of funds at least in recent years appear to have gone  
17 towards the purchase of collector cars and memorabilia.

18 The trail of funds related to PPPS appears to begin at least in the mid-1990s and possibly  
19 earlier. Dr. Gribskov believes that his investment dates from 1997. One investor stated to the  
20 Receiver that she invested \$3.9 million with Wesley Rhodes in 1989. Also, it appears that early  
21 deposits may have been made in The Rhodes Company (and other) bank accounts. Such activity  
22 may have triggered the establishment of the bank account titled "PPPS, Inc." It also appears to  
23 contain commingled funds. Funds received on behalf of PPPS appear to materially exceed the \$16  
24 million (since 2004) identified by the SEC.

### 25 C. Financial and Business Records of PPPS.

26 The Receiver has determined the following with regard to the financial and business  
27 records of PPPS.

- 1           □ **Formation Documents** – No formation documents are known to exist. According  
2           to Wesley Rhodes, no partnership agreement was ever drafted, no meeting minutes  
3           were ever taken and no legal counsel had ever been sought with regard to  
4           establishing the "partnership."
- 5           □ **Income Tax Returns** – Despite a distinct EIN for "PPPS, Inc." no federal or state  
6           income tax returns appear to have been filed.
- 7           □ **Financial Statements** – No financial statements, i.e. balance sheet, income  
8           statement were ever prepared for PPPS.
- 9           □ **"Appraisal"** – An "appraisal" of the collector cars and memorabilia that Wesley  
10          Rhodes asserts are the property of PPPS was purportedly completed in August  
11          2006 at the direction of Wesley Rhodes. The Receiver and his asset specialists are  
12          reviewing the "appraisal." However, no conclusion regarding existence or  
13          valuation of assets has yet been completed. Moreover, the collector cars Wesley  
14          Rhodes asserts are held by PPPS and contained in the appraisal indicate Wesley  
15          Rhodes on their respective titles.
- 16          □ **Records Comprising PPPS** – Wesley Rhodes stated that he kept no records  
17          usually associated with a partnership since "each partner kept their own records of  
18          their account." According to Wesley Rhodes, the records for PPPS consist of the  
19          following:
- 20                ➤ Bank statements – None are in the possession of Wesley Rhodes. He  
21                maintains that it was his practice to discard such documents from the bank.  
22                The Receiver has worked diligently to obtain the bank records for PPPS  
23                from the identified financial institutions.
- 24                ➤ Check register – A hand-written register recording most deposits and  
25                disbursements and perhaps some transfers, but according to Wesley Rhodes,  
26                its whereabouts is unknown.
- 27  
28

- 1                   ➤     Blue 3-Ring Notebook, 5" x7" – According to Wesley Rhodes, he  
2 maintained each "partner's" account history (e.g., investments, earnings,  
3 withdrawals) using hand-written notes in a blue 5" x 7" 3-ring notebook.  
4 Rhodes cannot account for the notebook, claiming he does not know what  
5 happened to it.
- 6                   ➤     Quarterly Statements – According to Wesley Rhodes, he prepared a  
7 quarterly 1-page letter to each "partner" that summarized their respective  
8 holdings in PPPS. He claimed to use Microsoft Word software to prepare  
9 such letters, but only in a "template" format. Consequently, he maintains  
10 that no record exists of the individual letters. His method of determining  
11 each partner's earnings consisted of estimating the quarterly increase in fair  
12 market value of collector cars and other assets purportedly held by PPPS.  
13 Then, he apportioned such increase to each partner in proportion to their  
14 respective "partnership" holdings.
- 15                  ➤     1099s – According to Wesley Rhodes, he prepared 1099s annually for each  
16 "partner" according to their respective share of the "partnership's" earnings.  
17 His method of determining each partner's earnings consisted of estimating  
18 the annual increase in fair market value of collector cars and other assets  
19 purportedly held by PPPS. Then, he apportioned such increase to each  
20 partner in proportion to their respective "partnership" holdings.

21                 The documents recently provided to the Receiver by counsel for Rhodes may shed  
22 additional light on PPPS. It is apparent from interviews with investors and with Rhodes that  
23 Wesley Rhodes misled investors with respect to the types of assets in which they were invested.  
24 Moreover, it appears that since the issuance of the Orders, Wesley Rhodes has contacted investors  
25 and showed them what he claimed were statements reflecting the current value of their  
26 investments in PPPS. Investors have provided the SEC and the Receiver with copies of what  
27 Wesley Rhodes claimed (post-TRO) were investor's statements.

28

1           These purported statements reflect balances of three accounts held by Fidelity Investments,  
2 totally over \$4 million. However, the Receiver has confirmed that Fidelity Investments held just  
3 one account in the name of any of the Entities in Receivership, and the total in that account was  
4 approximately \$1.2 million. In addition, the statements showed investments in stocks and bond  
5 funds, and did not show investment in classic cars or other personal property. Yet in interviews  
6 with the Receiver, Rhodes has admitted that he "invested" investors' money in cars and other  
7 personal property.

8           What is not yet known is the total amount of investment funds received by Wesley Rhodes  
9 or the value of assets paid for with investor funds. In the absence of even basic documentation of  
10 these transactions, the Receiver is currently unable to provide an accurate balance sheet or other  
11 statement of the financial condition of PPPS. The Receiver continues his investigation and  
12 analysis of these issues and will report his findings in future Receiver Reports.

13 **IV. ASSETS IDENTIFIED.**

14           This section describes the assets of the Entities in Receivership identified to date.

15 **A. Cash/Bank Accounts.**

16           Approximately 35 bank and investment accounts were frozen pursuant to the Orders. Of  
17 these, approximately 24 accounts have been confirmed to hold funds that are property of the  
18 receivership estate. To date, the Receiver has seized approximately \$1,595,653.83 in cash, and  
19 expects to receive an additional approximately \$1.2 million in cash in the near future. The status  
20 of the remaining accounts remains under investigation and will be the subject of future reports.

21 **B. Real Property/Partnerships.**

22           The Receiver has determined that the Entities in Receivership and/or Wesley Rhodes own  
23 interests in the following real property: his personal residence; a time share in a Oregon beach  
24 house, a 50% ownership interest in an LLC holding Lake Oswego commercial property, possibly  
25 an interest in Wesley Rhodes's mother's King City residence, and various ownership interests in  
26 veterinary clinics as described in Exhibit A hereto.

1           C.     Vehicles.

2           The Receiver has identified a number of classic cars and additional vehicles that are titled  
3 in the name of Wesley Rhodes or one of the Entities in Receivership. Those vehicles include two  
4 recently identified classic cars and those identified in the inventory attached as Exhibit B hereto.

5           D.     Personal Property.

6           The personal property owned by Wesley Rhodes and/or the Entities in Receivership is set  
7 forth in the inventory attached hereto as Exhibit B.

8           E.     Other Contingent and/or Unliquidated Assets.

9           These categories are under investigation by the Receiver and will be the subject of future  
10 reports.

11 **V.     SUMMARY OF PRELIMINARY FORENSIC ACCOUNTING ANALYSIS.**

12           Efforts to conduct a formal accounting of the Entities in Receivership have been hampered  
13 by a number of factors. Chief among these has been:

- 14           ❑ the lack of financial records;
- 15           ❑ the unreliability of financial records that do exist; and
- 16           ❑ false and misleading information provided by Wesley Rhodes.

17 Despite these impediments, the Receiver's forensic accountant, FinancialForensics, has begun its  
18 analysis. Its preliminary findings are contained in Exhibit C hereto.

19           It is apparent that receipts and funds flow have been indiscriminately commingled among  
20 the various Entities in Receivership. Evidence of commingling includes the following:

- 21           ❑ The CPA who prepared the income tax returns for Econometrics and the Rhodes  
22           Company maintains that she reconciled bank statements to client-reported receipts.  
23           However, she acknowledges that she had no way of discerning whether or how  
24           such receipts were properly sourced or correctly identified as revenue, loans,  
25           equity, etc.

- 1           □ On at least two occasions, Mr. Rhodes acknowledged that when he received
- 2           receipts from either investor clients or consulting clients that he made no effort to
- 3           deposit the funds into the correct entity.
- 4           □ Mr. Rhodes routinely made deposits (as requested from Econometrics employees)
- 5           from various sources into accounts requiring funds in order to keep Rhodes
- 6           Econometrics, Inc. and the Rhodes Company in a positive cash position.
- 7           □ Despite the limited discovery to date, the Receiver has observed numerous checks
- 8           to/from many of the various entities to one another, all without intercompany
- 9           accounting.

10 As discussed in section III above, an accounting of investments into, and expenditures out of,  
11 PPS will require discovery and extensive analysis given the lack of even basic accounting  
12 records.

13 **VI. INITIAL PLAN FOR TRANSFERRING MANAGEMENT OF CUSTODIAL**  
14 **ACCOUNTS.**

15           On the day the SEC filed this action, the State of Oregon stripped Wesley Rhodes of his  
16 investment advisor registration. As a result, he is no longer authorized to provide investment  
17 advice in the State of Oregon. As a result of the state's action, Charles Schwab & Co., Inc.  
18 ("Schwab"), and TD Ameritrade ("Ameritrade") terminated their agreements with Econometrics.  
19 The disposition of these custodial accounts has been a focus of the Receiver.

20           At the request of the Receiver, Schwab and Ameritrade took immediate steps to de-link  
21 Wesley Rhodes and Econometrics from the custodial accounts, thus assuring that only the  
22 individual customer has access to his or her account. Schwab and Ameritrade also notified each of  
23 their customers whose accounts had been managed by Wesley Rhodes that they would no longer  
24 honor any authorizations granted to Wesley Rhodes or Econometrics over their accounts.

25           The Receiver has determined that the customers of Econometrics will be best served by  
26 having a registered investment advisor manage their custodial accounts rather than the Receiver.  
27 To that end, the Receiver has brought a motion to approve the wind-down of Econometrics which,  
28

1 if approved by the Court, will result in the management of the accounts being transferred to a local  
2 registered investment advisor.

3 **VII. CONCLUSIONS.**

4 This Preliminary Report reflects the Receiver's work and conclusions as of this date. As  
5 indicated above, the findings reflected in this report are preliminary and subject to clarification,  
6 expansion or change pending additional work by the Receiver and his team. The Receiver's  
7 current significant findings and recommendations are as follows:

- 8  The custodial accounts managed by Econometrics are intact and can no longer be  
9 accessed by Wesley Rhodes or Econometrics. The Receiver to date has seen no  
10 evidence of unauthorized tampering with these accounts by Wesley Rhodes or  
11 Econometrics. The Receiver believes that the process to be set forth in his motion  
12 to wind-down the company will protect the custodial account holders and is in the  
13 best interest of the estate.
- 14  There is evidence of a significant number of investments with Wesley Rhodes  
15 outside of the context of Econometrics or the Rhodes Company. The Receiver has  
16 yet to locate any significant records of these investments, and despite numerous  
17 requests, Wesley Rhodes has failed to provide even the most basic information  
18 about these investments.
- 19  Wesley Rhodes may have begun receiving investor funds outside the context of  
20 Econometrics and the Rhodes Company as early as the early 1990's.
- 21  The failure of Wesley Rhodes to provide basic investor information has so far  
22 prevented the Receiver from making even preliminary findings regarding the total  
23 amounts invested with Wesley Rhodes and/or the Entities in Receivership or the  
24 value of assets purchased with investor funds. With the aid of formal discovery  
25 and further analysis of bank and other records, a more complete assessment of the  
26 assets and liabilities of "PPPS" should be possible.



## CERTIFICATE OF SERVICE

I hereby certify that on October 25, 2006, I electronically filed the foregoing **PRELIMINARY REPORT OF RECEIVER MICHAEL A. GRASSMUECK** with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

Robert C. Weaver, Jr., Esq.  
Michael R. O'Conner, Esq.  
Garvey Schubert Barer  
121 S.W. Morrison Street  
11th Floor  
Portland, Oregon 97204-3141  
Fax: 503-226-0259  
[rweaver@gsblaw.com](mailto:rweaver@gsblaw.com)  
[moconnor@gsblaw.com](mailto:moconnor@gsblaw.com)

Attorneys for Defendant C. Wesley Rhodes, Jr.

David Zaro, Esq.  
Mark Hartney, Esq.  
Allen Matkins Leck Gamble Mallory & Natsis LLP  
515 South Figueroa St., 7th Floor  
Los Angeles, CA 90071-3398  
Fax: 213-620-8816  
[dzaro@allenmatkins.com](mailto:dzaro@allenmatkins.com)  
[mhartney@allenmatkins.com](mailto:mhartney@allenmatkins.com)

Of Attorneys for Receiver, Michael A. Grassmueck

Briane Nelson Mitchell, Esq.  
Janet Moser, Esq.  
Securities and Exchange Commission  
5670 Wilshire Blvd., 11th Floor  
Los Angeles, CA 90036  
Fax: (323) 965-3908  
[mitchellbn@sec.gov](mailto:mitchellbn@sec.gov)  
[moserj@sec.gov](mailto:moserj@sec.gov)

Attorneys for Plaintiff Securities and Exchange Commission

Steve English  
John Kaempf  
Bullivant Houser Bailey  
888 SW Fifth, Suite 300  
Portland, OR 97204  
[John.kaempf@bullivant.com](mailto:John.kaempf@bullivant.com)  
Attorneys for Dean Sprecher

FARLEIGH WITT

By: /s/ Tara J. Schleicher  
Peter C. McKittrick, OSB #85281  
Tara J. Schleicher, OSB #95402  
Attorneys for Receiver, Michael A.  
Grassmueck  
121 SW Morrison St., Suite 600  
Portland, Oregon 97204  
(503) 228-6044 (phone)  
(503) 228-1741 (fax)  
[PMcKittrick@farleighwitt.com](mailto:PMcKittrick@farleighwitt.com)  
[TSchleicher@farleighwitt.com](mailto:TSchleicher@farleighwitt.com)