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5 UNITED STATES DISTRICT COURT
6 DISTRICT OF OREGON

7 SECURITIES AND EXCHANGE
8 COMMISSION,

9 Plaintiff,

10 v.

11 C. WESLEY RHODES, JR., RHODES
ECONOMETRICS, INC., THE RHODES
12 COMPANY, and RESOURCE
TRANSACTIONS, INC.,

13 Defendants.
14

Case No. CV06-1353-MO

SECOND REPORT OF RECEIVER
MICHAEL A. GRASSMUECK

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1 **I. INTRODUCTION**

2 Michael A. Grassmueck is the duly appointed receiver (the "Receiver") of Rhodes
3 Econometrics, Inc. ("Econometrics"), The Rhodes Company and Resource Transactions, Inc.
4 ("RTI"), as well as their subsidiaries and affiliates,¹ including, but not limited to, Crossed Flags
5 Farm, LLC, Northwest Collector Cars, LLC, fka Northwest Muscle Cars, LLC, and Dollhouse
6 Ventures, LLC (collectively, the "Entities in Receivership" "Defendants" or the "Companies").
7 The Receiver's powers and obligations are set forth in the Temporary Restraining Order and
8 Orders: (1) Freezing Assets; (2) Appointing a Temporary Receiver; (3) Prohibiting the
9 Destruction of Documents; and (4) Requiring Accountings, etc., issued by the Court on
10 September 21, 2006, the Order Continuing and Extending Temporary Restraining Order, etc.,
11 entered on October 3, 2006, and the Preliminary Injunction entered on October 30, 2006.
12 (collectively, the "Orders"). This Report provides this Court and all interested parties with the
13 status of the Receiver's activities, investigations, analysis, conclusions and recommendations to
14 date. This Report reflects the results of the Receiver's initial investigation and discovery to locate,
15 account for and recover the assets of the Companies, efforts to preserve and take control of assets
16 of or managed by the Companies, and accounting of the assets and financial condition of the
17 Companies.

18 The Receiver and the professionals engaged by the Receiver have met with many people
19 and reviewed countless documents over the last several months. The volume of material, the lack
20 of any coherent business records or organization, and the need for additional information,
21 verification and analysis have impeded the Receiver's ability to quickly analyze the receivership
22 estate's finances. Despite the obstacles and impediments of C. Wesley Rhodes (the "Defendant"),

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27 ¹ Corvette Specialties, Inc. was originally included as an Entity in Receivership in the Temporary Restraining Order and the Preliminary Injunction. However, on November 2, 2006, the court entered a Stipulation and Order Modifying Preliminary Injunction to exclude Corvette Specialties, Inc. as a subsidiary of affiliate of Rhodes Econometrics, Inc., The Rhodes Company and RT, Inc.

1 described below, the Receiver now has a much clearer picture of the receivership estate. This is
2 due in large part to the diligence of the Receiver's team. In all, the Receiver and his team have
3 issued over 55 subpoenas and collected and reviewed over 500,000 pages of documents.

4 Tellingly, the only relevant and helpful documents were not produced by Defendant or present in
5 the records provided to the Receiver, but had to be obtained by subpoena from third parties, at
6 great cost to the estate. In the future, the Receiver and its accountants will supplement or amend
7 the contents of this Report after further investigation.

8
9 Generally, the Receiver has discerned that the Defendant commingled assets among the
10 various Entities in Receivership and conducted his business in two ways: (1) he managed
11 investments for individuals with custodial accounts through Econometrics; and (2) he solicited
12 funds from investors for investment in "pooled," "private," "side" or "managed" accounts (the
13 terms varied) that, unfortunately for these investors (the "Private Investors"), were for the most
14 part not invested in stocks or bonds, but rather used for Defendant's and his family's personal use,
15 for the purchase of collector or other cars, the purchase of memorabilia, and other various
16 expenses of Defendant or the Entities in Receivership. The Receiver has assisted the
17 Econometrics investors in transferring their accounts to a local registered investment advisor. The
18 Receiver is attempting to locate and safeguard assets of the Entities in Receivership for the benefit
19 of the Private Investors.

20 This report and the information that is included have been limited by the following factors,
21 which are outside the control of the Receiver:

22 A. Lack of Records Kept By Defendants

23 Upon appointment, the Receiver began compiling documents to assess the status
24 of the Entities in Receivership and to determine how many affected investors might exist and the
25 total amount of potential claims. These assessments and determinations were nearly
26 impossible given Defendants' lack of even the most rudimentary bookkeeping procedures and the
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1 Defendant's contention that he discarded or destroyed important financial documents that would
2 have provided the necessary information.

3 B. Lack of Availability of Bank Records Prior to 1999

4 The lack of records located at the Companies and received through discovery has forced
5 the Receiver to complete a difficult and costly reconstruction of the financial records for all of the
6 Entities in Receivership. Despite the Receiver's best efforts, this accounting is limited by the fact
7 that banks retain records for only about 7 (seven) years and hence there are no records available
8 prior to 1999 and only limited bank records available for 1999 and 2000. The first full year
9 available was the year 2001. The lack of records prior to 1999 limits the Receiver's ability to
10 complete a full financial picture for all of the Entities in Receivership and the investor activities
11 since there is evidence the Defendant's pattern of business began as early as 1991.
12

13 C. Defendants' Failure to Produce Records

14 Despite being fully apprised of this Court's Temporary Restraining Order, the Receiver has
15 documented that Defendant acted in apparent violation of that Order in the following ways:

- 16
- 17 Defendant, with his attorney present, told the Receiver in an interview on September 22,
18 2006 that he did not store any records at his residence and an inspection of the residence
19 that same day revealed no significant records. Despite this assertion, about one week later,
20 Defendant's present counsel advised the Receiver that approximately 52 banker boxes full
21 of documents would be produced which, counsel asserted, had been stored at the
22 residence. After repeated requests by the Receiver, the banker boxes were produced more
23 than 60 days later. Unfortunately, their contents were devoid of financial records
24 pertinent to the Receiver's responsibilities. This failure to initially disclose, and later to
25 delay turnover of records, was in direct violation of this Court's Temporary Restraining
26 Order.
27

1 □ Defendant concealed the existence of investor information in the custody of his long-time
2 outside secretarial service. The Receiver discovered its existence through forensic
3 investigation. The Receiver’s forensic accountants, Financial Forensics, discovered
4 various checks made payable to Molly Dahms. The Receiver and Financial Forensics
5 called Ms. Dahms and discovered that she has served as an outside secretarial service for
6 Defendant for years and that she had various business documents relating to investment
7 business conducted by Defendant on her hard drive. Financial Forensics met with Ms.
8 Dahms and obtained copies of all electronic and physical documents that she identified as
9 pertinent to the Defendant or the Entities in Receivership. In the billing records produced
10 by Ms. Dahms, the Receiver learned that Defendant had requested Ms. Dahms assistance
11 in creating a reconstruction of investor activities. When the Receiver asked Defendant’s
12 counsel for a copy of those documents, Defendant’s counsel resisted, claiming
13 attorney/client privilege and/or work product. After conferring with Receiver’s counsel
14 regarding a motion to compel production of such documents, Defendant’s counsel
15 provided a list of investors. Ms. Dahms testified during her deposition that she and
16 Defendant had utilized various source documents to create that list. After asking for such
17 documents and conferring on a motion to compel, Defendant’s counsel informed
18 Receiver’s counsel in a letter dated February 6, 2007, that the “requested documents no
19 longer exist.” While Ms. Dahms did have more than 2,800 Microsoft Word and related
20 files of investor statements and correspondence generated over many years, these
21 documents are insufficient to verify the information contained in the investor list
22 generated by Defendant and the Ms. Dahms. This leads the Receiver to the conclusion
23 that there were other undiscovered documents.
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- Blue 3-Ring Notebook, 5” X 7” – According to Defendant, he maintained each Private Investor’s account history (e.g., investments, earnings, withdrawals) using hand-written notes in a blue 5” X 7” 3-ring notebook. However, according to Defendant, the contents of the notebook and the actual notebook were separated at some point and that their whereabouts are unknown.

- Quarterly Statements – According to Defendant, he prepared a quarterly one-page letter to each Private Investor that summarized their respective holdings. He claimed to use Microsoft Word software to prepare such letters, but only in a “template” format. Consequently, he maintains that no record exists of the individual letters. He claims that his method of determining each Private Investor’s earnings consisted of estimating the quarterly increase in fair market value of collector cars and other assets purportedly held by the “Partnership” he contends existed. Then he apportioned such increase to each partner in proportion to their respective “Partnership” holdings. Many of these documents were later obtained through the secretarial service.

- 1099s – According to Defendant, he prepared 1099s annually for each Private Investor (to whom he referred as “partners” or “participants”) according to their respective share of the “partnership’s” earnings. His method of determining each Private Investor’s earnings consisted of estimating the annual increase in fair market value of collector cars and other assets purportedly held by the “Partnership.” Then he apportioned such increase to each Private Investor in proportion to their respective “Partnership” holdings. Many of these documents were later obtained through the secretarial service.

1 □ On October 2, 2006, three days after Defendant again denied the existence of any “private
2 fund” investor records, Defendant and Ms. Dahms undertook the task of reconstructing
3 investor activity utilizing the investor statements and other back up documents in their
4 possession. There is testimony that Defendant was in possession of the resulting Private
5 Investor lists in addition to the records utilized to complete this task. The Receiver made
6 multiple requests of Defendant’s attorney that these lists and related documents be
7 produced. Despite the Receiver’s repeated requests, the information was not provided,
8 and Defendant’s attorney subsequently advised the Receiver on February 6, 2007, that
9 “...the requested documents no longer exist.”

10 □ On December 15, 2006, Defendant produced investor records information suggesting that
11 he continues to withhold additional data, in violation of this Court’s Temporary
12 Restraining Order. Specifically, Defendant provided a list of “PPPS Partnership”
13 investors (Private Investors) and the net amounts invested, allegedly compiled from the
14 records of Ms. Dahms. Upon analysis however, it has been determined that the
15 documents obtained by the Receiver from Ms. Dahms do not contain sufficient detail to
16 reproduce Defendant’s private fund or “side account” Private Investor list.

17 **Note that the preceding examples are illustrative and by all means are not all inclusive.**

18 The Receiver’s duties, responsibilities and activities generally fall into four categories: (i)
19 securing, protecting and recovering assets, including tangible and intangible assets, and choses in
20 action; (ii) preparing an accounting and investigating the basis for the receivership proceeding;
21 (iii) analyzing and developing, with Court approval, an equitable approach to distribution of the
22 assets to claimants; and (iv) liquidation of assets and review and allowance of claims against the
23 receivership estate. The following report addresses the general categories in varying degree of
24 receivership estate. The following report addresses the general categories in varying degree of
25 receivership estate. The following report addresses the general categories in varying degree of
26 receivership estate. The following report addresses the general categories in varying degree of
27 receivership estate.

1 detail in relation to the progress and focus of the Receiver during the initial six months of this
2 case.

3 **II. PROCEDURAL BACKGROUND**

4 On September 21, 2006, on application of the Securities and Exchange Commission (the
5 “SEC”), the Court issued its Temporary Restraining Order freezing assets, appointing a temporary
6 receiver, prohibiting the destruction of documents and requiring an accounting of all assets of
7 Defendants.

8 On October 3, 2006, the Court issued a stipulation and order continuing the temporary
9 restraining order and orders. Pursuant to these Orders, Michael A. Grassmueck was appointed the
10 Permanent Receiver. The tasks assigned to the Receiver are as follows:

- 11 A. To have access to and to collect and take custody, control, possession, and charge
12 of all funds, assets, collateral, premises (whether owned, leased, occupied, or
13 otherwise controlled), choses in action, books, records, papers and other real or
14 personal property, wherever located, of or managed by any Entities in
15 Receivership, with full power to sue, foreclose, marshal, collect, receive, and take
16 into possession all such property;
- 17 B. To have control of, and to be added as the sole authorized signatory for all accounts
18 of the entities in receivership, including all accounts at any bank, title company,
19 escrow agent, financial institution or brokerage firm which has possession, custody
20 or control of any assets or funds of any of the entities in receivership, or which
21 maintains accounts over which any of the entities in receivership and/or any of their
22 employees or agents have signatory authority;
- 23 C. To conduct such investigation and discovery as may be necessary to locate and
24 account for all of the assets of or managed by any of the entities in receivership and
25 to engage and employ attorneys, accountants or other persons to assist in such
26 investigation and discovery;
- 27

- 1 D. To take such action as is necessary and appropriate to preserve and take control of
2 and to prevent to the dissipation, concealment, or disposition of any assets of or
3 managed by the entities in receivership;
- 4 E. To make an accounting, as soon as practicable, to this Court and the Commission
5 of assets and financial condition of the entities in receivership, and to file the
6 accounting with the Court and deliver copies thereof to all the parties;
- 7 F. To make such payments and disbursements from the funds and assets taken into
8 custody, control, and possession or thereafter received by him or her, and to incur
9 or authorize the making of, such agreements as may be necessary and advisable in
10 discharging his or her duties as receiver;
- 11 G. To employ attorneys, accountants and others to investigate and, where appropriate,
12 to institute, pursue, and prosecute all claims and causes of action of whatever kind
13 and nature which may now or hereafter exist as a result of the activities of present
14 or past employees or agents of the entities in receivership;
- 15 H. To have access to and monitor all mail of the entities in receivership (including
16 mail delivered to P.O. Box 513, Tualatin, OR 97062-0513 and P.O. Box 450,
17 Wilsonville, OR 97070) in order to review such mail which he or she deems related
18 to their business and the discharging of his or her duties as receiver.

19 The Receiver filed his preliminary report October 24, 2006 detailing initial investigation
20 and accounting completed by the Receiver and now files this Second Report of Receiver.

21 **III. EXECUTIVE SUMMARY**

22 The Executive Summary contains a précis of the actions by Receiver and his team and is
23 supported by the remainder of the Report body. It delivers the succinct elements of our findings
24 with supporting details contained in the pertinent attached exhibits.

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1 **A. Summary of Receivership Activities**

2 The Receiver's duties, responsibilities and activities to date generally fall into two
3 categories: (i) securing, protecting and recovering assets, including tangible and intangible assets,
4 and choses in action; and (ii) preparing an accounting and investigating the basis for the
5 receivership proceeding.

6 The Receiver's initial immediate focus was to secure the identifiable physical assets, bank
7 accounts, books and records of the Entities in Receivership and to take steps to ensure that the
8 custodial accounts previously managed by Defendant are safe and secure. The specific actions
9 taken by the Receiver are detailed below.

- 10 □ Took physical control of the Rhodes Company and Econometrics office located at
11 4949 SW Meadows Road, No. 620, Lake Oswego, Oregon, as well as four self-
12 storage units and a warehouse related to Dollhouse Properties;
- 13 □ Assured that over 35 bank and investment accounts held by various institutions,
14 totaling near \$2.8 million, in the name of one or more of the Entities in
15 Receivership were frozen and accounted for and obtained custody of such funds as
16 appropriate;
- 17 □ Conducted a detailed inventory of all personal property located at the residence of
18 Defendant, Rhodes Econometrics and other sites owned and/or managed by the
19 Entities in Receivership;
- 20 □ Sent letters to all known customers and investors and conducted a series of five
21 informational meetings with investors to explain the receivership and steps being
22 taken by the Receiver;
- 23 □ Personally met and spoke with at least 35 individual investors and formally
24 interviewed many employees, business acquaintances and relatives of Defendant
25 and/or the Entities in Receivership;
- 26 □ Interviewed Defendant, with his attorney present;

27

- 1 □ Took control and/or possession of five mailboxes and incoming mail for the
2 Entities in Receivership;
- 3 □ Took control of websites used or managed by Defendant and/or the Entities in
4 Receivership;
- 5 □ Performed an initial assessment of the viability of the Entities in Receivership;
- 6 □ Began an evaluation of insurance and security issues relating to the Entities in
7 Receivership;
- 8 □ Located and took mirror copies of the hard drives in approximately 12 computers,
9 laptops and other electronic devices owned and/or used by the Entities in
10 Receivership;
- 11 □ The Receiver has identified and seized control of a number of classic and modern
12 sports cars and additional vehicles that are titled in the name of Defendant and/or
13 his spouse;
- 14 □ Completed an accounting of the Entities in Receivership and investigated potential
15 liabilities of the Entities in Receivership, including investor liabilities and creditors;
- 16 □ On the day the SEC filed this action, the State of Oregon stripped Defendant of his
17 investment advisor registration. As a result, he is no longer authorized to provide
18 investment advice in the State of Oregon. As a result of the State's action, Charles
19 Schwab & Co., Inc. ("Schwab"), and TD Ameritrade ("Ameritrade") terminated
20 their agreements with Econometrics.

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

1 The Receiver has determined that the customers of Econometrics would be
2 best served by having a registered investment advisor manage their custodial
3 accounts rather than the Receiver. To that end, the Receiver brought a motion to
4 approve the wind-down of Econometrics which was approved by the Court and
5 resulted in the management of the accounts being transferred to a local registered
6 investment advisor; and

- 7 □ Numerous other tasks associated with the management and investigation of the
8 Entities in Receivership.

9 **B. Summary of Forensic Accountants' Report²**

10 1. Visual Highlights

11 The following visual highlights convey perspective on the nature and scope of our
12 work with regard to the Estate. The graphs are provided in order for the reader to obtain the
13 most time-effective perspective on the nature and timing of funds flow within The
14 Rhodes Entities during the period of this accounting.

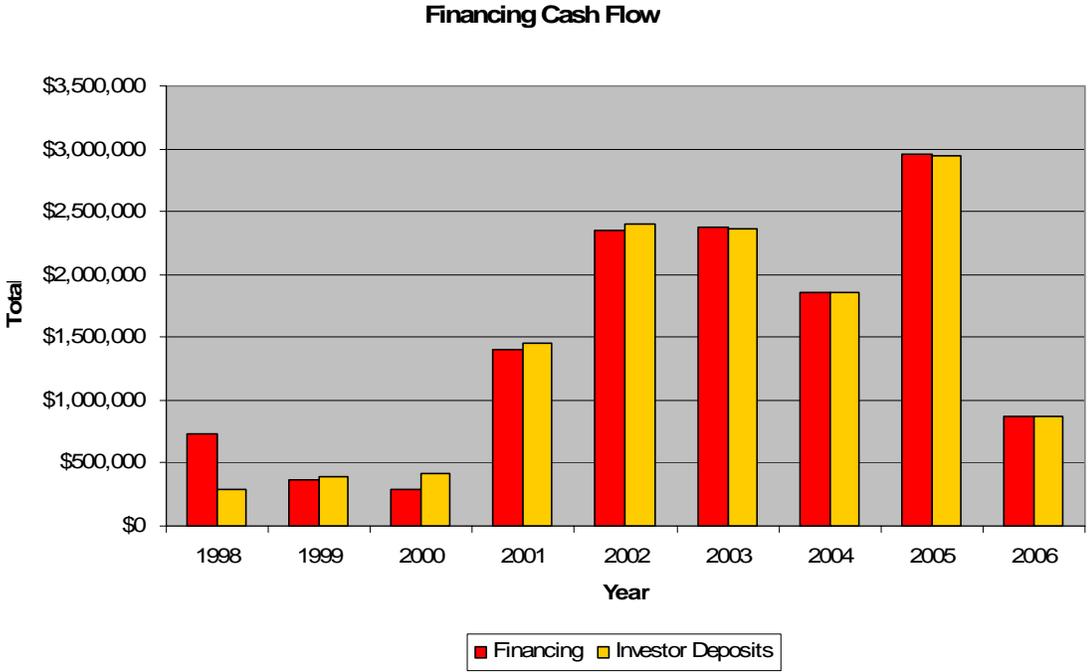
15 a. Cash Inflows by Year

16 The following graph illustrates the consolidated Financing Cash Flow for
17 the Entities in Receivership spanning the period of this accounting. Financing Cash
18 Flows are typically comprised of changes in Shareholder's Equity or Long-Term
19 Liabilities. During the period of this accounting, "private fund" Investor Deposits
20 (a liability) accounted for the primary source of Financing Cash Inflows.
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² Except as specifically noted, all figures referred to in this Report are reflected in the Forensic Accountants' Report attached hereto as Exhibit "1" and incorporated herein by this reference.

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As indicated in the graph above, Financing Cash Flows increased dramatically from the years 2000 through 2002. This increase is entirely attributable to the increase in net Investor Deposits.³ Net Investor Deposits are inflows from investors less distributions to investors. During the same period, identified gross Investor Deposits exceeded \$27 million. Combined Operating and Investing Cash Flows were negative for every year except one spanning this same period. In essence, the Entities in Receivership were consistently operating at a net loss.

b. Top 9 Expenses

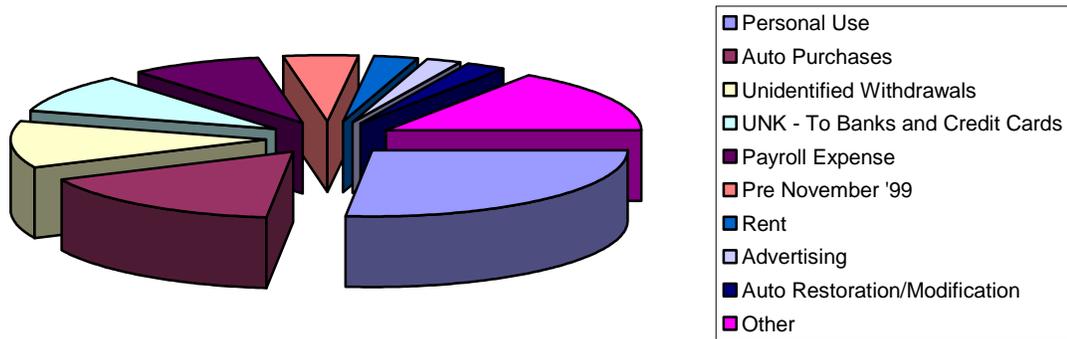
The following graph categorizes the relative size of the Top 9 Expenses comprising all The Entities in Receivership' expenses during the period of

³ Investor Deposits do not include amounts that were deposited directly with a financial institution (e.g. Charles Schwab, Ameritrade) in the name and under control of the investor. Investor Deposits, as referred to in this accounting, include those monies that were intended for a "private fund" investment OR that investors intended to be deposited with a financial institution in their name but never were.

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the accounting; all “other” expenses are aggregated in order to reflect 100% of disbursements.

Top 9 Expenses



Category	Total	% Total	Cum %
Personal Use	\$5,448,259	26.78%	26.78%
Auto Purchases	3,286,075	16.15%	42.93%
Unidentified Withdrawals	2,323,310	11.42%	54.35%
UNK - To Banks & Credit Cards	1,932,576	9.50%	63.84%
Payroll Expense	1,694,565	8.33%	72.17%
Pre November '99	942,884	4.63%	76.81%
Rent	579,301	2.85%	79.65%
Advertising	490,786	2.41%	82.07%
Auto Restoration/Modification	467,103	2.30%	84.36%
Other	3,181,927	15.64%	100.0%
	<u>\$20,346,787</u>	<u>100.0%</u>	

The table above reflects the respective proportion of the Top 9 expenses. For example, Personal Uses aggregate 26.78% of Total Expenses, derived from \$5,448,259 divided by \$20,346,787, the total of all The Entities in Receivership’s expenses during the period of our accounting.

1 c. Personal Use

2 These amounts were specifically identified as funds diverted for the
3 personal benefit of Defendant and/or his family. These expenditures include home
4 improvements, transfers to personal bank accounts, transfers to personal and family
5 investment accounts, mortgage payments, payments for family weddings and
6 related items.
7

8 2. Findings

9 The following items highlight the key findings that surfaced during the construction
10 and analysis of the Entities in Receivership financial and accounting records. More details
11 can be found in the Forensic Accountants' Report.

- 12 □ The Entities in Receivership received over \$27,335,000 of “private fund” investor
13 deposits during the period of this accounting.
- 14 □ The Entities in Receivership distributed over \$14,341,000 to “private fund”
15 investors during the period of this accounting. These distributions were often made
16 irrespective of the source of funds and many of the distributions pertained to
17 deposits made prior to 1998.
- 18 □ At the appointment of the Receiver, the Entities in Receivership possessed
19 \$2,743,684 in cash and investment accounts.
- 20 □ Over \$5,448,000 was expended from the Entities in Receivership for the personal
21 use of Defendant and/or his family during the period of this accounting.
- 22 □ In preparing the Entities in Receivership accounting, 167 vehicle-related
23 disbursements have been identified, totaling \$3,286,075.
- 24 □ Nominal, if any, meaningful financial records were available for the Entities in
25 Receivership. Accounting records were available only for only two of The Rhodes
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1 Entities, and those were incomplete and erroneous. No financial records were
2 provided for three of the Entities in Receivership, including the entity
3 predominantly handling the “private fund” investor monies.

4 3. Conclusion

5 The following items highlight the key conclusions that resulted from the
6 construction and analysis of the Entities in Receivership records. More details can be
7 found in the remainder of the report.

- 8
- 9 Defendant was negligent with respect to keeping even primitive financial records
10 for most entities included in this accounting. Defendant’s conduct reveals that he
11 either failed to preserve even primitive records for various investors, or that he has
12 not produced such records.
 - 13 Receipts and funds flow have been indiscriminately commingled among the
14 various Entities in Receivership.
 - 15 Throughout the period of this accounting, the net amount due from the Entities in
16 Receivership to “private fund” investors significantly exceeded the actual amount
17 that the Entities in Receivership held in cash and investment accounts.
 - 18 The periodic statements issued to “private fund” investors were largely contrived.
19 There is no evidence that income and/or changes in investment value occurred as
20 purported on these statements. Furthermore, the Entities in Receivership did not
21 hold sufficient investments to support the purported account balances. As such,
22 these statements are by and large fictitious and not reflective of actual investment
23 balances for the “private fund” investors.
 - 24 Our investigation of the Entities in Receivership has revealed indicia of a Ponzi
25 Scheme including, but not limited to: initial investors are paid with subsequent
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1 investors' money, masquerading as some type of investment, unrealistic returns,
2 and payoffs are made from the pool of investor funds while the remainder is
3 siphoned into operators' pockets.

4 **IV. IDENTIFIED ENTITIES**

5 An important task of the Receiver is the identification of entities and ownerships, which
6 will allow the tracing of funds flow and assignment of asset ownership. The entities identified are
7 summarized below, beginning with those entities named in the TRO and followed by those not
8 specifically named.

9 A. Entities and/or Parties Named in the TRO

- 10 1. The Rhodes Company. The Rhodes Company co-resided with Rhodes
11 Econometrics at 4949 Meadows Road, Suite 620 in Lake Oswego. The
12 Rhodes Company is a successor entity to Professional Practice Planning
13 Services, Inc. The Rhodes Company was originally formed to capture
14 revenues earned by Defendant as he delivered practice management advice,
15 primarily to veterinarians. The Rhodes Company acted as a management
16 company for various Entities in Receivership. Defendant is sole
17 shareholder of The Rhodes Company. The Rhodes Company has no known
18 assets other than those shared by Rhodes Econometrics below.
- 19 2. Rhodes Econometrics, Inc. Rhodes Econometrics co-resided with The
20 Rhodes Company at 4949 Meadows Road, Suite 620 in Lake Oswego.
21 Rhodes Econometrics operated as investment advising service and operated
22 as the custodial source with Charles Schwab and Ameritrade for all 204
23 custodial accounts. The Receiver has taken possession of all fixtures,
24 equipment and furniture that were onsite at the Rhodes Econometrics'
25 offices. A complete list of all assets was attached to Receiver's Preliminary
26 Report as Exhibit B.
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1 3. Resource Transactions, Inc. Resource Transactions, Inc. was established
2 solely to process funds flow in connection with the shut-down of the “Total
3 Return Fund.” According to Defendant, the Total Return Fund was a “beta
4 test” conducted by Defendant. The Receiver now has control of all
5 accounts that were held in the name of Resource Transactions, Inc.

6 4. Northwest Collector Cars, LLC. Northwest Collector Cars, LLC held a
7 bank account in its name in which it held funds predominantly, if not
8 entirely, generated from Private Investor Funds. The Receiver now has
9 control of that account.

10 5. Charles Wesley Rhodes, Jr. Mr. Rhodes was a private money manager and
11 owner/partner in the three entities above as well as in other entities below.
12 Mr. Rhodes owns the following real and personal property:

13 i. Automobiles

14 Defendant owns 28 classic and sports cars as well as five daily drivers. The
15 following is a list of the vehicles owned by year, make, model and vehicle
16 identification number.

Year	Make & Model	VIN
1932	Ford	6RO9K198980
1966	Ford Shelby Mustang	SFM6S2296
1967	Chevy Corvette	194677S103944
1967	Chevy Corvette	194377S112386
1967	Chevy Corvette	194377S108069
1967	Chevy Corvette	194677S103111
1967	Chevy Corvette	194677S119381
1967	Chevy Chevelle	1361770Z129554
1967	Shelby Mustang	67410F2A02943
1968	Chevy Corvette	194378S422103
1968	Chevy Corvette	194378S419533
1969	Chevy Camaro	124379N554308
1969	Chevy Camaro	124379N657861

1	1969	Chevy Camaro	124379N597297
2	1969	Chevy Camaro	124379N644001
3	1970	Chevy Malibu	136370K188184
4	1970	Chevy Chevelle	136370R207985
5	1970	Chevy Chevelle	136670B111501
6	1970	Plymouth Challenger	JH27G0B111111
7	1970	Plymouth Road Runner SuperBird	RM23UOA175667
8	1970	Plymouth Barracuda	BS27ROB212211
9	1995	Chevy Corvette	1G1YZ22J6S5800231
10	2002	Ford Thunderbird	1FAHP60A32Y118466
11	2002	Chevy 4C	1GCHK29U72Z173964
12	2004	Mercedes SL55	WDBSK74FX4F083626
13	2004	Audi	WAUML44E04N011639
14	2004	Acura TSX	JH4CL95864C044109
15	2005	Panoz Esperante	1P9PB79365B213020
16	2005	Ferrari F430	ZFFEW59A550142141
17	2005	Maserati	ZAMBB18AX50017770
18	2005	Chevy Corvette	1G1YY24U355106837
19	2005	Chevy Tahoe	1GNEK13T05J202776
20	2007	Chevy Tahoe	1GNFK13087R101967

21 The Receiver has secured and insured these vehicles as appropriate. Despite the
22 fact that these vehicles were predominantly purchased with funds from the Entities in
23 Receivership, virtually all vehicle titles are held in the name of Defendant or jointly in the
24 name of Defendant and his spouse. The Receiver and his counsel were working with
25 Defendant to have title to all of the vehicles transferred to the Receiver, but the Defendant
26 has refused. The Receiver believes that the link between the Private Investors' funds and
27 the purchasing of the vehicles is clear. Furthermore, Defendant has represented that the
collector cars are assets of "PPPS partnership." The Receiver will seek the assistance of
the Court concerning titles.

Currently, the vehicles are being maintained by the Receiver's professional, Mr.
Mike Eshaia. Mr. Eshaia has over 20 years experience working with classic cars and has

1 created a comprehensive maintenance plan to ensure that the value of each vehicle is
2 maximized. As part of his plan, Mr. Eshaia has evaluated the storage facility, installed
3 new batteries as necessary, prepped the vehicles for storage and continues with an ongoing
4 maintenance schedule.

5 Due to the unique status of these vehicles, the Receiver has not assigned a value on
6 each. The value of each vehicle can vary widely depending on demand, vehicle lineage,
7 market fluctuations, distribution channel and a myriad of other factors. However, the
8 Receiver has communicated with the classic car auction houses of Bonham and Butterfield
9 and Mecum regarding the value of these vehicles. Bonham and Butterfield provided the
10 Receiver with a range of approximately \$4.5 million to \$6.5 million. Mecum provided the
11 Receiver with a range of \$4 million to \$6 million.

12 These estimates provided by experts in auto sales gives the Receiver a base line as
13 to the value of the vehicles. It should be noted, however, that these values are far less than
14 the values upon which Defendant relies in his purported appraisal in the Summer of 2006.
15 The purported appraisal that Defendant produced lists the vehicle values at approximately
16 \$14 million. This estimate was allegedly completed for Defendant by Mr. Hayes. During
17 his SEC's deposition, Mr. Hayes admitted that his skill and knowledge rests in the
18 valuation of antique furniture and not cars and that virtually all of the information and
19 values of vehicles contained in his report were derived directly from information provided
20 by Defendant.

21 Receiver had also been provided with an estimate by Oswego Luxury, who, as
22 solicited by Defendant, has sent Receiver a proposal to sell the automobiles. Curiously,
23 the Oswego Luxury proposal spends the first 10 pages of the proposal in analysis and
24 opinion of the receivership, its status, and opinions regarding everything from the goals of
25 the parties in the litigation to assumptions on methods of liquidation that would be used by
26 the estate although no liquidation proposal has been submitted. Examples of these
27 extraneous interjections include a statement indicating that usual methods of liquidation of

1 these vehicles including via auction “will likely diminish the value of each car and result in
2 recovery of only a fraction of the Beneficiaries’ total investment” when the vast majority
3 of record setting prices in these vehicles is set at specialized auctions.

4 In addition, the proposal states that “the Collection has been without meaningful,
5 continuous maintenance for approximately six months.” This statement is false. The
6 Receiver hired a knowledgeable, experienced professional who has been performing
7 regularly scheduled maintenance on the collection.

8 As part of the proposal, Oswego Luxury estimates the value of the vehicles to be in
9 excess of \$15 million. Again, this estimate is based upon the appraisal by Mr. Hayes and
10 the information provided by Defendant. Given that Mr. Hayes has no appraisal experience
11 in this type of personal property and admitted to the Receiver that he had no background in
12 this area, the fact that Oswego Luxury claims knowledge in this area and adopts Mr. Hayes
13 values can not be reconciled.

14 According to the Oregon Secretary of State, Oswego Luxury has only been in
15 existence since October of 2006. Further, the proposal claims to need the assistance of
16 Defendant and the use of the real property where he resides. Defendant’s knowledge of the
17 industry is average for a collector of his type, but certainly not the knowledge of an expert
18 in this field. The need for the use of the property will result in a delay of liquidation of the
19 property if that becomes necessary. Given all of these issues, the Receiver has concerns
20 regarding whether the proposal by Oswego Luxury serves the best interests of the estate.

21 It must be noted that the value of these vehicles varies widely and is closely tied to
22 the scarcity of the vehicle, the condition of paperwork authenticating the vehicle, as well as
23 its original factory specifications. The estimates given to the Receiver are from parties
24 who have inspected the vehicles, while the estimate of Oswego Luxury Auto is without
25 inspection. In addition, a variety of reviews need to be accomplished to verify the
26 “authenticity” of each vehicle to sustain these values.
27

1 A more detailed description of these vehicles can be found in Exhibit B of
2 Receiver's Preliminary Report.

3 ii. Real Property

4 Defendant owns or has an ownership share in the following real property:

- 5 - Defendant's primary residence in West Linn, OR
- 6 - Defendant's mother's residence in King City, OR
- 7 - Defendant's interest in vacation home in Neskowin Beach, OR
- 8 - Defendant's interest in commercial property related to Veterinary
9 Clinic Properties, LLC.

10 iii. Personal Property

11 A complete inventory was done of all fixtures, equipment and
12 furniture located at the Defendant's home, museum and garages. A
13 complete description of all items inventoried can be found in Exhibit B of
14 Receiver's Preliminary Report.

15 iv. Business Interest

16 The Receiver has discovered various business interests that have
17 potential value to the receivership estate. Certain business interests include,
18 but are not limited to, the following:

- 19 - Groves Lake Oswego Veterinary Clinic, P.C.
- 20 - Forest Heights Veterinary Clinic, P.C.
- 21 - Village at Main Veterinary Hospital, P.C.
- 22 - Veterinary Clinic Properties, LLC
- 23 - Veterinary Management Company of Oregon, LLC
- 24 - Estates in Miniature, LLC

25 Currently, the value of these business interests are unknown, but are being
26 investigated by the Receiver.

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6. Dollhouse Ventures, LLC. Dollhouse Ventures appears was formed in order to sell dollhouse inventory from Dura-Craft, Inc. through online auctions. Dollhouse leases a warehouse in Tigard, Oregon which contains inventory and fixtures related to the sale of dollhouses. A complete inventory was included as part of Receiver’s Preliminary Report.
7. Crossed Flags Farm & Crossed Flags Farm, LLC. Cross Flag Farms appears was formed as the umbrella for Defendant’s automobile museum located on his residence property.

B. Entities and/or Parties Not Named in the TRO

1. Estates in Miniature, LLC. Serves as an agent in selling Dura-Craft brand dollhouses. Estates in Miniature may be a successor company to Dura-Craft and Dollhouse Ventures. Estates in Miniature has no assets other than those already listed in Dollhouse Ventures.
2. Wealth Strategies Corporation. Formed for specialized investment products, but never launched due to health problems of one of the principals. Wealth Strategies has no known assets.
3. Dura-Craft, Inc. Defendant sold this entity prior to entering into receivership. This entity is believed to be a predecessor to Estates in Miniature.
4. Veterinary Clinic Properties, LLC. Formed to hold real property in Lake Oswego where GLOVC, P.C. operates. The Defendant has a 50% ownership share.
5. Veterinary Management Company of Oregon, Inc. Formed to provide management-related services to veterinary clinics and provide collective buying power for veterinary supplies and products. Defendant has a 50% ownership share.

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6. GLOVC, PC. Formed as successor to Animal Hospital Management. Defendant owns a 36.95% share in GLOVC.
7. Animal Hospital Management, Inc. Predecessor to GLOVC. Defendant is listed as the President of the corporation.
8. Forest Heights Veterinary Clinic, PC. Provides veterinary services. Defendant owns a 39.99% share in this clinic.
9. Village at Main Veterinary Hospital, PC. Provides veterinary services. Defendant owns a 39.99% share in this clinic.
10. PPPS. PPPS is a “non-entity” from a legal standpoint having no evidence of corporate or other legal status. A detailed search of Oregon Secretary of State and all other state registries reveals that no corporation or limited or general partnership has been registered with the name "PPPS". (The Michigan Secretary of State records did reflect "PPPS" entities, but they and the parties appear unrelated to this matter.)

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

On September 21, 1998, Defendant established a bank account using the name, "PPPS, Inc." and the EIN xx-xxx8712. According to Defendant, deposits made into the account reflect "partnership" activity. The funds in this account are commingled with various other accounts and entities according to the forensic accountants' reports.

1 The same EIN was used in a purported "Corporate Resolution" for
2 Professional Practice Planning Services, Inc., an inactive predecessor to The
3 Rhodes Company.

4 In his interview with the Receiver, Defendant stated that collector
5 cars and memorabilia at his residence were assets of PPPS. However, in a
6 February, 2005, loan application to Umpqua Bank, Defendant identifies the
7 cars and memorabilia as assets of Crossed Flags Farm Museum, and refers
8 to them in a flyer attached to the loan application as "heirlooms to be passed
9 on to our children some fine day...".

10 Financial and Business Records of PPPS

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

- 13 ❑ Formation Documents – No formation documents are known to exist.
14 According to Defendant, no partnership agreement was ever drafted, no
15 meeting minutes were ever taken and no legal counsel had ever been
16 sought with regard to establishing the "partnership."
- 17 ❑ Income Tax Returns – Despite a distinct EIN for "PPPS, Inc." no federal
18 or state income tax returns appear to have been filed.
- 19 ❑ Financial Statements – No financial statements (i.e. balance statements)
20 were ever prepared for PPPS.
- 21 ❑ "Appraisal" – An "appraisal" of the collector cars and memorabilia that
22 Defendant asserts are the property of PPPS was purportedly completed
23 in August of 2006 at the direction of Defendant. The Receiver has
24 determined that the appraisal lacks credibility due to the lack of
25 credentials of the appraiser. However, no conclusion regarding
26 existence or valuation of assets has yet been completed. Moreover, the
27 titles to the collector cars Defendant asserts are held by PPPS and

1 contained in the appraisal indicate Defendant's name on their respective
2 titles rather than any entity name.

3 The total amount of investment funds received by Defendant or
4 the value of assets paid for with investor funds is difficult to ascertain
5 given the absence of even basic documentation of these transactions.
6 The Receiver has undertaken the difficult and costly task of recreating
7 records documenting the financial condition of PPPS. The Receiver
8 continues his investigation and analysis and will provide updates on
9 these issues as appropriate.

10 **V. RECEIVER'S ACTIVITIES TO DATE**

11 **A. Security**

12 Immediately upon the Receiver's appointment in this matter, the Receiver secured the
13 offices at each of the Companies and secured the museum and garage at the Defendant's
14 residence. The locks were changed at each location and a security system with video feed was
15 installed at the museum and garage at the Defendant's residence in order to protect the assets that
16 the building contained. New keys and all alarm codes are controlled by the Receiver.

17 For the purpose of safeguarding computer memory devices, the Receiver's staff, along
18 with the Receiver's computer consultants, NTI, Inc., secured all computers and took steps to
19 prevent the computers from being accessed from outside the Companies' offices.

20 **B. Office Closures/Staff Reductions**

21 On the appointment date, the Receiver initiated a review of the staff positions and the
22 current organization and financial positions of the Companies. At the time the Receiver took over,
23 there were three employees and one undocumented worker at the Rhodes Econometrics office and
24 one undocumented worker at the Dollhouse Ventures warehouse. Based upon Receiver's
25 interviews with employees, as well as review of the Companies' financial position, the Receiver
26 promptly determined that all position within the Companies should be eliminated. This decision
27 was made in large part because the Companies only had nominal cash assets and revenue and the

1 Companies could not legally afford to pay employees. Moreover, as reflected in this report, there
2 were no actual business operations that required the immediate attention of employees.

3 C. Professionals Employed by Receiver

4 The Receiver has engaged the following qualified professionals to assist him and his staff
5 in furtherance of his receivership duties:

6 **Farleigh Witt** was employed as general counsel for the Receiver. Since the appointment
7 date, Farleigh Witt has assisted with: (i) appearances and representation of the Receiver in all
8 hearings; (ii) representing the estate's interests; (iii) interviewing interested parties and deposing
9 interested parties; (iv) assisting the Receiver's forensic accountant in obtaining sufficient records
10 to provide the required accounting, including the issuance of over 55 subpoenas and other
11 informal methods to obtain over 7,400 pages of financial information; (v) working extensively
12 with the SEC and the United States Attorney to coordinate the activities of the Receiver with those
13 of the various law enforcement agencies; (vi) obtaining documents from Defendant and
14 professionals and commencing an extensive review and analysis of same; (vii) defending the
15 Receiver against a motion for turnover of funds; (viii) investigating potential claims and causes of
16 action held by the Entities in Receivership against third parties; (ix) providing general advice to
17 the Receiver regarding his rights, powers and duties under the Court's Orders and general equity
18 receivership law; (x) assisting the Receiver in preparation of this and previous report; (xi) assisting
19 in collection and dissemination of case documents; (xii) assisting other professionals in connection
20 with this matter; (xiii) assisting the Receiver in coordinating the turning over of assets in the
21 possession of Defendant and third parties; and (xiv) assisting with contract review, lease and real
22 estate issues.

23 **Allen Matkins Leck Gamble & Mallory LLP** was employed as special receivership
24 counsel based upon its experience as counsel in SEC receiverships. Since the appointment date,
25 Allen Matkins has assisted the Receiver in fulfilling his duties under the Order, including but not
26 limited to: (i) appearing at initial hearing in the SEC case; (ii) representing the estate's interest;
27 (iii) interviewing interested parties including current and former employees; (v) advising the

1 Receiver and general counsel regarding SEC receivership issues in the case; (vi) obtaining
2 documents from third parties and professionals and commencing review and analysis of the same;
3 (vii) investigating potential claims and causes of actions held by the Companies and their affiliates
4 against third parties; (x) assisting Receiver in preparation of this and previous reports; and (xii)
5 assisting other professionals in connection with this matter.

6 **Financial Forensics** was employed as forensic accountants and financial consultants to the
7 Receiver. Since the appointment date, assistance has included: (i) communications with financial
8 institutions to secure pertinent accounts; (ii) review and analysis of over 500,000 physical and
9 electronic records; (iii) interviews and depositions of third parties possessing data pertinent to
10 operations of receivership entities; (iv) coordination with government bodies regarding activities
11 and accounting for receivership entities; (v) assisting with subpoenas and other requests of large
12 amounts of financial records from multiple financial institutions; (vi) massive reconstruction of
13 financial records; (vii) complete forensic analysis of Defendants' financial activities; (viii)
14 investigation of alleged fraudulent activities; (ix) transaction and asset tracing; (x) analysis of
15 Defendants' financial position and results; (xi) preparation of information for Forensic
16 Accountants' Report; and (xii) other accounting and financial support to the Receiver and his
17 counsel.

18 **Moss Adams** was employed as accountants to the Receiver. Since the appointment date,
19 assistance has included: (i) assistance in preparing tax returns; (ii) advice on employment tax
20 matters; and (iii) other accounting support to the Receiver and his counsel.

21 **James A. Murphy Company** was employed to (i) assist Receiver in providing secure
22 storage of assets; (ii) assist in providing a full inventory of all assets, (iii) provide valuation
23 service; and (iv) provide assistance with disposition strategies.

24 **NTI, Inc.** ("NTI") was employed as computer consultants. NTI's task focused on
25 preservation and recovery of the Defendants' electronic data. NTI took action to freeze the
26 electronic data contained in the servers, personal computers, laptops and PDAs. In addition, NTI
27 downloaded all electronic information to create electronic backup of all files and email servers.

1 **Mike Eshaia** was employed to conduct maintenance on the vehicles located at the
2 Defendant's residence. Mr. Eshaia has created a vehicle maintenance schedule and has been
3 actively performing maintenance on the vehicles to ensure maximum value to the Receivership.

4 D. Initial Investigation and Steps Taken to Obtain Possession of Assets.

5 1. General.

6 The Receiver, with the assistance of his team of professionals, has taken possession and
7 control of known assets of the companies and the vehicles listed in the Court's Order; investigated
8 and analyzed the operations of the companies; analyzed and evaluated the assets held by the
9 companies; and commenced an investigation into the value of claims against third parties.

10 The Receiver has taken physical custody of all known personal property assets and records
11 other than certain files in the possession of governmental agencies, outside attorneys and
12 accountants, and all property exempted by this Court's Order. The Receiver has also downloaded
13 the Companies' electronic systems and records. The Receiver has contacted banks and others
14 holding funds on behalf of the companies and has either frozen those funds or obtained turnover of
15 them.

16 The Receiver has taken inventory of the physical assets of the Companies, which inventory
17 was filed with this Court as Exhibit A of Receiver's Preliminary Report. As part of that work, the
18 Receiver consulted with present and former staff and outside governmental agencies such as the
19 SEC, the United States Attorney, the Oregon Division of Finance and Corporate Securities, and
20 the Postal Service Inspector, concerning the location and identification of the Companies' assets.

21 The Receiver has met and talked to:

- 22 o Counsel for the SEC;
- 23 o Counsel and investigators for Oregon Division of Finance & Corporate
24 Securities;
- 25 o Counsel at the United States Attorney;
- 26 o Counsel, agents and representatives of the United States Postal Service and
27 Internal Revenue Service;

- 1 o Former counsel for the Companies;
- 2 o Former employees of the Companies;
- 3 o Former consultants to the Companies;
- 4 o Certain of the Companies' investors;
- 5 o Counsel for certain of the investors; and
- 6 o Numerous financial institutions.

7 Upon appointment, the Receiver was provided with a list of all bank accounts of the estate
8 as identified during the SEC's initial investigation. The Receiver also developed additional leads
9 to other accounts. The Receiver immediately contacted all financial institutions that maintain
10 accounts with Defendants and verified the status of these accounts. As appropriate, the Receiver
11 requested that remaining funds be transferred to the Receiver's designated bank accounts.
12 Simultaneously, the Receiver provided these institutions with identities of all Defendants' named
13 in the Order and requested that searches be conducted for all accounts belonging to those parties.
14 During the course of the Receiver's investigation, the Receiver also identified new bank accounts,
15 assets and entities with the assistance of Receiver's professional team.

16 2. Recovery of Physical Assets.

17 As identified in Section VI below, much of the Receiver's initial work has been spent in
18 the area of asset recovery and preservation. The physical assets of the Defendants include all
19 furniture, equipment, inventory, memorabilia, vehicles, land and buildings. The assets were
20 identified based on Receiver's physical inspection of various company facilities and the review of
21 information developed by outside professionals and sources. Receiver details these assets in
22 Section VI below.

23 It should be noted that certain equipment and automobiles in the Receiver's possession are
24 encumbered by liens of third parties. The Receiver is reviewing these assets to determine whether
25 the receivership estate has any equity interest in these assets.

26
27

1 In addition to the physical property, Receiver has also identified various other intangible
2 assets including, but not limited to, equity interests in several other businesses. At present, the
3 Receiver has not ascertained what, if any, value may be attributed to these assets.

4 3. Litigation Pending Against The Receivership

5 The only litigation faced by the estate to date, as it applies to this case, is related to a
6 motion to direct payment of alleged traceable funds to specific investors. The Motion to Order
7 Distribution was heard by this Court and denied. There is no other litigation currently pending
8 against the estate.

9 **VI. ASSETS IDENTIFICATION, RECOVERY & PROTECTION**

10 A. Bank & Investment Accounts

11 As instructed by this Court, the Receiver has moved quickly to secure the bank accounts
12 held by Defendants. The Receiver assured that over 35 bank and investment accounts held by
13 various institutions, totaling nearly \$2.8 million, were frozen and accounted for, obtained custody
14 of such funds as appropriate, and deposited them in interest bearing money market accounts. The
15 accounts seized are as follows:

- 16 ➤ Bank of America XXXX XXXX XXXX X106
- 17 ➤ Bank of America XXXX XXXX X764
- 18 ➤ Bank of America XXXX XXXX X719
- 19 ➤ Bank of America XXXX XXXX X633
- 20 ➤ Bank of America XXXX XXXX XXXX X907
- 21 ➤ The Bank of New York XXXX-XXXX209
- 22 ➤ Charles Schwab & Co. XXXXX348
- 23 ➤ Charles Schwab & Co. XXXXX098
- 24 ➤ Charles Schwab & Co. XXXXX350
- 25 ➤ Charles Schwab & Co. XXXXX108
- 26 ➤ Charles Schwab & Co. XXXXX280
- 27 ➤ Charles Schwab & Co. XXXXX529

- 1 ➤ Fidelity Investments XXX-XXX920
- 2 ➤ TD Ameritrade XXX-XXX805
- 3 ➤ TD Ameritrade XXX-XXX161
- 4 ➤ TD Ameritrade XXX-XXX164
- 5 ➤ TD Ameritrade XXX-XXX172
- 6 ➤ TD Ameritrade XXX-XXX777
- 7 ➤ TD Ameritrade XXX-XXX850
- 8 ➤ TD Ameritrade XXX-XXX258
- 9 ➤ TD Ameritrade XXX-XXX894
- 10 ➤ Umpqua Bank XXX045
- 11 ➤ Umpqua Bank XXX535
- 12 ➤ Umpqua Bank XXX070
- 13 ➤ Umpqua Bank XXX770
- 14 ➤ Umpqua Bank XX-XXX178
- 15 ➤ Umpqua Bank XXXXX485
- 16 ➤ Umpqua Bank XXXXX668
- 17 ➤ U.S. Bank X XXX XXXX X546
- 18 ➤ U.S. Bank XXXX XXXX XXXX X036
- 19 ➤ U.S. Bank X XXX XXXX X141
- 20 ➤ U.S. Bank X XXX XXXX X802
- 21 ➤ U.S. Bank X XXX XXXX X016
- 22 ➤ U.S. Bank X XXX XXXX X036
- 23 ➤ U.S. Bank X XXX XXXX X076
- 24 ➤ U.S. Bank X XXX XXXX X044
- 25 ➤ U.S. Bank X XXX XXXX X293
- 26 ➤ U.S. Bank X XXX XXXX X752
- 27 ➤ U.S. Bank X XXX XXXX X200

- 1 ➤ Washington Mutual XXX XXX X200
- 2 ➤ Washington Mutual XXX XXX X110
- 3 ➤ Wells Fargo XXX-XXXX240
- 4 ➤ Wells Fargo XXX-XXXX048
- 5 ➤ West Coast Bank XXXXXX407

6 The Receiver continues to investigate other potential receivership accounts that have been
7 located during discovery and the financial analysis of the receivership estate.

8 B. Vehicles & Memorabilia

9 In accordance with this Court’s Order, the Receiver has taken possession of 28 vehicles
10 that are titled in the name of Defendant or Defendant and his spouse, as well as numerous pieces
11 of memorabilia located in the museum⁴. The Receiver has stored the vehicles in the museum and
12 separate garage for their safekeeping. As part of securing these assets, the Receiver had the locks
13 changed and an alarm system installed that includes video surveillance. As part of the protection
14 of these valuable assets, the Receiver had the buildings evaluated for suitability of storage and
15 arranged to have vehicle maintenance performed on a regular basis per the maintenance schedule
16 provided by Mike Eshaia. The Receiver has insured the vehicles through Grundy Worldwide, Inc.

17 C. Office Equipment and Furniture

18 As part of the Receiver’s duties, the Receiver decided to close Defendant’s business
19 located at 4949 Meadows Road in Lake Oswego, Oregon. After closing the business, the Receiver
20 caused the office equipment and furniture to be inventoried and transferred to storage by James G.
21 Murphy. All office equipment and furniture recovered to date is insured.

22 **VII. CLAIMS AGAINST THIRD PARTIES**

23 Receiver has commenced an investigation into culpability of third parties and the value of
24 claims against them. Due to the complex nature and the ongoing discovery in this case, the
25 Receiver is unable to determine a value for these claims at this time.
26

27

⁴ A complete list of vehicles and memorabilia can be found as Exhibit “B” of Receiver’s Preliminary Report.

1 **VIII. CURRENT FINANCIAL POSITION OF THE ESTATE**

2 The Current Financial Position of the Estate section details the existing assets and
3 liabilities of the Estate as well as the cash receipts and disbursements of the Estate since
4 appointment of the Receiver. The information is encapsulated within the Summary of Financial
5 Position and the Summary of Cash Receipts and Disbursements schedules in the Financial
6 Accountants' Report.

7
8 These schedules attempt to capture all financial activity of the receivership through the
9 date of this report; henceforth, the cut-off date for information approximates the report date.
10 There are some exceptions to this statement as cut-off dates had to be chosen for certain accounts
11 in order to facilitate completion of the report. For example, the cash balance and the receipt and
12 disbursement activity are reported as of March 9, 2007. If there was not a report cut-off date for
13 the cash activity, we would be continuously updating the report through publication to account for
14 the subsequent receipts and disbursements.

15
16 *These statements do not reflect administrative liabilities owed to the receivership*
17 *professionals or pre-receivership unsecured and contingent unliquidated claims.*

18 A. Summary of Financial Position

19 Exhibit C of the Financial Accountants' Report details the assets and related
20 liabilities of the Estate as of the report date.

21 Cash Balance – As previously stated, this is the current balance of all Estate
22 cash accounts under control of the Receiver. This includes amounts transferred to
23 the Receiver from frozen bank and investment accounts.

24 Fixtures and Equipment – The Receiver has taken possession of all fixtures
25 and equipment that were onsite at the Rhodes Econometrics' office. These assets
26 are not presented on the Balance Sheet of the Financial Accountants' Report as
27

1 preliminary values have not been derived yet. For a complete inventory of all fixed
2 assets from the Rhodes Econometrics' office and Defendant's personal residence,
3 please refer to Exhibit B of the Preliminary Report of Receiver dated October 25,
4 2006.

5
6 Vehicles – The Receiver and his representatives have identified numerous
7 collector cars and other vehicles in association with this receivership. The Receiver
8 has secured and insured these assets as appropriate. Refer to Exhibit B of the
9 Preliminary Report of Receiver dated October 25, 2006 for a complete list of the
10 vehicles.

11
12 Despite the fact that these vehicles were predominately purchased with
13 funds from The Rhodes Entities, virtually all vehicle titles are held in the name of
14 C. Wesley Rhodes Jr. or jointly in the names of C. Wesley Rhodes, Jr. and Anne
15 Rhodes. The Receiver and his counsel are seeking full release of all vehicles due to
16 the ultimate source of funds used for purchase. Furthermore, Mr. Rhodes has
17 represented that the collector cars are assets of the PPPS partnership.

18
19 Due to the unique luxury and/or collector status of these vehicles, the
20 Receiver has not assigned a value on each. The value of each vehicle can vary
21 widely depending on demand, vehicle lineage, market fluctuations, distribution
22 channel and myriad of other factors. However, the Receiver has communicated
23 with multiple experts regarding liquidation of the car collection and has received
24 value estimates ranging from \$4 million to \$6.5 million for the entire lot.

25 Contingent Assets - The Receiver has identified various items, including
26 real property, investments in various business operations and potential actions
27 against third parties, that are best identified as Contingent Assets that although

1 potentially representing a source of funds to the Estate though they are presently
2 sufficiently undefined to warrant the designation of contingent. Certain business
3 interests include, but are not limited to, the following:

- 4 ▪ Groves Lake Oswego Veterinary Clinic, P.C.
- 5 ▪ Forest Heights Veterinary Clinic, P.C.
- 6 ▪ Village at Main Veterinary Hospital, P.C.
- 7 ▪ Veterinary Clinic Properties, LLC
- 8 ▪ Veterinary Management Company of Oregon, LLC
- 9 ▪ Estates in Miniature, LLC

10 Certain real properties include, but are not limited to, the following:

- 11 ▪ Rhodes personal residence – West Linn, Oregon
- 12 ▪ Residence – King City, Oregon
- 13 ▪ Interest in Beach Home – Neskowin Beach, Oregon

14 **B. Summary of Cash Receipts and Disbursements**

15 Exhibit D of the Financial Accountants' Report summarizes the cash
16 receipts and disbursements of the Estate subsequent to the Receiver's appointment.
17 The schedule is presented on a cash basis with no accrual for future revenues or
18 expenditures.

19 Balances Transferred from Frozen Accounts – When the Court issued the
20 Temporary Restraining Order, the SEC and Receiver Team contacted all known
21 financial institutions of The Rhodes Entities and notified them to freeze all bank
22 and investment accounts in accordance with the Order.

23 Collection of Receivables – The Receiver has collected amounts owing to
24 The Rhodes Company and Rhodes Econometrics for advisory fees.
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- Loans – The Receiver is managing monies for Estates in Miniature as there is confidence that the receivership has an equity interest in the entity. Another party may also have interest in this entity and has agreed to loan the entity money in order to liquidate the remaining inventory.
- Copying and Reproduction – Significant expenses have been incurred to copy records from the Rhodes Econometrics office. Additionally, various financial institutions have charged the receivership for production of documents.
- Payroll and Payroll Taxes – Upon appointment, the Receiver temporarily retained a couple of employees of The Rhodes Entities. The Receiver paid payroll for these persons as well as prior payroll taxes due for The Rhodes Company and Rhodes Econometrics.
- Insurance – The Receiver obtained insurance policies on key assets, including but not limited to, the automobiles.
- Rent and Utilities – The Receiver paid the office rent and related utilities for Rhodes Econometrics to facilitate review of documents and records onsite prior to shipping to storage. Subsequently, the Receiver has paid for the storage of various assets and records of the entities.
- Security – The Receiver invested in a security system and related monitoring services to secure the automobiles subject to this receivership.
- Other Expenditures – The Receiver has accrued and paid other expenditures during the course of administration of the Estate. The Receiver also employed the services of legal counsel and other professional service firms to assist with the administration of the Estate. These expenses have not yet been accrued or paid by the Estate.

1 **IX. RECEIVERSHIP FINDINGS**

2 The current significant findings and conclusions are as follows:

- 3 □ There is evidence of a significant number of investments with Defendant outside of
4 the context of Rhodes Econometrics or the Rhodes Company. Despite the
5 Defendants’ attempts to conceal said information, the Receiver has located and
6 analyzed a trove of records pertaining to these “private fund” investments.
- 7 □ There is evidence that Defendant received investor funds outside the context of
8 Rhodes Econometrics and the Rhodes Company as early as the late 1980s.
- 9 □ The failure of Defendant to provide basic “private fund” investor information has
10 slowed the Receiver in making findings regarding the total amounts invested with
11 Defendant and/or the Entities in Receivership. Regardless of this critical
12 impediment, the Receiver’s Team’s pursuit of alternative data sources has provided
13 sufficient data for preliminary estimates of these amounts. Based upon the
14 discovery to date, it is the Receiver’s opinion that total assets under the control of
15 the Receiver are not sufficient to satisfy potential investor/creditor claims.
- 16 □ A significant portion of the “private fund” investor funds appears to have gone into
17 the purchase, rehabilitation and resale of classic cars, as well as the purchase of a
18 substantial quantity of sports, music and pop culture memorabilia. The Receiver is
19 currently seeking possession these assets from the Defendant.
- 20 □ The Receiver has identified at least 22 entities that appear to be subsidiaries or
21 affiliates of the Entities in Receivership. There was significant commingling of
22 funds between the various Entities in Receivership. As such, the Receiver is in the
23 process of analyzing and pursuing recovery from all beneficiaries of “private fund”
24 investor funds.
- 25 □ The Receiver's investigation has been hampered by misleading or false information
26 provided by Defendant throughout the duration of this receivership. There is
27 evidence that Mr. Rhodes has continued to reach out to investors and other parties,

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providing them with false information regarding their investments or other aspects of the receivership.

- Throughout the duration of this receivership, the Defendant has continuously denied the Receiver access to critical data, failed to produce data in a timely manner, and perchance carried out a multitude of deeds in violation of the Court’s Orders. These efforts of the Defendant have resulted in inefficiencies, additional time and expenditure of additional resources, both for the Receiver and the Receiver’s Team in completion of their respective tasks.
 - At the appointment of the Receiver, The Entities in Receivership possessed \$2,743,684 in cash and investment accounts.
 - The Entities in Receivership received over \$27,335,000 of “private fund” investor deposits during the period of this accounting.
 - Over \$5,446,000 was expended from The Entities in Receivership for the personal use of Defendant and/or his family during the period of this accounting.
- In preparing The Entities in Receivership’s accounting, 167 vehicle-related disbursements have been identified, totaling \$3,285,074.
- Nominal, if any, meaningful financial records were available for The Entities in Receivership.
 - Accounting records were only available for two of The Entities in Receivership, and those were incomplete and erroneous.
 - No financial records were provided for three of Entities in Receivership, including the entity predominately handling the “private fund” investor monies.
 - Defendant was remiss with respect to keeping even primitive financial records for most entities included in this accounting. Defendant’s conduct reveals that he either

1 failed to preserve even primitive records for various investors, or that he has not
2 produced such records.

- 3 □ Receipts and funds flow have been indiscriminately commingled among the
4 various Rhodes Entities.
- 5 □ Throughout the period of this accounting, the net amount due from the Entities in
6 Receivership to “private fund” investors dwarfed the actual amount that the Entities
7 in Receivership held in cash and investment accounts.
- 8 □ Our investigation of The Entities in Receivership has revealed indicia of a Ponzi
9 Scheme including, but not limited to: initial investors are paid with subsequent
10 investors’ money, masquerading as some type of investment, unrealistic returns,
11 and payoffs are made from the pool of investor funds while the remainder is
12 siphoned into operators’ pockets.

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15 Despite being served with this Court’s Order, Defendant has repeatedly hampered
16 the efforts of the Receiver and his team to carry out his duties, in apparent violation of this
17 Court’s Orders. Some examples include:

- 18 ▶ On September 26, 2006, Defendant signed a notarized a document surrendering any
19 interest he had in Dollhouse Ventures, LLC to its other member, clearly in violation of
20 the TRO.
- 21 ▶ On September 26, 2006, Defendant signed a notarized document assigning his interest
22 in certain real property to Dr. Douglas Gribskov, in direct violation of this Court’s
23 Temporary Restraining Order.
- 24 ▶ On September 26, 2006, Defendant actively removed his names from various bank
25 accounts and assisted Mrs. Rhodes in withdrawing funds from accounts in which he
26 had an interest. For example, Defendant disclosed an additional bank account to the
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1 Court on September 29, 2006. However, prior to disclosure of this account, Defendant
2 removed himself as a signer on the account. On September 28, 2006, one day before
3 the account was disclosed, Mrs. Rhodes withdrew \$74,068.31 from the account
4 (\$69,068.31 cashier's check payable to Anne Rhodes and \$5,000 in cash). The
5 remaining balance of \$3,843.95 was transferred to the Rhodes' checking account on
6 October 2, 2006. This removal of the Defendant's interest and actions regarding
7 direction of asset transfers was in direct violation of this Court's Temporary
8 Restraining Order.

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- 10 ➤ Defendant worked from his home nearly 100% of the time during the last year before
11 the TRO. He claimed that he had no computer at his home which he used in his work.
12 The email evidence of usage was incontrovertible, thus he eventually identified and
13 submitted 1 laptop for mirror imaging.
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15 **X. OVERVIEW OF RECEIVERSHIP WORK TO BE PERFORMED AND**
16 **RECOMMENDATIONS**

17 At present, the Receiver recommends the following further activities:

- 18 ○ Investigation and Analysis of Claims Against Third Parties. The Receiver
19 recommends a continued investigation and analysis of claims for recovery of assets
20 from third parties. There appear to be assets in the hands of third parties that may
21 have substantial value to the estate or that were based on little or no consideration.
22 It is appropriate to continue to pursue such claims for recovery of assets.
- 23 ○ Sale of Fixed Assets. The Receiver has recovered office equipment and furniture
24 which will depreciate in value over time. The Receiver proposes to commence an
25 auction to liquidate these assets in order to maximize value to the estate.
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- 1 ○ Analysis of the Accounts Receivable. Although the Receiver has collected the
2 majority of the outstanding custodial account management fees of Rhodes
3 Econometrics, approximately \$9,000 remains uncollected.
- 4 ○ Asset Recovery. The Receiver believes there may be additional assets to recover,
5 including interests in partnerships, additional bank accounts, or other property
6 belonging to the receivership estate.
- 7 ○ Refinement of Accounting. Although the Receiver has attached a copy of the
8 Forensic Accountants' Report to his report as Exhibit A, this report may be
9 supplemented as more bank records become available or as more assets are located.
- 10 ○ Claims Period. The Receiver believes that it is important to proceed with
11 introducing a claims filing period in order to ascertain the true amount of harm to
12 investors. Receiver intends to submit a motion to seek approval of a claims process
13 in the near future.
- 14 ○ Sale of Vehicles. The Receiver believes that a timely and proper sale of the
15 vehicles in this case is important. These vehicles were purported by the Defendant
16 to have been purchased using investor money and for their benefit, but the titles
17 were not held in the name of any of the business entities. Despite that, the Receiver
18 believes that these vehicles belong to the estate and is working with Defendants'
19 counsel to procure the release of the vehicles to ensure that their value is
20 maximized. Of particular importance is the sale of the five newer model cars in the
21 collection because these cars continue to depreciate in value on an almost daily
22 basis. These five cars are the 2005 Maserati, 2005 Ferrari, 2005 Panoz, 2005
23 Chevy Corvette, 2004 Mercedes and the 2005 Ford Thunderbird. These cars are
24 currently surplus to the Defendant's needs.

25 The Receiver is currently investigating the most appropriate method of
26 selling the vehicles. As part of his investigation, the Receiver is considering the
27 possibility of selling the cars individually or in an auction format. The Receiver has

1 contacted Bonham and Butterfield and Mecum auction houses about the sale of the
2 automobiles and both have looked at the auto collection and have prepared sales
3 proposals for the Receiver.

4 Prior to selling the vehicles, the Receiver intends to have the vehicles
5 inspected for authenticity as it will have a significant impact in the method of sale
6 and valuation. The Receiver has been approached by qualified individuals who
7 wish to assist the investors by completing the verification of authenticity without
8 any remuneration.

- 9 ○ Discovery of Misappropriated Funds. The Receiver feels that it is important to
10 continue to pursue purchases, gifts and miscellaneous expenses that were made
11 using investor funds. The Receiver believes, to the extent that funds still remain,
12 that these funds belong to the estate and that the Receiver should pursue turnover.
- 13 ○ Dollhouse Ventures Marketing. Currently, the Receiver is working with the other
14 partner of Dollhouse Ventures to liquidate the inventory held at its Tualatin
15 warehouse.

16 **XI. CONCLUSION**

17 This Second Report of Receiver reflects the Receiver's work and conclusions as of this
18 date. As indicated above, the findings reflected in this report are based on the information that has
19 been discovered to date and are subject to clarification, expansion or change pending additional
20 work by the Receiver and his team.

21 Respectfully submitted this 30th day of March, 2007.

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23 _____
24 Michael A. Grassmueck, Receiver