

Procedural and Factual Background

1. On October 2, 2008, the U.S. Securities and Exchange Commission (“SEC”) filed an application for a temporary restraining order and other equitable relief, alleging that Jonathan W. Mikula (“Mikula”), John B. Craddock (“Craddock”), JW&P Consulting, LLC, (“JW&P”) and Nations Warranty Group, Inc. (“Nations Warranty”) fraudulently raised approximately \$2.8 million from investors through sales of unregistered securities in the form of promissory notes.
2. On the same day, this Court granted that application and entered an Order freezing assets, prohibiting the destruction of documents, and granting other relief (the *Order*).
3. In the October 2, 2008 Order imposing a temporary restraining order, the Court appointed Pat Huddleston II, of The Huddleston Law Firm, as Receiver.
4. On October 9, 2008, the defendants consented to the entry of preliminary injunctions, continuing the assets freeze and the receivership as to the named defendants and carving out of the receivership certain businesses that Mikula and Craddock operated from the same business premises as JW&P and Nations Warranty, and carving out of the asset freeze certain amounts for attorney’s fees and living expenses.

5. At approximately 8:30 p.m. on October 2, 2008, the Receiver arrived at the JW&P and Nations Warranty offices (hereafter referred to, for the sake of brevity, simply as the “Nations Warranty office”) to take control of the premises and begin his work.

6. The Receiver served copies of the *Order* on those he found there (including Craddock), briefly interviewed some of the employees, secured the keys to the premises, locked up, and returned the following morning with members of his team to begin work.

7. The Receiver found six other businesses operating from the two-story office condominium that houses the Nations Warranty office. In addition to Nations Warranty and JW&P, businesses called Emergency Alert Network, Peach State Credit Solutions, Belltower Productions, JW&P Financial, JW&P Marketplace, and Innovative Pet Products were operating from those offices.

8. The Receiver’s team served copies of the *Order* on all employees and met with them to explain the Receiver’s assignment.

9. The Receiver’s team, including his information technology expert, worked to secure and copy all of the computer files of the receivership companies.

10. The Receiver continued serving copies of the *Order* on persons and companies as his team's investigation revealed any possibility that those persons or companies might have assets of the receivership estate.

11. The Receiver filed notice of his appointment in 14 judicial districts (including districts in Georgia, Texas, Florida, California, and Illinois) within 10 days of his appointment pursuant to 28 U.S.C. § 754, to facilitate possible actions against third parties located in those districts.

12. On May 27, 2009 the SEC filed the Consent of Defendants JW&P Consulting and Nations Warranty Group to permanent injunctions. On June 1, 2009 the Court entered an Order of permanent injunction against Nations Warranty and JW&P Consulting.

13. On September 2, 2009, Mikula consented to a judgment of permanent injunction which requires him to pay \$165,417.33 in disgorgement, plus prejudgment interest, to the receivership.

The Nations Warranty Business

14. Nations Warranty sold warranties on used automobiles. Through those warranties, consumers were able to secure coverage on their cars and trucks after the manufacturer's warranty expired.

15. The Receiver assessed Nations Warranty's business operations and the other receivership assets.

16. Had the Receiver closed Nations Warranty immediately, there would have been insufficient assets to fund a distribution to aggrieved noteholders.

17. The Receiver, therefore, considered continuing operations at Nations Warranty with a view toward generating assets for ultimate return to noteholders.

18. Based upon numbers in the Nations Warranty's Quickbook files and after interviewing those most knowledgeable about the company's sales and cancellation trends, the Receiver chose to continue operations with a view to making the company profitable by drastically reducing the company's operating expenses.

19. The Receiver quickly reduced Nations Warranty's monthly fixed overhead expense from \$58,080 to \$29,241.

20. The Receiver monitored sales and cancellations carefully. By terminating ten sales employees and keeping only the best performing sales agents, the Receiver was able to increase sales substantially over the year earlier numbers. Unfortunately the rate of cancellations overwhelmed even the improved sales and starved the company of operating cash.

21. The Receiver closed Nations Warranty on February 9, 2009. Because JW&P appeared to have no business apart from selling notes, the Receiver did not operate JW&P beyond the date of the temporary restraining order.

22. The Receiver vacated the office space and moved the furniture and equipment to a storage facility in preparation for selling it.

The Notes

23. The Receiver's investigation revealed that, before January 2008, the defendants investigated how to fund bigger and more frequent mailings to generate sales calls.

24. The defendants hired a securities attorney who advised them that they could sell promissory notes without registration as long as those notes had a maturity of less than nine months.

25. With that advice in hand, JW&P, as consultant to Nations Warranty, created two types of promissory notes – standard notes and premier notes.

26. Standard notes matured in 100 days and promised interest of between three percent and five percent per month.

27. Premier notes matured in 220 days and promised interest of between three and five percent per month.

28. JW&P relied upon a network of commissioned salespeople to sell the notes.

29. People who sold the notes had one of three titles – Referrer, Account Manager, or District Manager. Each class of sales person received a different level of commission on sales of the notes.

30. Before the SEC filed this action Nations Warranty was cash flow negative. The company was not in a position to pay the principal amounts on the notes as they came due. The defendants therefore encouraged noteholders to “roll the notes over” when they came due.

31. Even on a rollover, which brought no new money into the company, salespeople received another round of commissions at the same rates as the initial commission payment. For example, if a premier note rolled over once, 30 percent (fifteen times two) of the face amount of the note would go to pay commissions.

32. The documents the Receiver found in the Nations Warranty and JW&P offices indicate that the companies sold \$3,082,425 in notes (exclusive of rollovers) to 133 people.

33. Of that amount, approximately \$378,000 went to pay commissions to the people who sold the notes and to JW&P.

34. At least 90 people sold notes for Nations Warranty.

35. JW&P received at least \$188,871 in commissions.

36. The cash received from new note sales allowed Nations Warranty to continue operating, despite what would otherwise have been a severe cash shortage.

The Claims Process

37. The Receiver sent out 145 claim forms to investors and 28 claim forms to vendors.

38. To date 83 claimants have returned those forms, and 7 vendors have made a claim for money owed to them.

39. Additionally, the Receiver has received claim forms from 39 warranty customers who purchased warranties from Nations Warranty and who subsequently canceled those warranties but did not receive any refunds.

Assets

40. The aggregate balance of receivership bank accounts is \$2,477.88.

41. In addition to the furniture and fixtures (approximate value \$2,000) mentioned above, the Receiver is pursuing liquidation of the following receivership assets:

a. The Receiver is pursuing approximately \$190,000 in commissions paid to those individuals outside of JW&P who sold the notes. Because the Receiver has negotiated a 22.5 percent contingent contract for the pursuit of those assets, that pursuit is guaranteed to return more than three times the cost of the pursuit.

b. The Receiver intends to pursue payment of the \$165,417.33 judgment consented to on September 4, 2009 by Mikula as repayment of nearly all of the \$188,871 JW&P received in commissions for the sale of the notes.

c. The Receiver has filed suit against the attorney who advised Nations Warranty and JW&P that they could sell the notes without registration. In that lawsuit, the Receiver is seeking the entire amount raised from noteholders in reliance upon that attorney's advice.

d. That attorney's insurance company, Hartford Underwriters Insurance Company, after encouraging the Receiver to engage in settlement discussions, filed a declaratory judgment action claiming that the attorney made a material misrepresentation in his application for that insurance policy.

e. The Receiver has valid defenses to that action.

f. To limit its exposure, Harford is seeking to stop the Receiver's progress toward recovery from that attorney.

g. The Receiver has pointed out to the Court why a stay of his action against the attorney would unnecessarily delay the recovery from the attorney, while also requiring the Receiver to do unnecessary work that will further reduce the chances of a recovery for noteholders.

Liabilities

42. To date, the Receiver has identified the following liabilities:

a. As promised, the Receiver has not submitted another motion for fees and expenses. He does not expect to do so until he has recovered enough to meet those expenses. The Receiver expects to reduce his fees by the amount expended on attempting to operate the business. Before that reduction, the Receiver's team has spent 1,952.70 working on this case since the first fee application, resulting in fees of \$247,849.70 (effective hourly rate \$126.92). If the Receiver cannot recover an amount sufficient to satisfy the administrative expenses, including his fees, the Receiver will have worked without compensation.

b. The Receiver and his team are working quickly and efficiently, applying a strict cost/benefit analysis to each project in order to preserve

receivership assets. The Receiver has retained Jason Nohr of Cauthorn, Nohr & O'Dell to pursue the professional negligence action against the defendants pre-receivership attorney. Mr. Nohr has substantial experience in both securities matters and professional negligence matters. He has agreed to reduce his fee to match the Receiver's hourly fee so that his work on this case costs the receivership no more than if the Receiver handled litigation matters himself.

c. The Receiver has hired Investor's Watchdog, LLC (IW) – a private investor protection company wholly owned by the Receiver – to perform the accounting, bookkeeping, and investigative work necessary to the Receiver's completion of his tasks. Investor's Watchdog employs a CPA who is also a Certified Fraud Examiner (CFE), a Chartered Financial Analyst, and an information technology expert. The Receiver's ownership of IW allows the Receiver to keep a tight rein on the work done and ensure that no investor money is spent unnecessarily. IW has had to perform substantial accounting work because the Quickbooks file at the Nations Warranty office was substantially incorrect. Checks written were not recorded. Neither income nor expenses were coded to proper accounts. The Receiver's team therefore had to recreate the books so that the companies could properly calculate tax liabilities.

Current Status

43. The Receiver has made substantial progress on many of the tasks assigned by the Court.

44. The Receiver will prepare subsequent interim reports as ordered by the Court or when he has significant developments to report, whichever comes first.

Respectfully submitted this 15th day of September, 2009.

/s/ Pat Huddleston II
Georgia Bar No. 373984

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

JONATHAN W. MIKULA,
JOHN B. CRADDOCK,
JW&P CONSULTING, LLC, and
NATIONS WARRANTY GROUP, INC.,

Defendants.

Civil Action No.
1:08-CV-3097-BBM

CERTIFICATE OF SERVICE

This certifies that I have this day served a copy of the foregoing *Receiver's First Interim Report* via the CM/ECF electronic filing system upon the following:

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This 15th day of September, 2009.

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