

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 note holders.

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

18. Based upon the numbers in the Nations Warranty's QuickBooks 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 prior year's 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 note holders 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, thirty 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 indicated 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, 85 claimants have returned those forms, and 8 vendors have made a claim for money owed to them.

39. Additionally, the Receiver has received claim forms from 39 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 \$551,075.34.

41. The Receiver is pursuing the following receivership assets:

a. Approximately \$190,000 in commissions was paid to those individuals outside of JW&P who sold the notes. The Receiver negotiated a 22.5 percent contingent fee contract with outside counsel for the pursuit of those assets. As a result, that pursuit is guaranteed to return more than three times the cost of the pursuit.

b. The Receiver continues 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 successfully recovered a settlement against Hartford Insurance Company. That settlement resolved both the lawsuit that the Receiver filed against Hartford as the insurer of the attorney who advised Nations Warranty as well as the declaratory judgment action Hartford filed to exclude insurance coverage against that same attorney. Due to the confidentiality of the settlement agreement, the amount of the settlement cannot be disclosed.

d. The Receiver recovered \$80,730.63 in reserve funds from RBS Worldpay, the merchant processor for Nations Warranty.

42. The Receiver obtained a default judgment against PC Guru in the amount of \$24,011.00 plus costs. The Receiver performed an extensive asset search on PC Guru and its principal David Smith and explored all other options of recovery against them. Based on this analysis, the Receiver concluded that the cost of pursuing these avenues of collection would likely exceed any possible recovery. The Receiver is, therefore, abandoning pursuit of this line of potential recovery.

Liabilities

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

a. As promised, the Receiver did not submit another motion for fees and expenses until he had recovered enough to meet those expenses and to fund a distribution. On January 13, 2011, the Receiver filed his second application for

compensation and reimbursement of expenses. In that application, the Receiver reduced his fees by \$102,846.50 in order to guarantee sufficient available funds to fund a distribution. For the time period of November 1, 2008, through October 31, 2010, the Receiver's team spent 2,255.70 hours working on this case and has received no compensation for that work since March 20, 2009.

b. The Receiver and his team always apply a strict cost/benefit analysis to each project in order to preserve receivership assets. The Receiver retained Jason Nohr of Cauthorn Nohr & O'Dell to pursue the professional negligence action against the defendants' pre-receivership attorney and his insurer. Mr. Nohr has substantial experience in both securities matters and professional negligence matters and agreed to reduce his fee to match the Receiver's hourly fee so that his work on this case cost the receivership no more than if the Receiver handled the litigation himself.

c. The Receiver 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), 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 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

44. The Receiver will begin preparing a proposed plan of distribution and anticipates filing that with the Court in February 2011.

45. As soon as the plan of distribution is approved by the Court, the Receiver will forward disbursement checks to all approved claimants and will promptly close the receivership.

Respectfully submitted this 25th day of January, 2011.

/s/ Pat Huddleston II
Pat Huddleston II
Georgia Bar No. 373984
Receiver

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CERTIFICATE OF SERVICE

I certify that the foregoing was prepared with one of the font and point selections approved by the Court in LR 5.1B. I further certify that I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notice of electronic filing to counsel of record.

This 25th day of January, 2011.

/s/ Pat Huddleston II
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