

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

<p>SECURITIES AND EXCHANGE COMMISSION,</p> <p>Plaintiff,</p> <p>vs.</p> <p>TRAVIS E. CORRELL, individually and doing business as Horizon Establishment; GREGORY THOMPSON; DWIGHT J. JOHNSON; HARRY ROBINSON “ROBBIE” GOWDEY, individually and doing business as Atlas and Jericho Productions; GRANT CARDNO; NEULAN D. MIDKIFF; TRAVIS CORRELL & COMPANY, INC.; THE LIBERTY ESTABLISHMENT, INC.; SOVEREIGN CAPITAL INVESTMENTS, S.A.; TNT OFFICE SUPPLY, INC.; NET WORTH GROUP, INC.; and JOSHUA TREE GROUP LLC,</p> <p>Defendants,</p> <p>and</p> <p>BANNER SHIELD, LLC; HOSPITALITY MANAGEMENT GROUP, INC.; CREATIVE WEALTH VENTURES, LLC, and JTA ENTERPRISES,</p> <p>Defendants Solely for Purposes of Equitable Relief.</p>	<p>CIVIL ACTION NO. 4:05CV472</p>
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RECEIVER’S SECOND INTERIM REPORT

S. Gregory Hays (“Receiver”), the Receiver appointed in the above-styled action files this
Second Interim Report showing the Court as follows:

INTRODUCTION

1. This civil enforcement action was filed by the Securities and Exchange Commission (“SEC”) on December 7, 2005. On that same date, this Court entered an order appointing S. Gregory Hays as Receiver for certain of the Defendants and for certain assets of the Relief Defendants (the “Receivership Order”).

2. In accordance with the provisions of the Receivership Order, the Receiver filed his First Interim Report on January 23, 2006. A copy of this report is available on the Receiver’s website at www.haysconsulting.net.

3. This Second Interim Report is intended to provide additional information regarding the activities of the Receiver and the professionals working with him (“the Receiver Team”) and the status of this receivership. However, the Receiver’s investigation is still ongoing. As additional facts are discovered, it is possible that the information provided below will be determined to be incorrect or incomplete. In addition, the Receiver Team continues to investigate additional matters that may not be appropriate to include (or fully describe) in this report, as it could compromise his investigation. As the receivership progresses, the Receiver may file additional interim reports and provide additional information on his website. However, it is important to emphasize that compiling reports is a time consuming and expensive undertaking. Accordingly, these reports will only be prepared and filed when the Receiver believes that this cost is justified or when directed to do so by the Court.

4. Since filing the First Interim Report, the Receiver Team has confirmed that, in general, the information provided in that report is correct. Accordingly, the information provided here is intended to supplement and update the first report.

OVERVIEW OF THE RECEIVER'S ACTIVITIES

5. Since the filing of the First Interim Report, the Receiver Team has continued to investigate the circumstances surrounding the Bank Deposit Program and to administer the Receiver Estate. More than 100 subpoenas have been served on banks and financial institutions seeking bank records. These records have been reviewed and analyzed. Document subpoenas have also been served on other third-parties. Some subpoenas have been complied with; others have not. In conjunction with the SEC, Receiver's counsel has interviewed various witnesses and taken deposition testimony from certain individuals. Most importantly in this regard (and as more fully set forth below), the Receiver, his counsel and counsel for the SEC interviewed Travis Correll on October 5, 2006, with a brief follow-up interview occurring on October 26, 2006.

6. With the entry of the Receivership Order, this Court froze the Defendants' assets and monies subject to their direct or indirect control, as well as certain specified assets of the Relief Defendants. As additional money and other assets have been identified, Receiver's counsel has served copies of the Receivership Order on third-parties in an effort to freeze and recover assets. As a result, the Receivership Order has been served on more than 80 financial institutions and other third-parties. As more fully described in the "Receiver Estate" section below, the Receiver Team has recovered the vast majority of the monies that were frozen at the commencement of this case, along with a substantial amount of property and money from various third-parties.

7. The SEC has reached settlements with each of the primary Defendants (except for Grant Cardno and his affiliated entities, who are in default). The result is that the continued prosecution of this action will, in large part, be suspended pending the outcome of various

investigations by federal law enforcement agencies being conducted in Georgia, Texas and Minnesota. Importantly, the assets of the Defendants, with very few exceptions, will remain assets of the Receiver Estate and will be available to fund the administration of the receivership and, ultimately, a Plan of Distribution.

8. The Receiver continues to maintain various accounts at JP Morgan Chase in New York, New York, and at SunTrust Bank in Atlanta, Georgia, for the purpose of administering the Receiver Estate. Currently the Receiver controls approximately \$4 million.

9. The Receiver Team continues to investigate whether there are other recoveries that might be obtained for the benefit of the Receiver Estate. The Receiver Team is in the process of serving additional subpoenas on third parties seeking the production of documents and/or arranging deposition testimony.

10. From the beginning of this case, the Receiver has maintained a page on his website – www.haysconsulting.net – to provide information to investors and other interested parties. The Receiver’s website also allows for easy communication with the Receiver Team using an e-mail link. The Receiver also continues to maintain a “hot line” that allows investors to speak directly with a member of his staff. However, because of the time and money required to deal with investors in this way, the Receiver has encouraged (and will continue to encourage) investors to use his website as their principal information source and means of communication.

11. The task of identifying investors continues to be a challenge. Because many individuals invested in the Bank Deposit Program through intermediaries (i.e., facilitators), the Receiver does not yet have a complete list of individual investors. The Defendants’ records contain information identifying the individuals who invested directly through them. The Receiver Team is currently engaged in efforts to obtain similar information from other large

facilitators. As investors have been identified, they have been contacted by mail. To date, the Receiver has mailed Investor Declarations to approximately 1,500 investors. A copy of the Investor Declaration is also posted on the Receiver's website and includes an Excel template designed to facilitate the filing of an accurate claim. More than 1,300 investors have completed Investor Declarations and returned them to the Receiver.

12. The Investor Declarations are being reviewed and analyzed. Not only will these forms be used to develop a Plan of Distribution, they also provide information that is useful to the Receiver Team in performing the administration, investigation and accounting required by the Receivership Order.

13. In accordance with the Receivership Order, the Receiver Team has engaged in significant review and analysis of more than 55,000 financial transactions as a part of the required accounting and funds tracing activities. These efforts have been useful in identifying assets and providing other information regarding potential recoveries and other issues that are important to the administration of the Receiver Estate. However, given the enormous number of financial transactions, a complete accounting, including funds tracing of all proceeds of the Bank Deposit Program, would be incredibly expensive and seem to provide very little additional benefit to the Receiver Estate. The Receiver and his counsel, in consultation with the SEC, have, for now, decided not to perform a complete accounting. Going forward, accounting and funds tracing efforts will be limited to those activities that, in the Receiver's judgment, are likely to benefit the Receiver Estate or that are essential to proper administration.

14. There are potentially significant tax issues affecting many or all of the investors. While the Receiver does not provide tax advice to individual investors, he does have tax professionals on his staff who have made a preliminary assessment of the various issues that

might arise in the wake of this case. Accordingly, a tax memorandum has been posted on the Receiver's website and is available to investors and their tax advisors.

15. It is difficult to predict how long it will take for the Receiver to complete his work. In addition to efforts directed at obtaining additional recoveries, there are several significant issues that must be resolved prior to formulating a specific Plan of Distribution. Of particular importance is the issue of whether investors will be: (a) segregated into groups (based on factors such as the identity of their facilitator or the date of their investment); or, (b) treated as a single group of creditors of the entire Receiver Estate. For a variety of reasons, the Receiver believes that treating all investors as creditors of the Receiver Estate is most fair. However, because this issue will affect how a Plan of Distribution is developed, the Receiver expects to address this specific issue to the Court in early 2007.

THE SUBJECT OFFERING

16. As noted above, the Receiver, his counsel and the SEC had the opportunity to interview Travis Correll in October 2006. In short, Mr. Correll has waived his Fifth Amendment right to refuse to answer questions and has provided information to the Receiver Team, the SEC and law enforcement. This has proven to be especially useful to members of the Receiver Team in focusing their efforts and limiting the amount of investigative and administrative work that might ultimately prove to be unproductive.

17. Mr. Correll has confirmed that the description of the subject offering set forth in the Receiver's First Interim Report is generally correct. He has provided additional details and insights that are very useful to the Receiver's investigation.

18. Mr. Correll has confirmed that the subject investment offering (i.e., the Bank Deposit Program) was a Ponzi scheme. While he did not intend this result at the time that the

offering began, it effectively operated as a Ponzi from its very inception. He has accepted complete responsibility for the ultimate outcome in this case. In fact, he is presently unwilling to share or assess blame with anyone else who was involved in this case. Interestingly, however, Mr. Correll is apparently unaware of all facts and circumstances relevant to the overall offering, especially those regarding the activities of the large facilitators.

19. According to Mr. Correll, the basic facts and circumstances surrounding the Bank Deposit Program are as follows:

- a. At all relevant times, Correll was a basketball referee. However, since he was a teenager, he has engaged in entrepreneurial activities.
- b. By 2001, Correll had, for some period of time, been researching “wealth creation opportunities,” primarily on the Internet. As a result of his research, he became convinced that there existed overseas bank trading programs that provided investors with opportunities to earn very high profits. Despite the complete failure of his Bank Deposit Program, Correll remains convinced that there are legitimate bank trading programs. It is important to note that the Receiver Team and the SEC believe that no such legitimate programs exist.
- c. During a vacation to Idaho in 2001, a friend introduced Correll to Darrell Hanway, who happened to be visiting Idaho from Las Vegas. As it turned out, Hanway knew Grant Cardno, a person who represented himself to be a “trader” in the types of trading programs Correll had seen on the Internet.
- d. Hanway first introduced Correll to Cardno during a conference call in the spring or early summer of 2001. Over the course of several follow-up conversations, Cardno described his trading programs to Correll and provided him with manuals, forms and

- other materials related to Cardno's purported trading program. These forms and other materials provided the templates used by Correll in his Bank Deposit Program.
- e. Based upon his conversations with Cardno, Correll became convinced that Cardno was a legitimate "trader," and that his trades would provide monthly returns between 20% and 30%.
 - f. In the late summer or early fall of 2001, Correll began the subject investment offering using the name "Horizon Establishment." Initially, he raised \$200,000 from friends and family. To be cautious, the initial Horizon Establishment program offered returns of 4% to 6% per month, rather than the much higher returns that Cardno had represented to be the "historically achieved" returns on his trading program. From this initial \$200,000 in investment proceeds, Correll wired \$100,000 to Cardno and retained the other half for start-up operating expenses. As it turned out, the \$100,000 wired to Cardno was the only money that Correll actually sent overseas to be invested in a bank trading program.
 - g. In the early days of the offering, Correll communicated with Cardno through Hanway. Almost immediately after making the \$100,000 investment, Hanway began telling Correll that, according to Cardno, things were "moving slowly." Convinced that this was a temporary problem, Correll used a portion of the monies that he had retained to make the monthly payments that were due to be paid to his original investors.
 - h. As Correll made the monthly payments, word of his Bank Deposit Program spread. According to Correll, he never engaged in concerted sales and marketing activities

- after raising the initial \$200,000. The “success” of the program resulted in prospective investors contacting him.
- i. By 2003, Correll’s program had grown tremendously. Despite his having hired several employees, it was very difficult to keep up with individual investors. At the same time, certain individuals and groups had begun to evolve as “facilitators” – i.e., intermediaries, who would pool money from individual investors and then invest those funds with Correll at a higher rate of return. To relieve the bookkeeping burden, Correll began to rely almost exclusively on facilitators for new investments beginning some time in 2003. In general, Correll would deal with a facilitator as an individual investor. Based on the relatively large investment amount, Correll would pay the facilitator a higher return, typically 12% or more per month. These rates were subject to negotiation based upon the amount invested. Correll indicated that on a \$1 million investment, a facilitator would likely be paid a monthly return ranging from 20% to 22%. Over time, larger investments by a facilitator might be paid as much as 30% per month. The facilitator would then pay individual investors a lower return – e.g., 6% per month – retaining the difference as profit. (For additional details regarding facilitators, see the Facilitator section below.)
 - j. Although Correll’s program continued to grow, he did not receive money from Cardno. Through Hanway, Cardno continued to provide excuses for the failure to send any returns to Correll. Despite Hanway’s apparent reservations about Cardno’s ability to follow through, Correll continued to believe that the delays were temporary and that Cardno would ultimately start paying returns and make up the shortfall.

- k. Correll continued to believe that Cardno was legitimate until some time in 2004. All the while, money was coming in from investors, and that money was being used to build Correll's business and make payments to facilitators and investors.
- l. By January 2004, Correll was having difficulty meeting the required monthly payouts. In that month, he also received his first inquiry from a state securities regulator in Georgia. The combination of these circumstances greatly worried Correll and forced him to take a leave of absence from refereeing so that he could focus on the trading program.
- m. In February 2004, Correll traveled to Madrid, Spain to meet with Cardno and others. There were several purposes for this trip, but an important goal for Correll was to convince Cardno to get the trading program on track. Correll returned from this trip believing that the problems would be corrected and that Cardno would begin making trades that would resolve all of the issues he was facing.
- n. By late spring of 2004, Cardno had not performed. According to Correll, it was at about this time that he concluded that the bank trading program *might* not work out. As of that date, the amount needed to meet the monthly payout to investors ranged from \$12 million to \$14 million.
- o. In December 2004, Correll was, for the first time, unable to meet the required monthly payout to investors.
- p. Correll used a portion of the money raised to invest in various businesses, as well as other investment programs that might yield a substantial return. (It should be noted that the Receiver Team has investigated these investments. Some have or will likely result in additional monies being recovered into the Receiver Estate; however, many

of these programs appear to be illegitimate investment offerings that also operated as Ponzi schemes.)

- q. In connection with one of these other programs, Correll was provided with a bond purportedly issued by Nationwide providing coverage for \$1 billion in losses. Correll has confirmed that he provided copies of this bond to Neulan Midkiff and Greg Thompson to give them comfort. The Receiver Team has confirmed with both Nationwide and with Correll that the bond was bogus.
- r. Despite his efforts to stay afloat through other investments, reworking payout obligations and generally stalling those who were demanding payment, at some time in mid-2005 Correll finally realized that the investment scheme had failed.
- s. In September 2005, realizing that his program had collapsed and was now under scrutiny by the SEC, Correll invited some of his facilitators and others to a meeting in Atlanta where he introduced them to an individual who was offering participation in a new trading program. (The SEC is now investigating this program, as well.)

20. The Receiver Team continues to analyze the financial aspects of the Bank Deposit Program. It appears that if the investment offering was legitimate, the amount owed to investors would be approximately \$153 million based upon the program's terms. However, when calculated on a "cash in/cash out" basis, the amount of investor losses is substantially less. In all likelihood, it will not be possible to provide an accurate assessment of investor losses until the claims administration process is completed.

THE FACILITATORS

21. As indicated in the Receiver's First Interim Report and confirmed by Travis Correll, many of the investors in the Bank Deposit Program actually invested with "facilitators," who acted as intermediaries between the investors and Correll/Horizon Establishment.

22. It appears that there were facilitators located throughout the United States. The size and structure seems to have varied significantly among facilitators and very few, if any, had dealings with each other. Apparently, some facilitators had "sales agents" working on their behalf, while others did not. The monthly return paid by Correll/Horizon to facilitators varied, and it appears that there are differences in amounts paid by facilitators to the individuals who invested through them.

23. While the Receiver Team continues to investigate many of these issues, it appears that, as a general rule, facilitators were paid a significantly higher monthly return than they were paying to individual investors. In addition, it currently appears that certain facilitators may have actually received more personal profit from the investment offering than did Correll.

24. Based upon the outstanding principal amount owed, the largest facilitators are:

- ATL, Inc., Creative Wealth Holdings, Inc., et al.
- Horizon Central States Region, XY Resources, et al.
- Joshua Tree Group, LLC and Padanaram Trust
- KG Sitton & Company, LLC
- Sterling-Meridian, LLC
- TNT Office Supply

25. Travis Correll has indicated that he never told any of the facilitators that the investment offering was a Ponzi scheme. Even so, from the Receiver's perspective (as well as

that of the SEC), this does not absolve the facilitators of all responsibility for the investors' losses. At the very least:

- The facilitators were engaged in the sale of an unregistered security in violation of federal and state securities laws.
- The facilitators were not licensed to sell securities.
- It appears that most, if not all, of the facilitators earned substantial "profits" in connection with this investment offering. In truth, all such "profits" were paid from monies obtained from individual investors based upon materially false and misleading representations and omissions regarding the Bank Deposit Program.

In addition, it appears that the facilitators did very little, if any, due diligence before beginning to engage in these activities, and that certain facilitators may have continued to collect money from individual investors after they knew or should have known that there were significant problems with the Bank Deposit Program. Finally, it appears that when Correll/Horizon Establishment began having trouble making monthly payments, certain facilitators began using their own assets to make payments to their investors rather than disclosing the fundamental problems being encountered with the Bank Deposit Program.

26. TNT Office Supply, Inc. and its principal, Gregory Thompson, have been in receivership since the filing of this action. The Receiver Team believes that all of their assets have been identified. With limited exception, their assets have been liquidated and the money taken into the Receiver Estate. As a result of their recent settlement with the SEC, further prosecution of the SEC's unresolved claims for disgorgement, interest and penalties will be suspended pending the resolution of ongoing investigations by federal law enforcement agencies. While their assets remain subject to and a part of the Receiver Estate, the vast majority of the Receiver Team's work associated with these Defendants has been completed.

27. Joshua Tree Group, LLC and its principal, Neulan D. Midkiff, have been in receivership since the filing of this action. The Receiver Team believes that all of their assets have been identified. With limited exception, their assets have been liquidated and the money taken into the Receiver Estate. As a result of their recent settlement with the SEC, further prosecution of the SEC's unresolved claims for disgorgement, interest and penalties will be suspended pending the resolution of ongoing investigations by federal law enforcement agencies. While their assets remain subject to and a part of the Receiver Estate, the vast majority of the Receiver Team's work associated with these Defendants has been completed.

28. JTA Enterprises is a Relief Defendant. Its assets derived from the subject investment offering have been in receivership since the filing of this action. In reality, very little money and no other assets were readily identifiable as being in the Receiver Estate when this action was filed. The Receiver Team has served discovery, and engaged in funds tracing and other investigative activity in an effort to determine whether recoveries might be available to the Receiver Estate. As of the filing of this Report, these efforts continue.

29. Creative Wealth Ventures, LLC is a Relief Defendant. Its assets derived from the subject investment offering have been in receivership since the filing of this action. In reality, very little money and no other assets were readily identifiable as being in the Receiver Estate when this action was filed. The Receiver Team has served discovery, and engaged in funds tracing and other investigative activity in an effort to determine whether recoveries might be available to the Receiver Estate. For a variety of reasons, it has been difficult, to date, to obtain information from Creative Wealth Ventures or its principals. As of the filing of this Report, these efforts continue.

30. K.G. Sitton & Co. and its principal, Kerry G. Sitton, are not Defendants or Relief Defendants in this action. The Receiver expects to file suit against these and other Sitton-related entities. As the result of extensive negotiations involving Sitton, the Receiver and the SEC, the Receiver expects that Mr. Sitton and all affiliated entities will become part of this receivership subject to the terms of the Receivership Order.

31. XY Resources/Horizon CSR is based in Oklahoma. Sterling Meridian is based in California. Neither of these facilitators nor their principals are Defendants or Relief Defendants in this action. The Receiver Team is engaged in investigative activity regarding these parties in an effort to determine whether recoveries might be available to the Receiver Estate.

THE RECEIVER ESTATE

32. The Receiver Estate is comprised of cash, along with various assets (and related liabilities) located in several states. Attached as Exhibit “A” to this Report is a detailed schedule of the assets that have been liquidated and the other recoveries obtained to date on behalf of the Receiver Estate. In addition, the schedule includes details regarding the liabilities and expenses paid on behalf of the Receiver Estate.

33. As more fully set forth in Exhibit “A”:

- The Receiver Team has taken control of and liquidated various parcels of real property and a timeshare owned by the Defendants netting approximately \$997,000 for the Receiver Estate. Many of these properties were subject to mortgages, which were also resolved as a part of the liquidation process. Though not reflected in the schedule, the Receiver also settled and compromised a significant claim related to the “headquarters” lease for Correll/Horizon Establishment, which avoided the time, expense and potential

exposure related to a potential \$1,000,000 claim by the landlord for unpaid rent for the balance of the lease.

- The Receiver Team has taken control of and liquidated various items of personal property and collected oil and gas royalties and other miscellaneous items owned by the Defendants, netting more than \$145,000 for the Receiver Estate.
- The Receiver Team has sold TNT Office Supply, Inc.; Greg Thompson's interest in an entity known as Gin-Bug Development, L.P.; and, Travis Correll's interest in two small staffing companies netting more than \$310,000 for the Receiver Estate.
- The Receiver Team has recovered approximately \$1.6 million in cash from third parties for the benefit of the Receiver Estate.
- To date, the Receiver Team has taken control of, liquidated and/or recovered in excess of \$5.57 million for the Receiver Estate. The liabilities and expenses incurred to date are approximately \$1.59 million, leaving a current cash balance in the Receiver Estate of \$3,985,794.

34. The administration of the Receiver Estate and the ongoing investigation and recovery efforts will require substantial efforts by a number of professionals at significant expense. This expense, subject to court approval, and any other ordinary-course-of-business expenses incurred in the continued operation of any Receiver Entity will be paid from the assets of the Receiver Estate. The members of the Receiver Team are well aware that the professional fees and expenses incurred are paid from monies that might otherwise be available for distribution to investors and other creditors. With respect to the "discretionary" activities that might be undertaken on behalf of the Receiver Estate, the Receiver and the other professionals

involved in this receivership will be strongly influenced by the cost of the activity compared to the likely benefit that might be achieved from a successful result.

Respectfully submitted, this 6th day of December 2006.

TROUTMAN SANDERS LLP

/s/ J. David Dantzler, Jr.

J. DAVID DANTZLER, JR.

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CERTIFICATE OF SERVICE

I do hereby certify that, on December 6, 2006, I electronically filed the foregoing with the Clerk of Court using the CM/ECF system, which will send notification of such filing to the following:

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I further certify that, on December 6, 2006, the foregoing has been served to the following non-CM/ECF participants by United States Mail, postage pre-paid:

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