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February 20, 2003

Re: Merrill Scott and Associates Receivership

Dear Merrill Scott Client/Investor:

On January 15, 2002 the Securities and Exchange Commission (“SEC”) filed a Complaint against MERRILL SCOTT & ASSOCIATES, LTD. and affiliated entities¹ (collectively, “Merrill Scott”), and PATRICK BRODY, DAVID E. ROSS II and MICHAEL G. LICOPANTIS alleging, among other things, fraud, misrepresentation and misappropriation of client funds. On January 23, 2002 I was appointed Receiver of the funds, assets and property of Merrill Scott for the purpose of marshalling and preserving the assets of Merrill Scott.

The purpose of this communication is to advise you of my activities and to provide you with information concerning the Receivership process. You are encouraged to visit the Receivership website, www.merrillscott.com, for additional information.

My activities over the past few months include marshalling assets, filing an insurance claim with Lloyds of London (“Lloyds”) under the policy issued by Lloyds to Merrill Scott, and identifying and categorizing claims. In particular, the marshalling of assets includes identifying and securing assets of Merrill Scott located in the United States and abroad (principally in the Bahamas, Belize, Dominica and the Cayman Islands), and negotiating with parties in these foreign jurisdictions to arrange for the recovery of assets held in the offshore jurisdictions; obtaining possession of stock accounts in Canada and the U.S; arranging for the sale of real property, equipment, furniture, artwork and other personal property; and identifying, analyzing and managing other significant assets of Merrill Scott, including a portfolio of mortgage loans made by Merrill Scott, and a portfolio of leased assets (in which Merrill Scott is the lessor). My activities are more fully outlined in the Receiver Reports filed

¹ Additional named entities include Merrill Scott & Associates, Inc., Phoenix Overseas Advisers, Ltd., and Gibraltar Permanente Assurance, Ltd.

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with the Court, and available on the Receivership website. A copy of the latest Receiver report is attached.

The Receiver is currently identifying and categorizing claims related to the Receivership, including claims of investors, clients and creditors. This information has been collected through multiple sources, including mailings to names obtained from Merrill Scott databases, cataloguing of bills and other claims received through the mail, contact with plaintiffs' counsel in pending litigation, telephone inquiries from Merrill Scott clients, and submission of preliminary client/investor response forms. While filing a preliminary response form is optional (albeit encouraged), to date the Receiver believes that only about 25% of those who may have claims have submitted preliminary response forms. The Receiver is now prepared to propose a final claims procedure for the Court's approval, and expects to submit the proposed procedure to the Court within the next few weeks. You will soon receive a mailing concerning the final claim procedure. This mailing will include information concerning the claims procedure as well as a final claim form. Failure to complete and timely return the claim form will result in a waiver of your right to file a claim.

A large part of the Receivership estate is comprised of mortgage loans made by Legacy Mortgage and Legacy Capital to borrowers, some of whom are also Merrill Scott clients/investors. Following the Court's mandate, the Receiver contacted borrowers to ask that their loans be brought current. After careful review the Receiver has determined that mortgage loan assets should be treated no differently from other assets of Merrill Scott.

The Receiver is also assisting the SEC in its development of a proposed plan of distribution. This activity includes providing information requested by the SEC related to the marshalling of assets and the identification, categorization and validation of claims. Distribution of assets will only take place upon completion of the claims process and approval of a final plan of distribution by the Court.

On a final note, if Merrill Scott set up and/or managed any corporate entity or entities on your behalf, it is likely that these entities are not being maintained (for example, taxes not being paid, documents not being filed with the appropriate authorities, etc). This means that you may be running certain tax and legal risks, and are therefore advised to seek independent legal and/or accounting counsel in this regard. In addition, assets held by entities owned or

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controlled by Merrill Scott or its agents and employees are included in the Receivership as well as assets belonging directly to Merrill Scott. The Receiver cannot advise you regarding these issues.

Very truly yours,



David K. Broadbent
Receiver
of Holland & Hart LLP

Enclosure
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