

ROBB EVANS
Temporary Receiver of
California AutoCare Corporation
AutoCare Americorp

REPORT OF RECEIVER'S ACTIVITIES
November 14, 2002 THROUGH November 19, 2002

This report covers the activities of the Temporary Receiver since the inception of the Temporary Receivership. This is the first Report to the Court on the progress of the Temporary Receivership. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing the progress of the Receivership.

Custody, Control and Possession

On November 14th 2002, this court entered its order appointing Robb Evans as Temporary Receiver of California AutoCare Corporation and AutoCare Americorp. The Temporary Receiver learned that the companies operate out of three locations. Those locations are:

328 Encinitas Boulevard, Suite 100, Encinitas, CA
6361 Yarrow Drive, Suite C, Carlsbad, CA
77564 Country Club Drive, Suite 400B, Palm Desert, CA

On November 14, 2002 members of the Temporary Receiver's staff entered and took control of the companies' three facilities. The Encinitas facility was functioning as the companies' headquarters. All accounting records, including investor information, were maintained at the Encinitas facility. None of individually named defendants was present at the Encinitas facility. According to Mr. James Gasper, who was present at the Carlsbad location, that facility functioned as a customer service center. The Temporary Receiver's staff found records on site that indicate that the Carlsbad facility may have also been utilized for sales to current and potential investors.

The Palm Desert facility was served with a search warrant by agents of the United States Postal Inspection Service. The Postal Inspectors seized all documents on site and the documents therefore were not available for review by the Temporary Receiver. We will continue discussions with the Postal Inspection Service to gain access to those records.

Mr. Kimball Vance was present at the Palm Desert location. Mr. Vance informed the Temporary Receiver's staff that the activity at this location was offering a new product line to existing company investors. According to Mr. Vance, the new product was an unsecured promissory note at 10%, with quarterly payments.

The Temporary Receiver (a) had the door locks controlling access to the facilities changed, (b) took control of the local mail through the U.S. Postal Service, and (c) took control of the business records at two facilities, including computers with financial and shareholder records. The Temporary Receiver's staff advised all employees that the three locations would be closed until the conclusion of the hearing currently scheduled for November 25, 2002 at the U.S. District Court in Riverside.

Company Activities

The Temporary Receiver has reached initial conclusions about the activities of the Company based on a review of the documents and records at the three locations, with the most information obtained at the Encinitas headquarters. The information from documents and records was supplemented by questionnaires completed by the employees and independent contractors, and statements made by some of them but not including Joseph Sanfellipo.

The Temporary Receiver's initial conclusion is that the two companies' central activities are the sale of common stock or promissory notes offerings, and locating franchisees to operate automobile repair centers under the AutoCare America franchise program. There was no evidence of other business operations.

Fund Raising Activities

Based on information from questionnaires completed by employees and information gathered during brief interviews, it appears that 15 of the staff have primary duties related to raising funds, including promoting the sale of common stock of the company or promoting promissory note programs. Five of the staff are involved in general administration or specifically training franchisees and attempting to locate new franchisees and open locations.

The Temporary Receiver's staff located Private Placement Memoranda and Promissory Note forms in the Encinitas headquarters and in the Carlsbad facility.

- A Private Placement Memorandum dated July 29, 2002 offered six million shares of common stock of California AutoCare Corp. starting at \$1.00 dollar per share and increasing to \$2.50 per share.
- Another Private Placement Memorandum dated October 1, 2002 offered \$1 million of Convertible Promissory Notes of AutoCare Americorp.
- The "Basic 10 percent Note Package" includes an AutoCare Americorp Promissory Note with a maturity of 730 days and an interest rate of 10 percent per annum. The terms include an option to convert principal and interest to equity of California AutoCare Corp.

Among the documents located and reviewed was a signed Subscription Agreement from an individual investor dated November 10, 2002 for 1,000 shares of California AutoCare Corp. at

\$1.00 per share, and a copy of a check for \$1,000. There was also a completed AutoCare Americorp Promissory Note from an individual lender/investor dated November 7, 2002 for \$10,000, payable in 730 days and a copy of a check for \$10,000. In both the Encinitas and Carlsbad locations, the Temporary Receiver's staff located schedules of individual lenders (note holders) with maturity dates in October, November, and December of 2002. Other notes and documents indicate these individual lenders received telephone calls to either extend the principal balance, or convert it to equity. There were four packages waiting to be mailed to prospective investors at the time that the Temporary Receiver's staff entered the Encinitas premises.

The Temporary Receiver's staff reviewed an Excel spreadsheet in the computer used by the Vice President of administration, and reviewed a printed version of the same spreadsheet in the Carlsbad office that had many written notations on it. The Temporary Receiver's staff discussed the origin and use of the spreadsheet with several employees. According to these employees, the spreadsheet was first provided by NetStreet Financial, a company providing financial consulting and, apparently, capital raising assistance to the two entities. The spreadsheet listed 1,352 persons that apparently invested \$27,000,000 in three failed enterprises labeled Air Quest, Demonet, and Quest.

According to the employees, Net Street Financial had some association with these three failed enterprises. Reportedly, the individual investors of Air Quest, Demonet, and Quest were solicited to accept warrants for shares of California AutoCare Corp. in exchange for a portion of the lost investments. Later, the same individuals were encouraged to either exercise the warrants and purchase common stock of California AutoCare, or to loan funds under the Promissory Note programs.

AutoCare Franchises

The Temporary Receiver's staff located several copies of a Franchise Offering Circular for AutoCare America. A few letters in several files indicated the circular is occasionally mailed to prospects. There was also a copy of the circular in the Carlsbad office. Several newsletters and other correspondence promote either the opportunity to purchase an AutoCare America franchise, or the opportunity to purchase a group franchise. The recently hired Chief Operating Officer appears to spend most of his time working with the existing franchise holders and attempting to attract new prospective franchisees. Another contract employee is designated as the Director of Field Operations and spends his time training employees and evaluating service and operations at the AutoCare America car repair centers.

Results of Fund Raising Activities

The results of the fund-raising activities are kept on the companies' Quick Books accounting system. According to these records the following funds were raised:

California AutoCare Corp. Common Shares Sold

From June 3, 2002 to November 13, 2002, the Company received \$1,380,516 for the sale of shares to 493 individuals. This does not include \$200,000 shown as received from NetStreet Financial, Inc.

California AutoCare Corp. Promissory Notes Issued

From March 11, 2002 to October 15, 2002 the Company received \$412,000 from issuing promissory notes to 69 individuals.

AutoCare Americorp. Promissory Notes Issued

From June 11, 2002 to November 12, 2002 the Company received \$335,000 from issuing promissory notes to 20 individuals.

Results of AutoCare Franchise Activity

According to company records, materials located on the premises, and discussions with employees, there are four AutoCare America operating franchises. Reportedly, a fifth franchise is in the process of opening, although there may be difficulties with the property owner.

One franchise owner, Encinitas Boulevard AutoCare, Inc., claimed in a discussion that he owned two locations and was trying to open a third in the Miramar area.

Another franchise owner, Dreifuss Enterprise, Inc., claimed in a discussion that he owned his location in Vista California.

Company records indicate that Olivia F. Sanfellipo is the president and owner of a third franchise, State Street AutoCare, Inc. in Carlsbad California. Reportedly, Olivia F. Sanfellipo is the wife of Joseph Sanfellipo.

However, the Private Placement Memorandum dated July 29, 2002, and a draft SB-2 Registration Statement for California AutoCare Corp. located at the Encinitas office both state that Joseph Sanfellipo or members of his family own the controlling interests in all franchisees.

Bank Account and Personnel Information

From information supplied by the Plaintiff and from information discovered at the companies' facilities, the Temporary Receiver identified current bank accounts of the corporate defendants. The companies maintain corporate accounts at the Bank of America. The Bank of America was served with the Temporary Restraining Order by the Plaintiff and the Temporary Receiver on November 14th.

On November 15th, the Temporary Receiver's staff learned that the Bank of America transferred \$154,489.02 from the two corporate accounts to Joseph Sanfellipo's personal account during the afternoon of November 14th. According to bank records (Tab 1), Joseph

Sanfello signed transfer orders that were completed at 4:20 p.m. The Temporary Receiver's staff informed the Bank of America that the transfers were made in violation of this Court's Order, which had been served on the Bank earlier that afternoon. On November 18th the bank agreed to return the funds to the Temporary Receiver.

The accounting records also reflect a \$15,000 certificate of deposit in the name of California AutoCare Corp. at the Bank of America. According to the Bank, that certificate is held as collateral for a loan. The Temporary Receiver is awaiting details from the Bank about the nature of this loan.

The companies had a co-employment relationship agreement with Administaff Companies II, L.P. (Administaff). By the terms of the agreement Administaff was responsible for issuing payroll checks and for administering the employee benefits program. According to company records, seven people were employed by Administaff under this arrangement. The Temporary Receiver's staff confirmed that employees had been paid current, or through November 15th. Company records reflect that an additional 13 individuals were engaged as independent contractors. It appears from those records that many of these individuals were commissioned sales personnel.

Financial Statements

The Temporary Receiver's staff interviewed the companies' Vice President of Administration and learned one of her responsibilities was to maintain the companies' accounting system. This individual informed the Temporary Receiver's staff that all accounting information was posted current.

The accounting records show that California AutoCare Corporation began business in September 2001. Under Tab 2 are California AutoCare's Profit and Loss Statements for the three months ending December 31, 2001 and for the eleven months ending November 14, 2002. The company recorded no income for 2001 but had expenses totaling \$309,064.38 resulting in a net loss for the year of \$309,064.38. The company recorded income of \$13.22 for the eleven-month period of 2002 and had expenses of \$1,367,622.43 resulting in a net loss of \$1,367,609.21. The combined loss for approximately 15 months was \$1,676,673.59.

The balance sheet for California AutoCare Corp. as of November 14, 2002 shows total assets of \$322,026, total liabilities of \$418,185, and total negative equity of (\$96,158). Assets include cash of \$50,811 (book balance) and advances to franchisees of \$171,206. Liabilities include \$412,000 to note holders as discussed earlier. The advances to franchisees, and Officers Loans Receivable of \$36,872, are documented with promissory notes that are payable in 2004. The Franchise Agreements are documented with Addendums that waive franchise fees, site location fees, royalties, and advertising fees until January 2003, or later.

Also under Tab 2 is California AutoCare's quarterly Statement of Cash Flow for its entire period of operation. Total cash raised of \$1,992,515.75 from sale of equity and promissory notes was nearly all consumed by operating losses and advances to franchisees.

The accounting records show that AutoCare Americorp. began business in February 2002. Under Tab 2 are AutoCare Americorp.'s Profit and Loss Statements for the nine months ending November 14, 2002. The company recorded no income for the nine month period of 2002 and had expenses of \$190,524.21, resulting in a net loss of \$190,524.21.

Also under Tab 2 is AutoCare Americorp.'s quarterly Statement of Cash Flow for its entire period of operation. Total cash raised of \$335,000.00 from sale of promissory notes was nearly all consumed by operating losses and advances to franchisees.

The balance sheet for AutoCare Americorp. as of November 14, 2002 shows total assets of \$84,960, total liabilities of \$335,000, and total negative equity of (\$250,040). Assets include cash of \$57,240 (book balance) and advances to franchisees of \$87,236. Liabilities include \$335,000 to note holders as discussed earlier. The advances to franchisees, and Officers Loans Receivable of \$10,000, are documented with promissory notes that are payable in 2004.

Additional Information

Three law firms and a Certified Public Accounting firm have provided professional services to California AutoCare Corp. The Law Office of Gary A. Agron transmitted on July 15, 2002 by email a letter addressed to Joseph Sanfello, Chief Executive Officer of California AutoCare Corp. The email cover message asked Joseph Sanfello to print the letter, sign the acknowledgment section, and return it to the law firm.

Among other things, the letter told Sanfello and the company not to pay any sales commissions to employees or consultants for the sale of company stock. The letter also stated that there was no exemption from registration to distribute common stock and warrants to the investors in the three failed enterprises. The letter also stated that the sale of promissory notes were not exempt from registration. A copy of the e-mail instruction and the letter are attached under Tab 3.

An unsigned brief analysis of the 10% Note Program was located in the Encinitas office. It states that the sales commission schedule totals 13% of the funds raised, and with the 10% interest rate on the note, the cost for the funds during the first year of the borrowing is 23%. In order to earn enough to cover the cost of the loan capital, before providing any retained earnings, the company must earn a 23% return on the funds provided. This is a challenging and difficult level of earnings to reach for any company, especially for a development-stage company with no earnings history.

The combined companies have lost \$1,867,198 since inception. Combined cash on hand totals \$108,000. Amounts due to individual lenders (note holders) totals \$747,000. Individual shareholders have provided \$1,381,000. The companies do not have funds or other assets to pay the promissory notes as they become due. There is no indication that sufficient future profits would be generated to meet these obligations. Shareholder equity is negative.

Conclusion

I request that the Court:

Ratify and approve the Temporary Receiver's actions described in this report.

Authorize the Bank of America to turnover to the Temporary Receiver all funds, including the amount of \$154,489.02, which was diverted to Joseph Sanfellipo's personal bank account number 10397-09785 at the Bank of America.

Respectfully submitted,

Robb Evans
Temporary Receiver