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----- Message from "Moore, Rob" <[Rob.Moore@GT.com](mailto:Rob.Moore@GT.com)> on Tue, 6 May 2008 13:04:03 -0500 -----

**To:** "Mike Wallens, Sr." <[mwallens@nationalpowerco.com](mailto:mwallens@nationalpowerco.com)>

**cc:** "Jones, Vernon" <[Vernon.Jones@GT.com](mailto:Vernon.Jones@GT.com)>

**Subject:** One other item

Mike—

Sorry for not including this on my earlier email, but as soon as possible please forward to me a copy of all of the final transaction documents that were executed in connection with the NPC sale. Thanks very much for your assistance.

Rob

**Rob Moore**

**Director**

Grant Thornton LLP

Corporate Advisory & Restructuring Services

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Exhibit "5"

APP - 053

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----- Message from "Jones, Vernon" <Vernon.Jones@GT.com> on Fri, 16 May 2008 11:25:11 -0500 -----

To: "Mike Wallens, Sr." <mwallens@nationalpowerco.com>, "adley wahab" <adleywahab@yahoo.com>, <michaelwallensjr@yahoo.com>  
<randy.williams@tklaw.com>, "Moore, Rob" <Rob.Moore@GT.com>, "Fielder, David" <David.Fielder@haynesboone.com>

Subj: W Financial Meeting  
ect:

Gentlemen;

I would like to have a meeting with you on Monday at 2:00 here in the Grant Thornton office. It will have been two weeks since our last meeting and we need to go over the results of my review of the information provided from my requests then and subsequently.

It is imperative that you completely respond to the outstanding requests for information by me and my office by this weekend. I require the NPC sale transaction documents specifically because of third party inquiries which have caused the SEC to direct me to evaluate all aspects of the transaction and provide a report.

We will discuss the status of liquidation efforts on the remaining assets as well.

**Vernon T. Jones, Jr.**  
**Special Master – W Financial**  
c/o Grant Thornton LLP  
Director, Economic Advisory Services  
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M: 713.805.1163  
E: Vernon.Jones@GT.com



NPC - Sale Agreement.pdf W Financial Group Continued Asset Sales WFG Operating Account balance.htm



Adley update Balsam Fir.htm

Exhibit "6"

APP - 054

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

**SECURITIES AND EXCHANGE COMMISSION,**

Plaintiff,

vs.

**W FINANCIAL GROUP, LLC,  
ADLEY H. ABDULWAHAB a/k/a Adley Wahab,  
MICHAEL K. WALLENS, SR., and  
MICHAEL K. WALLENS, JR.**

Defendants,

Civil Action No.  
**3:08-CV-0499-N**

**DECLARATION OF VERNON T. JONES, JR. IN SUPPORT OF MOTIONS  
FOR APPOINTMENT OF A RECEIVER, ORDER FREEZING ASSETS,  
ORDER REQUIRING ACCOUNTINGS AND OTHER EQUITABLE RELIEF**

I, Vernon T. Jones, Jr., make the following declaration under penalty of perjury.

1. I am over 21 years of age, have never been convicted of a crime involving moral turpitude and am fully competent to make this Declaration. I have personal knowledge of the matters set forth herein, except for those matters stated on information and belief, and as to those matters I believe them to be true, and could and would testify thereto under oath if called upon as a witness.

2. On March 28, 2008, I was appointed by the Court to serve as Special Master in this civil injunctive action filed by the United States Securities and Exchange Commission. Pursuant to the Agreed Order Appointing Special Master to Monitor the Sale of Assets Held by Defendants ("Special Master Order"), among my chief responsibilities are to oversee the defendants' liquidation of certain assets and to preserve the proceeds of these sales to create a pool of funds to provide restitution to investors in securities issued by W Financial Group, Inc. ("WFG").

**Exhibit "7"**

3. Since my appointment, I have attempted, in good faith, to fulfill the oversight responsibilities assigned to me by the Court. In doing so, I have relied on the defendants' obligations, as set forth in the Special Master Order, to provide me with complete, accurate and timely information about proposed and consummated transactions and to generally cooperate fully with me to assure that the liquidation process provides optimal benefits to investors. Based on the events described in this Declaration, the defendants, rather than providing full and accurate disclosure, have withheld essential information, engaged in a pattern of deception and refused, in some instances, to provide information and documents in response to my direct requests. I have also witnessed defendants needlessly squander funds that might otherwise be available to provide monetary relief to investors. My current powers as a Special Master have not given me the means of dealing adequately with the defendants' conduct. Accordingly, I have concluded that the interests of WFG investors require more stringent equitable relief, including an asset freeze and the appointment of a Receiver over all the defendants' assets.

4. After my appointment as Special Master, I immediately established contact with the defendants and their attorney, David Fielder, and arranged a personal meeting for the purpose of providing me with an overview of the nature and value of the assets to be liquidated and their approximate value. A limited number of documents were supplied to me by the defendants in timely fashion by e-mail.

5. In my initial communications with defendants and David Fielder, I learned that certain assets had already been liquidated. The proceeds of these transactions were, in part, transferred by W Financial to the Special Master account. The defendants, however, insisted that they needed to retain substantial funds to pay the operating expenses of ongoing businesses, including significant expenditures for National Power Company ("NPC"), a retail

marketer of electric power. Defendants were also making periodic transfers from the proceeds of liquidation to Haynes & Boone, defendants' counsel, to pay attorney's fees.

6. The face-to-face meeting I requested was held in the office of NPC in North Houston. The defendants, defendants' counsel, the Special Master, and the Special Master's counsel participated in the meeting. After covering background information on the case with the defendants, we discussed the status of liquidation efforts already in progress. During the meeting, it was established that there were four primary categories of assets to sell: (1) NPC [defendants' estimated value \$5 to 8 million]; (2) a real estate and home building business with one rental and two nearly completed houses as well as seven unimproved lots in a subdivision of North Houston [defendants' estimated value \$2.9 to 3.8 million]; (3) Texas Auto Pros, a low-end car auto dealership on four leased lots in the Dallas area [defendants' estimated value \$2.0 to 2.4 million]; and (4) a death benefit life insurance policy on an unrelated individual [defendants' estimated value \$250,000 to \$350,000].

7. Defendants' representation that NPC was the most valuable W Financial asset comported with information conveyed to me by the SEC, whose belief was also based on statements by defendants and their counsel. Accordingly, many of my initial activities focused on the valuation and liquidation of this asset.

8. Before I became involved in the liquidation process, defendants had already established a bidding process for sale of the electric power company. As bids were due by April 7, I undertook the process of familiarizing myself with NPC's operations. I reviewed and discussed with defendants and others affiliated with NPC, NPC financial reports and offering documents. I reviewed budget reports with David Barrett ("Barrett"), Senior Accountant for NPC, who was presented to me as the person most knowledgeable about the books and records of W Financial entities.

9. Based on my experience in the power retailing industry, it was immediately apparent that there was a lack of industry background and expertise among the persons operating NPC, including Richard Hunter, NPC's President, as well as little understanding of the resources required to manage the operation. The defendants, however, had retained a credible sales representative and the companies purportedly interested in bidding for the company were known industry players. Accordingly, I decided that the bidding process should be completed, and we scheduled a "bid opening" meeting at NPC on Tuesday, April 8.

10. No bids for NPC were submitted on April 7. From my experience, a lack of bids by companies I knew were then making acquisitions of this type of operation indicated likely issues with NPC's sales obligations or possible legal issues. In the April 8 meeting, attended by the company's sales representative, Intelometry, we discussed alternate sales strategies. I emphasized the need for close management of daily operations to ensure that NPC did not lose, or bleed, its remaining cash. In spite of the now-questionable value of NPC, the defendants insisted that additional funds from the sale of WFG assets should be invested in NPC in the form of a "hedge" to lock in the value of the NPC sales contract portfolio. I declined to give my consent, pending a more complete analysis of the value of the company's operations, including detailed budgets for continued operations of the type required to manage the risks in such a company and a current "mark-to-market" calculation of the company's sales portfolio, a key indicator used in the industry to determine value.

11. As NPC did not have the resources or expertise to do the critical mark-to-market analysis, this task was undertaken by Intelometry. Intelometry's report, furnished to me on April 11, 2008, established that the value of NPC's sales portfolio was a negative \$1.75 million. This deficit was the result, in part, of NPC's contracting with customers to provide electric power

at a fixed rate while failing to secure a long-term source of electric power at a cost low enough to make sales to these customers profitable.

12. After studying the mark-to-market report, I concluded that NPC was not salable by industry standards and any additional funds spent to operate the company would result in a net loss to investors. I immediately notified the defendants of my conclusion that NPC close to preserve any investor cash that it might possess. In particular, I emphasized to defendants my concern that neither NPC nor WFG use investor funds to purchase the hedge, estimated by them to cost \$1 million.

13. At the time I received the "mark-to-market" report, I had no meaningful or reliable financial reporting on NPC beyond the status and activity in its bank accounts. According, it was agreed that the defendants would voluntarily turn over \$650,000 to the Special Master, while retaining approximately \$350,000 for working capital for NPC, pending my review of financial reports to determine the appropriate level of funding necessary to operate NPC and to provide defendants with a final opportunity to pursue several non-industry, private equity buyers described by defendants as still interested.

14. Over the next week, defendants did not produce a credible potential purchaser for NPC. Defendants also failed, in spite of numerous requests and promises, to provide financial reports and budgets necessary for the refined determination of required working capital. I continued to express my concern that NPC was bleeding money that otherwise would be available to repay investors.

15. During this period, I repeatedly asked defendants for a shuttering plan for NPC that included an evaluation of liabilities such a shutdown could create. I was told that NPC had asked its regulatory counsel, Brown and McCarroll LLP to provide advice for a plan being developed.

16. On April 25, 2008, I was abruptly informed that David Barrett, the Senior Accountant of NPC, was preparing an offer to purchase NPC. On April 28, Barrett submitted a written offer to purchase 100% of NPC stock for \$1 million.

17. I had concerns about this transaction, given Barrett's close relationship with defendants and the fact that he had been the source of all financial information on NPC provided to the Special Master. It was represented to me, by Barrett and/or the defendants, in response to my question of source of funding for his offer, that he was pooling funds provided by various "friends and family members." I also requested that the defendants quickly provide me with all documents relating to the transaction. Even though I specified the need for all documents relating to the closing of the transaction, defendants failed to provide these documents. Nonetheless, based on the oral representations made to me and the fact that another equally lucrative offer was highly improbable, I consented to the transaction.

18. On May 1, I was informed that the transaction had been consummated and that the title company was holding the funds. A true and correct copy of the sales agreement between Barrett and WFG is attached to this declaration as Exhibit 1. Although I expected to receive funds directly from the title company, I received on May 5 exactly \$1 million from the WFG bank account

19. In the aftermath of the sale of NPC, a number of events occurred that undermined my belief in the good faith, honesty and competence of the defendants. Immediately after the sale, I received calls from third parties about pending lawsuits in Texas state court involving NPC. Although one or more of the defendants must have been aware of these lawsuits, they had not disclosed this material information to me. Instead, I was informed about these lawsuits by counsel for the plaintiffs in these state proceedings.

20. Attached as Exhibit 2 to this Declaration is one of the lawsuits revealed to me by plaintiffs' counsel, Robert Lovell, after the consummation of the sale of NPC to Barrett. Plaintiffs, members of the Lateef family, owned a majority of the stock in NPC prior to its acquisition by WFG. Curiously, this lawsuit alleged that Wahab conspired with the Lateef's counsel to induce the Lateefs to sell their interest in NPC to Wahab a total of \$750,000, consisting of the forgiveness of \$250,000 in debt and a payment of \$500,000. The Lateefs seek, among other relief, to rescind the original sale of NPC.

21. Attached as Exhibit 3 to this Declaration is a second lawsuit disclosed to me by plaintiffs' counsel, Rodney Moton, after the sale of NPC to Barrett. Plaintiffs, R. Dennis Fields and Winfred Fields purport to be minority owners in NPC. The lawsuit seeks actual and punitive damages from NPC's purported failure to adhere to agreements with the Fields and Fast Track Energy, Inc., an entity that appears to be affiliated with the Fields. In a telephone conversation I had with Moton, he asserted that the Fields claimed a minority interest in NPC of as much as 40%, rather than the 15% consistently represented by the WFG defendants.

22. ON May 9, defendants' counsel requested that I transfer \$150,000 of the \$1 million purportedly paid by Barrett, to compensate the minority owners for their interest. I informed the defendants and their counsel that I considered them in violation of the good faith requirement of the order, based on their failure to disclose the existence of lawsuits regarding the minority ownership of NPC, even though this information was responsive to questions I posed to them prior to the NPC transaction.

23. When I recounted to the SEC and to my own counsel the existence of the previously undisclosed lawsuits, both expressed concern that the sale of NPC may have been a sham transaction with the ultimate intent of profiting defendants. Alarming, both Barrett and defendants failed to respond to my requests for basic information about the transaction. On

May 7, David Barrett declined to answer my question as to whether any of the defendants were involved in the financing of his deal. I also requested that Barrett and defendants provide all bank statements for all accounts, including those of NPC, through the closing.

24. When I finally received bank account statements on May 13 and May 15, they raised additional serious questions about defendants' candor and financial responsibility. The statements reflected continued access by the defendants to the accounts of NPC well past the closing date of the alleged transaction to a third party. The statements disclosed that defendants had made undisclosed transfers of substantial amount of money from the liquidation of WFG assets to various WFG-owned enterprises. The statements disclosed transfer of more than \$313,000 from WFG to NPC in the five business days before and including the day of the sale closing. These transfers were never disclosed to me and would have been unacceptable in light of my frequently expressed concern about NPC's continuing losses and the need to recover at closing the company's remaining cash. Additionally, the bank records disclosed the use of a total of approximately \$125,000 of WFG funds in connection with the operation of W Custom Home Builders, significantly more than the \$30-\$50,000 represented to me in my meeting with defendants in early April. There were also discrepancies in amounts apparently received from the sales of Texas Auto Pros assets to the WFG account and the amounts subsequently transferred to the Special Master account.

25. The next few days brought even more disturbing revelations of deception and mismanagement of funds by defendants. In light of the questions raised by defendants' recent conduct, defendants and their counsel agreed to a meeting on May 21, 2008 to discuss these developments and facilitate receipt of the long requested transaction documentation. Just a couple of hours prior to the commencement of the meeting, defendants' counsel, David Fielder, telephoned me to reveal that defendants had just revealed to him that they had, in fact,

financed Barrett's purchase of NPC. During the meeting, defendants admitted that they had not only provided the \$1 million purchase price, but had also, collectively, provided Barrett with additional an additional \$1.25 to \$1.5 million to operate NPC, claiming that these funds constituted "their own money" received from "their other jobs."

26. These revelations were shocking on a number of levels. First, the fact that defendants had financed the purchase of NPC was clearly a material fact that they should have disclosed to me in response to my inquiries before the closing of the transaction. Second, the additional \$1.25 to \$1.5 million supplied by defendants was provided at a time when WFG purportedly no longer had any ownership interest in NPC and, accordingly, this infusion of capital by defendants seems inexplicable. Third, in spite of numerous requests from the Special Master and the SEC, defendants have yet to provide documents that specify the source of the \$2.3 to \$2.5 million they contributed to the sale and subsequent operation of NPC. Accordingly, defendant's claim that the funds are not related to the WFG fraud cannot be substantiated.

27. Fourth, defendants must have been aware that there was a substantial risk that any additional money contributed to NPC would be lost, as I had discussed with them repeatedly that NPC was insolvent and should be shuttered to prevent additional loss. As set forth below, NPC has now closed its doors and defendants' money is not recoverable. Even assuming the truth of defendants' claims that the \$1.25 to 1.5 million came from a source other than WFG, the profligate use of this money was detrimental to investors. As I expressed to defendants, rather than being wasted on an insolvent enterprise, there funds could have been reserved to provide additional restitution to WFG investors.

28. Fifth, while I had never directly inquired about assets under the control of defendants, defendants' ability to produce \$2.2 to 2.5 millions with little or no delay was material to a number of discussions that we had engaged in during the past several weeks. For

example, defendants had insisted on the need to use proceeds from the liquidation of WFG assets to provide working capital for NPC and other companies created with investor funds. Furthermore, there had been extensive discussions about the propriety of paying defendants' attorneys fees with proceeds from the WFG assets; again, defendants expressed their need for funds to retain counsel. At no time during these discussions did defendants disclose that they had access to millions of dollars of purportedly "personal funds" to contribute to these expenses.

29. At the meeting on May 21, Wahab disclosed that he had contributed \$1.75 million, while Wallens Jr. and Wallens Sr. supplied \$800,000. During the same meeting, I suggested that I should have been informed about this information before the sale, so that I could have had the opportunity to object on the ground that the funds wasted on the additional investment in NPC could instead have been transferred into the Special Master account to preserve for investor relief. Wahab became belligerent and asked why I thought he should give all his money to investors. This response increased my concerns and suspicions about defendants' desire to cooperate in good faith in an effort to provide monetary relief to investors.

30. As anticipated, without the diversion of funds from another source, such as WFG investors, NPC was unable to continue operations as determined by state utility regulators. On May 28, 2008, NPC closed its doors and its customers were switched to other retail electric companies.

31. During the course of discussions with defendants, I discovered examples of self-dealing by defendants in the connection with the liquidation process. For example, I learned that the wife of Michael Wallens, Sr. was the listing real estate agent for the real estate properties acquired with investor funds. After discussions with the SEC, it was agreed that Mr. Wallens' wife would continue to handle the listing, but would waive any commission.

32. The buy/sell agreement between WFG and Barrett stated that Wallens Sr. would remain for a six month period to provide consulting services. Ten days after the closing of the NPC sale, I asked Wahab whether Wallens Sr. was receiving compensation for this role. After Wahab answered with an unequivocal "Yes," I expressed my opinion that this arrangement was likely improper under the Special Master Order. At the final meeting with defendants on May 21, however, Wahab denied stating that Wallens, Sr. would be compensated and Wallens, Sr. stated he was not accepting compensation for the consulting he was doing at NPC.

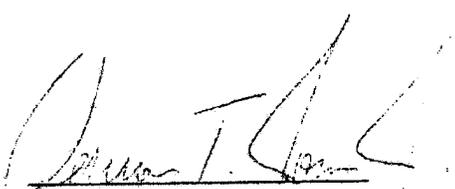
33. The events described in this declaration represent continual and material mismanagement, or worse, of assets represented by defendants as derived WFG investor funds. Defendants took many of these actions in spite of my direct advice and warnings to the contrary. At the meeting on May 21, 2008, my counsel and I informed defendants that we considered them to be in default of the terms and spirit of the Special Master Order and announced our intent to recommend that the SEC ask the Court for the appointment of a receiver. The resignation of defendants' counsel substantially increases the need to relieve defendants of direct control over assets.

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34. In my opinion, the numerous omissions, misrepresentations and mismanagement by the defendants make clear the need for a receiver to be appointed by the Court to take immediate control of the remaining property and liquidation process. Moreover, the sources of funds used by defendants to provide financing to David Barrett's purchase and subsequent "propping-up" of NPC should be investigated fully for possible links to the original WFG investor monies.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on the 3<sup>rd</sup> day of June 2008.



Vernon T. Jones, Jr.

**From:** Jones, Vernon

**Sent:** Wednesday, July 09, 2008 5:29 PM

**To:** 'jteakell@teakelllaw.com'; 'stephen\_m\_komie@komie-and-associates.com'

**Cc:** 'Randy.Williams@tklaw.com'; Moore, Rob; 'Norris, Jeffrey B.'; 'StewartAn@sec.gov'

**Subject:** RE: W Financial Group Operating Account

Bank statements show the W Financial Group operating account had a balance of only about \$6,150 as of May 19. If the account balance is currently sufficient to cover the expenses you suggest in your email, I need to know from what sources it was replenished and, if from liquidating assets, why the money was not deposited in the Special Master's account as required by the standing order?

**Vernon T. Jones, Jr.**

**Special Master – W Financial**

c/o Grant Thornton LLP Director, Economic Advisory Services

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---

**From:** Jones, Vernon

**Sent:** Wednesday, July 09, 2008 5:12 PM

**To:** 'jteakell@teakelllaw.com'; 'stephen\_m\_komie@komie-and-associates.com'

**Cc:** 'Randy.Williams@tklaw.com'; Moore, Rob; 'Norris, Jeffrey B.'; 'StewartAn@sec.gov'

**Subject:** W Financial Group

Messrs. Teakell and Komie;

Further to Mr. Norris' comments below on the difficulties of performing the duties specified by the agreed order appointing a Special Master, I would like to provide you with some of my concerns in the continuation of liquidation activities you describe.

- While a number of transfers have occurred to the Special Master account in recent weeks they have come virtually without explanation as to their sources or an accounting. In two instances it appears the deposits are attributable to sales of houses but are without reconciliation to discrepancies between the prior disclosed (and unopposed by me) sales contract prices and those amounts actually deposited. Information provided from other parties to the transactions indicate deductions were made at closing for completion work represented to me as done back in April and for which bank statements show transfers were made between W Financial and W Home Builders (though in much larger amounts). Other deposit monies are contemporaneous with communications from an employee of the discontinued auto sales operations but again without an accounting of sources or expenses that may have been deducted.

- I have not received any accounting of all expenses associated with the businesses on the exhibit to the agreed Special Master order. In the course of negotiating an amended Special Master order, defendants (through their counsel) agreed to immediately effect certain operating provisions even while the amended order was pending approval of the court. One such provision was for a complete accounting of expenses for each month to be tendered by the 7<sup>th</sup> of the following month beginning May 7 for April. I have never received the report for any month.

- I remind you of the defendant's obligation to provide at least ten days notice to me of the terms of any sale for my potential objection before the court. Defendant's alteration of any disclosed terms of sale after the objection period (as happened in the sale of the homes) require resubmission to me.

**Vernon T. Jones, Jr.**

**Special Master – W Financial**

**Exhibit "8"**

**APP - 067**

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E: Vernon.Jones@GT.com

---

**From:** Norris, Jeffrey B. [mailto:NorrisJ@SEC.GOV]  
**Sent:** Wednesday, July 09, 2008 11:50 AM  
**To:** jteakell@teakellaw.com  
**Cc:** Jones, Vernon; Stewart, Angelia L.; Randy.Williams@tklaw.com  
**Subject:** RE: W Fin Group

John:

I appreciate your position, but I intend to proceed as I described; while we would also like to avoid a hearing, I am not satisfied with the progress we have made in the last two weeks to close the deal. Hopefully, we will be able to execute documents before the hearing we intend to request.

Let me respond to the new issues you raise.

We also favor limiting the cost of obtaining restitution for investors. Unfortunately, your clients' conduct, as described in the Commission's application for emergency relief, only confirms that a Special Master, if not a Receiver, is a necessary expense in this case. As in many cases that involve a Receiver or Special Master, a large proportion of the costs here could have been avoided had the defendants cooperated fully and honestly with Mr. Jones. Furthermore, I credit Mr. Jones with saving significant resources by, among other actions, cutting off the flow of funds to National Power Company, an enterprise so badly managed that it had become an asset of little or no value, but which was depleting by hundreds of thousands of dollars per month funds that might otherwise have been used to repay investors. Also, as our papers describe, Mr. Jones' fees will probably be dwarfed by the funds wasted by the defendants during his tenure, including the millions wasted on NPC in the month of May alone.

The Special Master is an officer of the Court, not the Commission. I am not in a position to tell Vernon Jones to whom he can speak and to whom he cannot. I suggest, however, that limiting his direct communications with the defendants will certainly make it more difficult and costly for Mr. Jones to do his job. I also believe that the Special Master Order, which remains in effect, contemplates speedy and direct communications between the defendants and the Special Master. For now, we will leave this issue to be worked out by the Special Master and the Court.

Thank you.

*Jeffrey B. Norris*  
**Senior Trial Counsel**  
**U.S. Securities and**  
**Exchange Commission**  
**Fort Worth Regional Office**  
**801 Cherry St., 19th Floor**  
**Fort Worth, TX 76102**  
**Tel: (817) 978-6452**  
**Fax: (817) 978-4927**

Exhibit "9"

APP - 068

Report  
of  
Vernon T. Jones, Jr.

Special Master  
W Financial Group

July 23, 2008

**Exhibit "10"**

**APP - 069**

This report is divided into three sections and includes an addendum detailing a prior affidavit filed with this Court.

### I. Collections to Special Master Account

The current balance in the Special Master W Financial Group, I.J.C account is \$3,615,107.75. Deposits have been made to the account as follows:

<u>Date</u>	<u>Amount</u>	<u>Transfer from</u>	<u>Description</u>
4/4/08	\$474,040.93	W Custom Builders	Proceeds of home sale that occurred 4/1
4/14/08	\$650,000.00	National Power Co.	Protect excess working capital from use in NPC's failing business by agreement with defendant counsel
4/28/08	\$128,000.00	Texas Auto Pros	Proceeds of auto and loan sales
5/5/08	\$1,000,000.00	UNKNOWN	Transaction of National Power Co.
5/5/08	\$280,000.00	Texas Auto Pros	Proceeds of high quality auto loan sales
5/16/08	\$70,000.00	Texas Auto Pros	Unexplained
6/12/08	\$2,600.00	UNKNOWN	UNEXPLAINED
6/13/08	\$511,418.39	W Custom Builders	Proceeds of home sale (does not reconcile with contracted sale price)
6/16/08	\$500.00	W Custom Builders	Proceeds of home sale
6/27/08	\$498,619.66	W Custom Builders	Proceeds of home sale (does not reconcile with contracted sale price)
07/03/08	\$168,445.64	Texas Auto Pros	Likely sale of loans & inventory (no accounting)

### II. Assets Remaining of Those Listed in the Exhibit to the Agreed Special Master Order

While information provided by defendants has been limited, it is my understanding that the following assets remain in the control of W Financial Group for liquidation:

2506 Wheeler St. multi-unit rental<sup>1,2</sup>  
 7 unimproved home lots  
 An unknown amount of inventory and loans of the Auto business  
 Death benefit life insurance policy  
 Modest cash balances

<sup>1</sup> not now actively marketed for unknown reasons, tax authority records indicates ownership to entity unrelated to W Financial Group

<sup>2</sup> not listed as an asset on exhibit to settlement letter between defendants and SEC dated 3/11/08, however the property has consistently been represented by defendants as controlled by W Financial for liquidation to the settlement process under the Special master Order

III. Comments

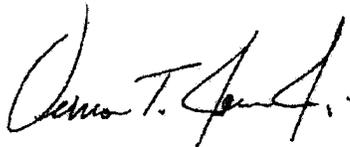
I attach the substance of my affidavit in support of the SEC motion to freeze assets and appoint a receiver made May 28, 2008. The affidavit explains the timeline and events of my work in this project with the numerous and continuing violations of the Special Master Order by the defendants.

Given a lack of hard accounting figures but based on liquidation estimates prepared by the defendants and adjusted for corrected assumptions and factual updates, I currently estimate that recovery will likely be no more than \$0.40 on the dollar for the investors of W Financial Group from on-hand funds and estimable assets and liabilities under the order.

A significant amount of residual value and cash may yet be available for recovery in the form of reasserting control over NPC. The defendants took a promissory note from the alleged buyer that could afford recovery of the stock of the company if unpaid, which is likely since the company has discontinued operations. A number of claims may exist against third parties related to power purchases and transportation services. The customers of NPC were transferred to a third party for a conditional fee that could total more than \$250,000. Someone, possibly the defendants, has been collecting the payments from customers made after the sham purchase transaction and subsequent demise of NPC. Those collections effectively represent money transferred from W Financial in propping up NPC in the weeks prior to the sham sale on May 1. Such collections could be expected to total as much as \$2.5 million. This is an example of exactly the type of recovery that could have been accomplished through an orderly shuttering plan for NPC had one been developed (as I requested) and acted on in April with greater certainty of results for the investors of W Financial.

Regrettably for the investors, this project has incurred significantly more time and professionals expense than I believe, or expected at the outset, was necessary for the orderly and good faith operation of the Special Master Order had the defendants performed as they committed.

Respectfully submitted this 23<sup>rd</sup> day of July 2008



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Vernon T. Jones, Jr.

## ADDENDUM

AFFIDAVIT of Vernon T. Jones, Jr.  
In the Matter of Special Master of W Financial Group  
Prepared May 28, 2008

### Report of the liquidation of the assets of W Financial since Court Appointment

1. On Tuesday, April 1, 2008, I had a call with the defendants and their attorney to begin the project. The agenda was for them to provide an overview so that I could identify initial document requests and schedule an in person meeting for Thursday, April 3 after I had engaged counsel.
2. A limited number of documents were supplied by the defendants in timely fashion by email. On April 1, a closing occurred on the sale of a W Financial Group ("WFG") custom built home that day for a net \$474,040.93 and that money was transferred to the special master account when it became available Friday, April 4.
3. The initial in person meeting was held in the office of National Power Company ("NPC") in North Houston with the defendants, the special master and their respective counsels present. After covering the background information on the case from the defendants, we discussed the status of liquidation efforts already in progress.
4. It was established that there were four primary classes or groups of assets to sell; 1) National Power Company, a retail marketer of electric power in Texas (defendants' estimated value \$5 to 8 million), 2) a real estate and home building business with one rental and two nearly complete houses as well as seven unimproved lots in a subdivision of far North Houston (defendants' estimated value \$2.9-3.8 million), 3) Texas Auto Pros, a "buy here, pay here," low-end used car auto dealership on four leased lots in the Dallas area (defendants' estimated value \$2.0-2.4 million) and 4) a death benefit life insurance policy on an unrelated individual (defendants' estimated value \$250,000-350,000). Notably, the due date for bids in an outstanding process for the sale of NPC was the next Monday, April 7. We reviewed and discussed financial reports, NPC offering documents that had already been provided and reviewed budget reports with David Barrett, Sr. Accountant for NPC, who was offered as the person most knowledgeable of the financial books and records of the W Financial entities.
5. From my experience in the power retailing industry, it was immediately apparent there was a lack of industry background in the individuals running NPC (including its president, Richard Hunter), and the financial resources required to manage the operation. However, a credible sale representative was involved in marketing NPC and the expected respondents were known industry players. I decided to see through the results of the bids in four days. We scheduled a meeting at NPC for a "bid opening" on Tuesday, April 8.
6. I was told in the initial meeting that the remaining construction and materials to put the two unfinished houses in salable condition, including work done but not yet billed was \$30,000-50,000.
7. In the meeting it was disclosed that the wife of one of the defendants, Michael Wallens, Sr. was the listing real estate agent for the real estate properties. I

clarified with Jeff Norris of the SEC that this arrangement was certainly not in keeping with the spirit, if not the letter, of the agreed order appointing special master and that she should not benefit from any of the real estate transactions. Mr. Wallens Sr. stated that another arrangement would be put in place. Later he recommended (with my concurrence) that the listing would remain with her brokerage and that she handle the sales efforts without compensation.

8. The plan for liquidating Texas Auto Pros was discussed and agreed to be started immediately.
9. No bids were received for NPC on April 7. From my experience, a lack of bids by companies I knew were then making acquisitions of this type of operation indicated likely issues with the ability to assume NPC's sales obligations or legal issues. In the April 8 meeting, attended by the Company sale representative, Intelometry, we discussed alternate sale opportunities and the need for close management of daily operations to ensure the Company did not lose, or bleed, whatever remaining cash it had. An operation such as NPC will turn over \$2-2.5 million per month in accounts receivable and payable while making a relatively thin gross margin leaving little room for error in managing cash. I requested more information on the sales process to-date, detailed budgets for continued operation of the type required to manage the risks in such a company and an update of the "mark-to-market" calculation of the company's sales portfolio, a key indicator used in the industry to determine value. The mark to market was calculated by Intelometry as NPC did not have the resources to report this critical information. The defendants stated further investment was needed in NPC in the form of a "hedge" to lock in the value of the NPC sales contract portfolio to which I disagreed (pending the updated mark-to-market report).
10. Intelometry provided the updated mark to market on Friday, April 11 which showed that the value of NPC's sales portfolio was a negative \$1.75 million as of that week. This indication of company value had deteriorated substantially from a positive \$628,000 in the March 27 offering document, also calculated by Intelometry in February.
11. I determined from this information that the Company was not salable by industry standards and immediately notified the defendants it was my intention to inform the SEC and the Court of my conclusion and that NPC be shuttered to protect any investor cash that it might possess. I notified the defendants that I was particularly concerned that neither NPC nor WFG use investor funds to purchase the hedge, estimated by them to cost \$1 million. At this point I had no meaningful or reliable financial reporting on NPC beyond the status and activity in the bank accounts.
12. Over the weekend it was agreed that the defendants would voluntarily turn over \$650,000 to the special master account for its protection and retain a balance of approximately \$350,000 for working capital for NPC pending my review of sufficient financial reports to determine the appropriate level of working capital for NPC and for them to continue to pursue the several non-industry, private equity buyers they described to me as interested. The \$650,000 was transferred on Monday, April 14.
13. Over the next two weeks I was routinely asked about potential buyers and deals including having representatives of alleged buyers call me to pitch their deal structure needs in order to make an offer. In all cases I specified that my potential

- agreement to a transaction started with a written offer delineating all conditions for closing and basic information on the buyer's ability to perform.
14. The financial reports and budgets on NPC that were agreed to be provided for the refined determination of required working capital were never provided (though continually requested on the concern that cash was bleeding that otherwise would ultimately be available for the investors). Bank statements were provided for the various accounts at a couple of points in time.
  15. I repeatedly asked the defendants for a shuttering plan for NPC that included an evaluation of the liabilities such a shut down could create. I was told that NPC regulatory counsel, Brown & McCarroll LLP had been requested to provide advice for a plan being developed.
  16. I also requested documents that could be expected to be the subject of due diligence requests from a bona fide buyer, particularly in the matter of a minority ownership of an apparent 15% in NPC that was residual to the original purchase of NPC by WFG in October 2007. The only information I received were certificates by the corporate secretary (himself the object of subsequently discovered disputes) which I evaluated to permit a likely ability to "cram down" any transaction on the minority owners on like terms to the majority owners.
  17. During that period, sales efforts on assets other than NPC were continually verbally reported to me. Those efforts sounded reasonable and eventually included copies of executed sales contracts for the two homes at represented prices.
  18. A draft amended order was prepared and circulated to address some of the specifications of the existing order to provide a clearer understanding of the required communications and approval processes to the defendants based on experience to-date. An agreement was made to implement certain provisions as they were agreed anticipating that some time would be involved in the court filing and approval processes. One of those agreed provisions was for the defendants to provide a report of expenditures for the month by the 7<sup>th</sup> of the following month starting with April. No such report has ever been provided.
  19. On Friday, April 25 I was informed by the defendants that an offer for NPC was forthcoming from David Barrett, Sr. Accountant of NPC. I expressed my concern that all of the financial information available to that point had come from Mr. Barrett, including that supplied to potential competing buyers.
  20. On Monday, April 28 a written offer was received indicating a closing on Thursday May 1 at a price of \$1 million for 100% of the NPC's stock.
  21. On April 29, at his request, I provided an email to defendants' counsel briefly outlining my understanding of the circumstances of the proposed transaction and that on the basis of that understanding I would not object to the transaction. I requested all documents relating to the transaction including the definitive buy/sell agreement and closing papers.
  22. I was informed the transaction did occur on May 1 but that the title company was holding the monies that I expected to be deposited directly into the special master account. I continually inquired about the status of the deposit until it was transferred in the exact amount of \$1 million on May 5. I had expected a differing amount because of addressing closing adjustments that are routinely a part of such transactions and specific conversations I had with defendants to make

- sure any and all cash that could be extracted from NPC would be garnered prior to closing, which I was assured would be done.
23. The week of May 5 provided calls from third parties and their representatives informing of lawsuits filed against NPC, its corporate secretary and defendant Adley Abdulwahab related to the minority and prior controlling ownerships. Communications of these same people with the SEC and my counsel, Randy Williams of Thompson Knight LLP raised the specter of a sham transaction with potential residual benefit to the defendants. The SEC requested I investigate certain matters to assist with a determination about the integrity of the NPC sale. A phone call I made to David Barrett on May 7 provided no comfort when he declined to answer my question as to whether any of the defendants were involved in the financing of his deal.
  24. That same week I requested bank account statements for all accounts, including NPC through closing which were not received until the middle of the following week. Notably, NPC's account statement was provided for a period well past the transaction date when the Company's accounts were expected to be outside the purview of the defendants.
  25. On May 9, I declined a request by defendants' counsel that I return \$150,000 of the NPC transaction transfer for them to satisfy the minority shareholder's share of the price paid. Representatives of those same shareholders had made it clear they were seeking more and other remedies to satisfy their interests. I informed the defendants and their counsel that I considered them to be in violation of the good faith requirement of the order in their failure to disclose the existence of lawsuits regarding the minority ownership at the times I had inquired of it.
  26. The bank account statements finally provided on May 13 and 15 indicate that over \$350,000 was transferred from W Financial to NPC in the five business days before and including the day of the sale closing. The transfers of these funds were never disclosed to me in that time and were well outside reason in a situation where the concern was about losses, or bleeding of cash, and recovering at closing the remaining cash in NPC. Additionally, it was apparent that far more cash had been used in W Home builder's activities than had been represented or notified to me with approximately \$125,000 having been advanced as opposed to the \$30-50,000 represented at the first meeting in April. There were also discrepancies in amounts apparently received for sales of Texas Auto Pros assets to its account and the receipts from those accounts to the special master account.
  27. Just a couple of hours prior to the meeting agreed for May 21, defendants' counsel called me to inform that the defendants had just informed him that they, in fact, financed David Barrett's acquisition of NPC and were secured by a note with him.
  28. The meeting provided additional admissions from the defendants that they had not only provided the \$1 million sales price but, pending Barrett's financing from family and commercial sources, they had collectively put another \$1.25 to \$1.5 million into NPC from "their own money" received from "their other jobs."
  29. Defendants agreed at the same meeting to provide a copy of their note with David Barrett; however they have failed to provide it.
  30. The events described above represent continual and material mismanagement, or worse, of the assets originally represented by the defendants as identifiable and available to the W Financial investors. These actions were taken in spite of my

direct advice and warnings to the contrary. My counsel and I informed the defendants and their counsel at the meeting on the 21<sup>st</sup> of May that we considered them to be in default of the terms and spirit of the agreed order appointing special master and would recommend to the SEC that a receiver be appointed.

31. In my opinion, the numerous omissions, misrepresentations and mismanagement by the defendants make clear the need for a receiver to be appointed by the court to take immediate control of the remaining property and liquidation process. Sources of funds used by the defendant's in providing bridge financing to David Barrett and the subsequent "propping-up" of NPC should be investigated fully for possible links to original WFG investor monies.

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Report of Vernon T. Jones, Jr. (Special Master W Financial Group) was filed with the Court and served on the following persons by first class mail, postage prepaid, on this 24<sup>th</sup> day of July, 2008:

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/s/ John S. Brannon

John S. Brannon