



# Hinton Economic Development Authority Special Audit January 1, 1997 – January 18, 2005

## Audit Summary:

**JEFF A. McMAHAN, CFE**

OKLAHOMA OFFICE

OF THE

STATE AUDITOR & INSPECTOR

### Why the audit was performed

The Attorney General requested the audit pursuant to **74 O.S. 2001 § 18f.**

- ✓ The Developer charged with constructing and operating the Hinton plant did not disclose pending legal issues concerning the process that was to be used at the plant. **Pages 9–12.**
- ✓ A total of \$746,022.54 was spent by the plant operating company for attorney and other legal related fees. **Page 27 & Attachment B.**
- ✓ The HEDA Board provided funding and a loan guarantee to a private company in which Board Members had or subsequently became interest holders in. **Pages 16-17 & 22.**
- ✓ HEDA created an obligation by providing a \$7.5 million letter of credit on behalf of a private corporation. The obligation was not approved by the Town of Hinton. **Pages 20 & 21.**
- ✓ A private company obtained financing of \$6.4 million secured by HEDA. There appears to have been a lack of oversight concerning the expenditures of these funds. **Pages 23-27.**
- ✓ HEDA paid \$7,558,878.63 for the Hinton plant, through various loans and security agreements. **Page 23.**
- ✓ It appears the plant management company may have been paid \$512,233.32 in compensation that exceeded the contract limits. **Pages 24 & 25.**
- ✓ We identified \$672,683.38 transferred from the plant operating account to an account in Georgia. Due lack of records for this account, we could only identify expenditures totaling \$306,221.36 from this account **Pages 26 & 34.**
- ✓ The payment of \$421,380.40 for consulting fees appears to be questionable. **Page 26.**
- ✓ Request for funding documentation submitted by the plant operators to HEDA appear to contain factual misrepresentations. **Pages 32 & 33.**
- ✓ The company charged with constructing and operating the plant filed for Chapter 7 Bankruptcy in 2002. **Page 29.**



Jeff A. McMahan, CFE  
State Auditor & Inspector  
Special Audit Report

## **HINTON ECONOMIC DEVELOPMENT AUTHORITY**

*JANUARY 1, 1997 THROUGH JANUARY 18, 2005*

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

November 1, 2005

Honorable Drew Edmondson  
Attorney General – State of Oklahoma  
Room 112, State Capitol  
Oklahoma City, Oklahoma 73105

Transmitted herewith is the Special Audit Report of the Hinton Economic Development Authority, Caddo County, Oklahoma. We performed our special audit in accordance with the requirements of **74 O.S.2001, § 18f**.

A report of this type is critical in nature; however, we do not intend to imply that our report failed to disclose commendable features in the present accounting and operating procedures of the Authority.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to insure a government, which is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of our special audit.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN, CFE  
State Auditor and Inspector

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Mr. Eldon McCumber, Chair  
Hinton Economic Development Authority  
P.O. Box 519  
Hinton, Oklahoma 73047

Dear Mr. McCumber:

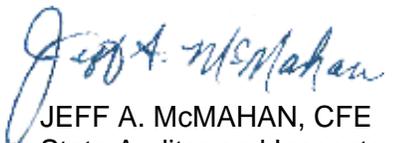
Pursuant to the Attorney General's request and in accordance with the requirements of **74 O.S. 2001, § 18f**, we performed a special audit with respect to the Hinton Economic Development Authority, Caddo County, for the period January 1, 2002 through January 18, 2005.

The objectives of our special audit primarily included but were not limited to, the areas noted in the index of specific concerns and are presented in their entirety in italics as they were communicated to us. Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Hinton Economic Development Authority for the period January 1, 2002 through January 18, 2005. Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and do not extend to any financial statements of the Authority taken as a whole.

This report is intended to provide information to the Attorney General, Board Members and Administration of the Authority. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,

  
JEFF A. McMAHAN, CFE  
State Auditor and Inspector

November 1, 2005

HINTON ECONOMIC DEVELOPMENT AUTHORITY  
BOARD MEMBERS

Eldon McCumber ..... Chairman

Kenneth Doughty ..... Vice-Chairman

Michael Chaloner ..... Secretary/Treasurer  
(Ending 6/2004)

Jimmy Smith ..... Trustee  
(Ending 9/2002)

Dale Hamilton ..... Trustee  
(11/2002 – 2/2003)  
(Starting 7/2004)

Ken Silk ..... Trustee  
(Starting 2/2003)

Bill Sparks ..... Trustee  
(Ending 7/2002)

Charles Jaques ..... Trustee  
(Starting 7/2002)

Board Attorneys

Leroy Patton  
(1/97 – 6/04)

Rich Propester  
6/04 - Current

## **INTRODUCTION**

The Hinton Economic Development Authority ("HEDA") is a public trust established in accordance with **60 O.S. § 176, et seq.** The trust was created on the 29<sup>th</sup> day of June 1987. The purpose for the creation of the trust was to "bring to fruition the general economic development of the Beneficiary Town". The trust defines the Beneficiary as being the Town of Hinton, Oklahoma.

### **Hinton Economic Development Authority (HEDA):**

HEDA facilitated the development of the cocoa butter plant located in Hinton, Oklahoma. HEDA provided the collateral for the bonds issued to LGX, LLC as well as additional funding through Hinton Enterprises, Inc.

### **Hinton Enterprises Inc. (HEI):**

The attorney for HEDA created HEI. Originally named LGX, Incorporated and renamed to HEI. HEI was the funding vehicle between HEDA and LGX.

### **LGX, L.L.C. (LGX):**

LGX was responsible for the development, construction, and operation of the cocoa butter plant. The original shareholders for LGX consisted of HEI, Hall Management, New Vision Foods and Kenneth Doughty, HEDA Vice Chairman.

### **Hall Management, L.L.C. (Hall Management):**

Hall Management provided the knowledge for the cocoa butter liquefied gas extraction process. Hall Management (Donald Hall) had total control over all of the LGX funds. Hall Management was contracted to receive \$15,000.00 a month for consulting and another \$15,000.00 a month for overhead expenses until the plant was operational, but with the provision that these fees would not exceed the total aggregate amount of \$720,000.00.

### **New Vision Foods, Inc. (New Vision):**

New Vision Foods is a Nevada Corporation and located in Savannah, Georgia. The president of New Vision Foods (and Hall Management) was Donald Hall. New Vision Foods became a partial holder of LGX for investing its knowledge and rights relating to the cocoa butter gas extraction process.

### **CF Systems (CFS):**

Originally owned by Morrison Knudsen (MK), later sold to ConAgra. CFS was involved in gas extraction processes applied to soil remediation. About the time of the Hinton project, MK sold CFS to ConAgra and CFS ceased to exist.

### **Cargill, Incorporated (Cargill):**

It is based in Minnesota and has over 100,000 employees in 59 countries. According to financial information reported on the Cargill website, Cargill reported a 2004 revenue of \$62.9 billion with earnings of \$1.28 billion. Forbes reports that Cargill is the largest privately held company in the United States.

### **Liquefied Gas Extraction (LGE):**

A technology involving the use of liquefied gas to separate and extract elements from a common material.

In 1997 the HEDA Board began discussions regarding the construction and operation of a cocoa butter extraction plant ("plant") in Hinton, Oklahoma. Through a series of agreements and promissory notes the plant construction and operations were to be overseen by LGX who would, in turn, be managed by Hall Management.

Additionally New Vision was a partial shareholder of LGX. The registered President of New Vision also became the President of both LGX and Hall Management.

LGX received funding from three sources, an Industrial Revenue Bond, private funds and funds from HEDA. The funds provided to LGX by HEDA were passed through another entity, LGX, Inc. that was later renamed Hinton Enterprises, Inc. ("HEI"). In addition to being a funding vehicle for LGX, HEI has controlling interest in LGX.

The process that was to be used at the plant was a process referred to as liquefied gas extraction (LGE). Prior to the plant becoming operational (selling a finished product) Cargill sued LGX over the use of the LGE process. LGX began paying for attorney and other related fees as a result of this lawsuit.

LGX subsequently filed for Chapter 7 Bankruptcy in the United States Bankruptcy Court, Western District of Oklahoma. At the time of the filing LGX listed assets in the amount of \$1,800,106.32 and liabilities in the amount of \$11,888,696.40. The bankruptcy filing was signed by Michael Chaloner as "manager" on November 11, 2002.

At the time we began our audit the plant was not operating.

We were requested to perform a special audit of HEDA, specifically with regards to the transactions surrounding the plant project. The results of the special audit are in the following report.

### RECORDS NOT AVAILABLE DURING AUDIT

The purpose of this audit was to identify the funding of the cocoa butter plant in Hinton, Oklahoma, the use of those funds and, ultimately, the failure of the project. At conception this project involved one public body, the Hinton Economic Development Authority, and four private entities including, New Vision, Hall Management, Hinton Enterprises and LGX.

As we progressed in the audit we found that several other companies, through a mixture of lawsuits and agreements, also became involved with either LGX directly, or the LGX/New Vision Manager.

While some of the events occurred prior to the Hinton project they evolved into significant events occurring during the funding, development, construction and operation of the Hinton plant.

We cite the following examples:

- At the outset of our audit we were aware that Cargill had filed a lawsuit against LGX. We have been able to obtain few records pertaining to this suit, however the records that we have obtained include references to other documents pre-dating the Hinton project. Some of those documents appear to be potentially relevant to this audit. *US District Court of Philadelphia, 00-CV-4252*
- New Vision filed a lawsuit against Cargill. From the limited documents we were able to obtain it appears there are depositions containing information relevant to the finances and operations of Hinton plant. *US District Court of Georgia, CV-202-156*
- New Vision is a partner in the Hinton plant. We have been unable to obtain any documents pertaining to New Vision other than a cursory filing obtained from the Nevada Secretary of State website. We identified payments from LGX to New Vision as well as payments to individuals that are interest holders of New Vision.
- We identified payments from the LGX operating account to an LGX "S" account. We were able to examine LGX records, which did not include any records pertaining to the "S" account.
- Invoices were submitted to LGX for payment and it appears that the invoices were paid from an account other than the accounts provided to us.

We performed our audit based on the records that were made available to us; however, it appears that there may be other records containing information that may be relevant to this audit that we were not provided and we have been unable to obtain.

### LEGAL ISSUES NOT DISCLOSED

#### Letter from Cargill to Don Hall indicates Cargill will take action if process is used.

We obtained a letter dated May 9, 1997 from Cargill, Incorporated to Don Hall, President of New Vision. This letter is dated prior to the various agreements between HEDA, HEI and LGX and also predates the funding of the LGX plant in Hinton.

The 3-page letter appears to indicate the following:

- Cargill, New Vision Foods (NVF) and CF Systems (CFS) entered into a confidentiality agreement on June 20, 1996.
- New Vision was acting as a 'marketing consultant' for CF Systems.
- Cargill disclosed the LGE process to CFS and NVF.
- The LGE process is Cargill's proprietary and intellectual process.
- Cargill disclosed its proprietary concept to NVF and CFS under the confidentiality agreement.
- NVF and CFS performed tests on behalf of Cargill.
- Cargill has taken significant issue over CFS and NVF of using the LGE process to cocoa butter.
- Cargill believes CFS and NVF are liable for "misappropriation" of Cargill trade secrets.
- Cargill is prepared to take "whatever steps are necessary" to enforce the confidentiality agreement and "its intellectual property".

It appears that there were significant legal issues concerning the LGE process prior to the funding and construction of the Hinton plant. The Cargill letter states, in part:

*"Enough is enough! Cargill cannot tolerate CFS, and NVF at CFS' behest commercially promoting for CFS' benefit, and to Cargill's competitive detriment, a proprietary concept that Cargill disclosed to CFS and NVF in confidence".*

Further, it appears that Cargill had made Don Hall aware of Cargill's intention to "take whatever steps are necessary" to protect its "intellectual property". This letter also includes references to other correspondence between Cargill, CFS and New Vision concerning this issue.

#### HEDA Board was not aware of legal issues with Cargill prior to funding.

We contacted four of the five HEDA Board members and asked if they had ever seen or been made aware of the Cargill letter. All stated that they had not. Further, we asked if Don Hall had indicated to the Board members that there would be, apparently, significant legal issues surrounding the LGE process that was to be used at the Hinton plant.

*"[We] would not have wanted to get involved in anything that had a built-in lawsuit".*

All of the members stated that not only had they not been made aware of the issue with Cargill, but that the Board had discussions with Don Hall about potential patent issues and Hall had told them that there would be no patent issues in that this process was not a patentable process.

Further, all of the Board members interviewed stated that had they been aware of the Cargill letter, or that there were issues concerning the LGE process, they would not have invested or become involved with the plant project. One Trustee stated that they (HEDA) "would not have wanted to get involved in anything that had a built-in lawsuit".

The May 9, 1997, Cargill letter to Don Hall pre-dates the funding and construction of the Hinton plant. In that letter it is apparent that Cargill has taken a legal position concerning the use of the LGE process and that Cargill intends to prevent Don Hall and/or New Vision from using that process, "by whatever means necessary". Based on our interviews with the HEDA Board members this information was not disclosed to the HEDA Board.

#### **Cargill files lawsuit.**

Cargill filed suit against LGX and Don Hall on August 18, 2000. According to documentation identified in LGX records it appears the following sequence of events took place:

- On 7/24/2000 LGX, seeking potential customers, sent a letter to Wilbur Chocolate.
- The letter included an explanation of the LGE process.
- Wilbur Chocolate is a subsidiary of Cargill (purchased by Cargill in 1992).
- Cargill wrote to Don Hall on 8/17/2000 demanding LGX stop using the process.
- Don Hall wrote to Cargill on 8/18/2000 refusing to stop using the process.
- Cargill filed suit on 8/18/2000 in U.S. District Court Eastern Pennsylvania.

Although we are unable to make any determinations regarding the viability of the LGE process or the Hinton plant it is apparent, from reading the Cargill letter dated May 9, 1997, that any attempt to use the LGE process by any entity would result in a significant legal battle with Cargill Corporation.

Ultimately the gas extraction process used by the Hinton plant became the subject of two lawsuits filed in the United States District Courts of Pennsylvania and Georgia.

#### **Inconsistent information in LGX records.**

While examining the LGX records we identified correspondence between Don Hall, representing LGX, and various Cocoa related companies. In one instance we noted that a December 20, 1999 memo to Al Girard, ADM Cocoa, referenced the LGX plant in Hinton as follows:

*This small facility was constructed more as a 'show the process works' than as a production plant.*

From our conversations with Michael Chaloner, who was a HEDA Board member during the times of the LGX project, HEDA was not told that the Hinton plant would be a 'research and development' plant. It was only near the end of the plant construction, when the market price for cocoa butter dropped, that Don Hall began implying that the Hinton plant was really a "research and development" plant.

We obtained an Order from the United States District Judge, Southern District of Georgia, CV-202-156 filed on March 30, 2005. The order was filed in a response to a suit brought by New Vision and its holders, against Cargill in an apparent attempt to assert a right to the LGE process.

Although we have been unable to obtain many of the documents and depositions surrounding either case, it appears, from reading the Order that New Vision is claiming that the Hinton project was not fully funded, and/or, that the Hinton plant never became operational; therefore, the clauses in the agreements between New Vision and LGX, essentially assigning New Visions' technology to LGX, were invalid. We cite the following from the Order:

*Plaintiff NVF first argues that the "Failure to Fund" provision is implicated because the Hinton Project was terminated prior to completion and startup and operation.*

In this Order there are references to a December 13, 2003, deposition taken from Don Hall. According to the Order, citing direct references to the Don Hall deposition, it appears that he has indicated that the plant was operational in "roughly April or May of 2001". In the Order we noted the following exchange (referencing the Don Hall deposition):

*Q. Okay. So you were – you had it completed sometime in 2001?*

*A. I think in April 2001, roughly April or May of 2001, we completed it.*

*Q. And at that point you were ready to begin commercially selling extracted cocoa butter and cocoa powder, correct?*

*A. Or anything else, any other oilseed.*

We noted that the Order references several letters sent by Don Hall to various vendors and potential clients stating or otherwise indicating that the Hinton plant was operational. We identified letters from LGX to various vendors indicating the plant was operational, including:

- An October 1999 letter to Hershey Foods Corporation indicating the "Oklahoma" plant is operational.
- A July 2000 letter to Wilbur Chocolate referencing the costs associated with the "operation" of the Oklahoma facility.
- A September 2000 letter to Blue Diamond Growers indicating the Hinton plant, "was completed in 2000". This letter also included references to the costs, "derived from the operation of the Oklahoma facility".

The LGX records contained an October 4, 2001, letter from Don Hall, on LGX letterhead, to Baker Hughes Incorporated, which included the following:

*Thank you for your letter of September 7, 2001. Please be advised that the LGX LLC facility has not operated in the past thirteen months due to different problems associated with equipment design.*

We obtained, through PACER<sup>1</sup>, an Affidavit of Michael Moser. Mr. Moser, who was a consultant on the Hinton plant and is an interest holder of New Vision, states in the January 24, 2005 Affidavit, that there were "major problems" with the plant and lists some of those problems. Mr. Moser's affidavit further states:

*To my knowledge, none of these corrections were made prior to the Cargill lawsuit that caused our customers to withdraw from negotiations.*

The Order appears to contemplate the funding amount of the Hinton plant with regards to the "Failure to Fund" provision of the LGX operating agreements. We specifically noted several instances where the Court references the LGX funding amount as being \$7.75 million. These references included:

*Plaintiffs also point out that only \$7,750,000 of the \$8,100,000 in required funding was ever provided.*

*In actuality, \$7,750,000 of the \$8,100,000 in required funding was provided.*

The Amended and Restated Operating Agreement states, in part:

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<sup>1</sup> Public Access to Court Electronic Records.

*If the funding of \$8,100,000 contemplated by Sections 3.2 and 3.3, or an amount reasonably sufficient to fund the Company's operations [...]*

The Court appears to have considered the total LGX funding as being \$7.75 million in its decision. We noted that based on the LGX records we examined it appears that LGX was funded in excess of \$9.7 million.

We also noted a footnote to the Court's Order stating the following:

*Interestingly, Plaintiff [NVF et,al] takes a contrary position on the issue of assignment in the Pennsylvania case. Recall that NVF represented that it assigned its ownership interest in LGE [liquefied gas extraction] technology in its motion to intervene in the Pennsylvania case. I need not address the issue of judicial estoppel however.*

We have been unable to obtain the actual transcripts pertaining to the funding of LGX.

## HINTON ENTERPRISES, INCORPORATED (HEI)

### Creation of HEI

Hinton Enterprises, Incorporated ("HEI") was originally incorporated under the name LGX, Incorporated on June 23, 1997. On August 26, 1997, an Amended Certificate of Incorporation was issued renaming LGX, Incorporated to Hinton Enterprises, Incorporated.

When LGX, Inc. was registered the registered agent was listed as the law firm of Andrews Davis Legg Bixler Milsten and Price, Inc. ("Andrews Davis"). The Amendment to Certificate of Incorporation changing the name of LGX, Inc. to HEI filed on August 26, 1997, listed the same registered agent.

We noted that Leroy Patton, Attorney for the Hinton Economic Development Authority ("HEDA"), signed the Amendment as "President" of HEI. On June 7, 2004, a "Change or Designation of Registered Agent and/or Registered Office" was filed with the Secretary of State naming Michael Chaloner as President of HEI.

Leroy Patton was the sole shareholder of HEI having been issued 500 shares of common stock. On June 1, 2004, Leroy Patton executed a document stating the he was the sole Director, President, Secretary and Treasurer of HEI. The same document conveys these positions to Michael Chaloner effective June 2, 2004.

Additionally Leroy Patton signed an "Assignment and Power of Attorney" on June 1, 2004, assigning the 500 outstanding shares of HEI to Michael Chaloner. We noted during our examination of HEI records that for the period from December 2, 1997 through October 29, 2004, sixty-five (65) of sixty-six (66) checks issued by HEI were signed by Michael Chaloner.

Mr. Chaloner was a voting HEDA Board Member from 1/97 through 6/04. The HEDA minutes for the May 17, 2004, meeting included the following:

*"Ken Silk made a motion to appoint Michael Chaloner as Secretary/Treasurer and Financial Advisor as per the trust indenture [...]"*

The meeting minutes for the following meeting (July 22, 2004) do not reflect Mr. Chaloner as being a HEDA voting member. Mr. Chaloner became an advisor to HEDA at the June 18, 2004 meeting and relinquished his position as a voting member.

### Agreements to capitalize LGX

A. Consistent with its mission to aid in the economic development of Hinton, Oklahoma, HEDA desires to facilitate the development of a cocoa processing plant in Hinton, which will extract cocoa butter from cocoa beans and produce a lowfat/fat free cocoa powder as a by-product. HEDA will facilitate the development by providing financing to HEI or providing its guarantee of third party financing to HEI, the proceeds of which will be utilized to capitalize LGX, L.L.C., an Oklahoma limited liability company ("LGX"), which has been formed for the purpose of developing, constructing and operating, through its subsidiary, the cocoa processing plant.

HEDA / HEI Advisory Agreement

HEI entered into an "Advisory Agreement" ("Agreement") with HEDA on October 16, 1997. Subsequently HEI and HEDA entered into an "Amended and Restated Advisory Agreement" ("Amended Agreement") dated April 1, 1998.

The Advisory and Amended Advisory Agreements both state that HEDA will facilitate the development of a cocoa butter extraction plant by providing funding or HEDA's guarantee of third party financing to HEI.

Both agreements further define that the funding provided by HEDA to HEI will be used to “capitalize” LGX, which was formed, “for the purpose of developing, constructing and operating, through it’s subsidiary, the cocoa processing plant”.

**2.02. Financing.** HEDA agrees to provide for the funding of LGX up to the Financing Amount in one of the following ways, or in some combination of them: (i) to make a loan to HEI in the Financing Amount; (ii) to issue its Guarantee of loans to HEI by third parties; or (iii) to provide cash or cash equivalent collateral for a letter of credit to be issued to facilitate a third party loan to LGX. Such loans or Guaranty will be collateralized by the land, plant and equipment associated with the liquefied gas extraction plant in Hinton, Oklahoma.

Article 2.02 of the Agreement states that HEDA agrees to fund LGX, through HEI, an amount “up to the

*Financing Amount*”. The Financing Amount, as defined in the Agreement was the principal amount of \$6,750,000.00, maximum, or, in the alternative, if a letter of credit is used for purposes of financing LGX, “*the cash or equivalent collateral will be required to equal 110% of the amount of the letter of credit*”.

Section 4.07 of the Agreement states, in part:

*[HEI] shall serve as a fiduciary to HEDA with respect to all funds or property in its possession from the sale of notes ... or from the investments described in Section 3.02 ...*

Section 3.02 states, in part:

*The term ‘investment’ or ‘investments’ as used in this Agreement includes, but is not limited to, HEI’s equity interest in LGX.*

Section 4.07 of the Agreement states that HEI will deposit all amounts received under the

**4.07. Fiduciary.** HEI shall serve as a fiduciary to HEDA with respect to all funds or property in its possession from the sale of the Notes or from the investments described in Section 3.02, including temporary investments of cash such as those described in Section 3.03 and any funds in escrow such as those described in Section 2.03. HEI will deposit all amounts received by it under this Agreement or with respect to any investments-made pursuant hereto in an account or accounts which are separate from any other accounts utilized in HEI’s business.

Agreement in “*an account or accounts which are separate from any other accounts utilized in HEI’s business*”.

10/15/1999	1014	JCS Industries LLC	\$100,000.00
11/30/1999	1015	JCS Industries LLC	\$50,000.00
1/13/2000	1016	JCS Industries	\$25,000.00
2/2/2000	1017	JCS Industries	\$25,000.00
2/25/2000	1018	JCS Industries	\$25,000.00
3/3/2000	TRS	Transfer *****158	\$40,000.00
3/30/2000	1019	JCS Industries	\$25,000.00
4/13/2000	1020	JCS Industries	\$65,000.00
4/27/2000	1021	JCS Industries	\$75,000.00
5/24/2000	1022	JCS Industries	\$10,000.00
6/8/2000	1024	JCS Industries LLC	\$10,000.00
			<b>\$450,000.00</b>

We noted that in addition to funding LGX it appears that HEI was also funding another HEDA/HEI venture referred to as the “JSC” project. Between November 1999 and June 2000 HEI issued a total of ten (10) checks to “JSC Industries” and one electronic transfer to JSC in the total amount of \$450,000.00.

These checks were issued from the same HEI checking account that was used to provide funding to LGX. This appears to be contrary to the HEI/HEDA agreement requiring HEI to deposit “*all amounts received...in an account or accounts which are separate from any other accounts utilized in HEI’s business*”.

During the period from 10/24/1997 through 5/18/2004 we examined the transactions from HEDA to HEI. During this period HEDA issued checks to HEI in the cumulative amount of \$2,186,773.84.

Of that amount we were able to directly correspond payments from HEI to LGX or JSC in the cumulative amount of \$2,175,569.16, a variance of \$11,204.68.

We identified thirty-four (34) transactions in the total amount of \$11,182.17 expended by HEI for purposes such as tax related fees, private audit fees, franchise tax fees and fees related to the upkeep of the LGX plant site.

The initial transaction, which we identified from HEDA to HEI, was a check to HEI in the amount of \$64,017.06 on October 24, 1997. HEI issued a non-numbered counter check to LGX in the amount of \$63,967.06, a variance of \$50.00. We noted that the first bank statement we were provided for HEI (12/97) indicated a beginning balance of \$50.00.

The variance amount of the HEDA payments to HEI, and the HEI payments as noted above was found to be -\$22.51. We noted that the ending balance for HEI was \$22.51 (Attachment A).

## LGX, L.L.C. (LGX)

### Creation of LGX, L.L.C. (LGX)

LGX is an Oklahoma Limited Liability Company having filed for and received a Certificate of Limited Liability Company from the Oklahoma Secretary of State on August 26, 1997.

At the time LGX was registered the registered agent was listed as the law firm of Andrews Davis Legg Bixler Milsten and Price, Inc. ("Andrews Davis"). We noted that Leroy Patton, Attorney for the Hinton Economic Development Authority ("HEDA"), signed the supporting documentation attached to the Certificate of Limited Liability for LGX.

On September 17, 2002, a *Change or Designation of Registered Agent* form was filed with the Secretary of State changing the registered agent of LGX to Michael Chaloner, who was at that time, a voting member of the HEDA Board.

The LGX Bank statements for the period from December 31, 1997 to January 30, 1999, were addressed to LGX LLC Michael Chaloner, P.O. Box 1038, Hinton, Oklahoma. We noted that this is the same address listed on the statements for Legacy Bank of Hinton.

### Operating Agreements set forth capital contributions

We identified two "*Operating Agreements*" for LGX. The first was dated August 26, 1997 and a second, entitled "*Amended And Restated Operating Agreement*" was dated April 1, 1998 ("*Agreements*").

Both Agreements set forth in Article 3 the capital contributions and issuance of units of LGX. Under both agreements the issuance of units is defined as follows:

- HEI agrees to loan LGX \$250,000.00 and agrees to loan up to \$6,750,000.00 in exchange for 510 units of LGX (51%).
- Private funding in the amount of \$50,000.00 and an agreement to loan to LGX an additional \$1,350,000.00 in exchange for 245 units (24.5%).
- New Vision Foods (Don Hall) contributes its rights, and rights of its principle shareholder to LGX in exchange for 245 units, of which, 122.5 units are reacquired by LGX (12.5%).
- Hall Management (Don Hall) as an "inducement" to become the "Manager" of LGX receives 122.5 units (12.5%).

	Capital	Capital	Total Capital	Units	Cost / Unit
Hinton Enterprises	\$6,750,000.00	\$250,000.00	\$7,000,000.00	510	\$13,725.49
Doughty Funds	\$50,000.00	\$1,350,000.00	\$1,400,000.00	245	\$5,714.29
	<b>\$6,800,000.00</b>	<b>\$1,600,000.00</b>	<b>\$8,400,000.00</b>		

### Owners of LGX

The funding provided to LGX by HEI is, effectively, funding from HEDA. We identified twenty-three (23) corresponding transactions (based on dates and amounts) between HEDA, HEI and LGX in the cumulative amount of \$1,661,602.10. In these transactions money was provided to HEI from HEDA and a subsequent corresponding transaction was found from HEI to LGX. The anticipated private funding of \$1,400,000.00 was from a combination of trusts and individuals including:

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- Kenneth Doughty Revocable Trust.
- Florene Doughty Revocable Trust.
- Jason and Teresa Doughty.
- Jimmy and Terry Treadway.

Kenneth Doughty was and currently is the vice chairman of the HEDA Board. The private funding represents the wife, son and daughter-in-law of Kenneth Doughty and the daughter and son-in-law of Kenneth Doughty.

In a document entitled, "*Beneficial Owners of Units*" the four (4) groups are defined. In addition the same document contains the following, in part:

*The persons named below, by signing this Exhibit 'B', hereby acknowledge that they have appointed Kenneth Doughty as their nominee and attorney-in-fact to hold legal title to the Units specified below for their beneficial interest and that the Manager, the Company, each Member and all other persons are entitled to deal with Kenneth Doughty as if he were the sole legal and beneficial owners of the Units*

According to records maintained by the Nevada Secretary of State, Donald Hall is the President of New Vision. Through court records it appears that Mike Moser and L.V. Benningfield are also interest holders of New Vision. We have been unable to determine any other interest holders of New Vision.

The contributions to LGX by Hall Management include, "*the knowledge and experience of Hall Management in the liquefied gas extraction industry and the management expertise of Hall Management*". Hall Management, like New Vision, did not make a monetary investment in LGX but, rather, an investment in exchange for knowledge of the process.

	Units	Cost	Avg / Per Unit
HEI	510	\$7,000,000.00	\$ 13,725.49
Doughty	245	\$1,400,000.00	\$ 5,714.29
<b>Capital Investors</b>	<b>755</b>	<b>\$8,400,000.00</b>	<b>\$ 11,125.83</b>
Hall Management	122.5	<i>Knowledge &amp; Experience</i>	-----
New Vision	122.5	<i>Technology Rights</i>	-----
<b>Non-Capital Investors</b>	<b>245</b>	-----	-----
<b>Total</b>	<b>1,000</b>		

## HALL MANAGEMENT, L.L.C.

### Creation of Hall Management

Hall Management L.L.C. ("*Hall Management*") is an Oklahoma Limited Liability Company having filed for and received a Certificate of Limited Liability Company from the Oklahoma Secretary of State on April 22, 1998.

At the time Hall Management was registered the registered agent was listed as the law firm of Andrews Davis Legg Bixler Milsten and Price, Inc. ("Andrews Davis"). We noted that Leroy Patton, Attorney for the Hinton Economic Development Authority ("HEDA"), signed the supporting documentation attached to the Certificate of Limited Liability for Hall Management.

The *Annual Certificate of Limited Liability Companies* maintained by the Oklahoma Secretary of State indicate the Manager ("*Manager*") of Hall Management as being Donald Hall.

The principal place of business listed on the *Articles of Organization* is 500 West Main Street, Suite 500, Oklahoma City, Oklahoma. This is the address for the Andrews Davis Legg Bixler Milsten and Price law firm. The principal place of business listed on the subsequent 2002, 2003 and 2004 *Annual Certificate of Limited Liability Companies* is 2333 Louisville Road, P.O. Box 1621, Savannah, GA 31402.

Article 6 of the *Operating Agreement* specifies that New Vision is designated as the Manager of LGX. Article 6 of the *Amended and Restated Operating Agreement* designates Hall Management as the Manager of LGX. As noted previously it appears the principle interest holder of both New Vision and Hall Management is Donald Hall.

### Development and Construction Agreement executed to construct plant

On April 1, 1998, HEI, LGX and Hall Management executed a *Construction and Development Agreement* ("*Agreement*") with a purpose to build the LGX plant in Hinton, a "candy waste" plant in the vicinity of Hershey, Pennsylvania and a "nutraceuticals" plant at Savannah, Georgia.

Under this Agreement LGX was to deliver the projects on or before July 31, 1999. Additionally the plant was to be delivered "*free and clear of any and all encumbrances of whatsoever nature.*"

This Agreement also sets forth the projected construction costs (\$7,200,000.00) of the Plant as well as the compensation to be paid to the Developer (Hall Management). This Agreement contains three clauses relating to compensation of the Developer:

<p>3.2 <b>Development Fee.</b> The Company agrees to pay the Developer a monthly Development Fee equal to the greater of ten percent (10%) of the prior month's Development and Construction Costs, as defined in Section 1, or \$15,000 per month for the period commencing May 1, 1998 and ending on Completion. Each payment of the Development Fee shall be due on the fifteenth (15th) day of the succeeding month.</p>
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<p>3.3 <b>Overhead Fee.</b> The Company agrees to pay the Developer a monthly Overhead Fee of \$15,000 per month for the period commencing on May 1, 1998 and ending on Completion.</p>
---

<p>3.4 <b>Aggregate Limitation.</b> In no event shall the Development Fee and Overhead Fee exceed a total of \$720,000.</p>
---

Additionally the *Amended and Restated Operating Agreement* for LGX also sets forth the compensation to be paid to the Manager including \$25,000.00 per month or 5% of the net profits for the Company (LGX). However, this compensation clause included the following:

*In addition, for a period of time commencing upon "Completion", as defined in Section 2 of the Development and Construction Agreement dated as of April 1, 1998 among the Company, Enterprises and Hall Management, and for a period of fifteen (15) months thereafter, Manager shall be paid a monthly Management Fee in an amount equal to the greater of five percent (5%) of the net profits of the Company, determined in accordance with generally accepted accounting principles after taking the Management Fee into account, for the preceding month, or \$25,000.*

Section 2 of the Development and Construction Agreement states, in part:

*Completion means each Project has been fully constructed and tested and such tests demonstrate to HEI's satisfaction the ability to perform as stated in the specifications and further that such Project is ready to commence commercial production.*

Construction was never started on the "candy waste" plant in Hershey, PA. The "candy waste" plant is listed as one of the projects in the *Development and Construction Agreement*; therefore it appears that the compensation to Hall Management, under the *Amended and Restated Operating Agreement* would not apply.

The *Amended and Restated Operating Agreement* provides that the Manager may be paid the greater of \$25,000.00 per month or 5% of the Companies net profits, "*commencing on the date of first commercial production of liquids from the Companies....*"

Commercial production is defined in the same Agreement as:

*Commercial production means production of a continuous nature for sale in commerce to a third party purchaser of such products. The term excludes production for testing purposes and sales of a non-substantial amount.*

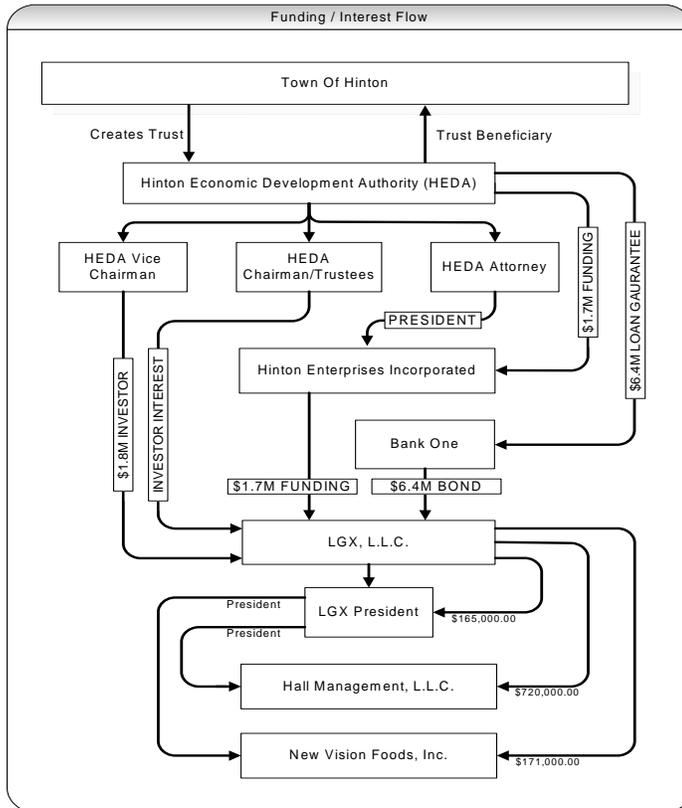
During our examination of the LGX financial records, we found no indication that LGX sold any product to a third party. Therefore, it appears that the Manager would have been entitled to only the compensation set forth in the *Construction and Development Agreement* with a maximum amount of \$720,000.00 as per 3.4 of said Agreement previously cited.

## DEVELOPMENT, FUNDING & EXPENDITURES OF LGX

### LGX Funded through Bonds and private funds

LGX bore the responsibility of design and construction of the Hinton Plant. LGX received it's funding from HEI, the Doughty funds and through Adjustable Rate Industrial Development Revenue Bonds ("Bonds") issued by the Oklahoma Development Finance Authority.

In order for LGX to obtain funding from these three sources a series of promissory notes were executed between LGX and HEI and between HEI and HEDA. HEDA provided a Letter of Credit to Bank One, on behalf of LGX to secure the Bond funding. The following is a synopsis of the promissory notes and Letter of Credit transactions:



On 10-20-1997 LGX entered into a promissory note with a HEDA Board member in the amount of \$50,000.00. On the same date LGX entered into a promissory note with HEI in the amount of \$250,000.00. HEI then entered into a promissory note with HEDA in the amount of \$250,000.00, also on the same date.

On 4-28-1998 LGX entered into a promissory note with HEI in the amount of \$7,425,000.00. We obtained another promissory note, undated, made between HEI and HEDA in the amount of \$7,425,000.00. Additionally on the same date a promissory note was executed between LGX and Kenneth Doughty in the amount of \$1,485,000.00.

On July 31, 2000, HEI entered into a promissory note with HEDA in the amount of \$346,408.00. On the same date LGX entered into a promissory note with HEI in the same amount.

On July 31, 2000, HEI entered into a promissory note with HEDA in the amount of \$346,408.00. On the same date LGX entered into a promissory note with HEI in the same amount.

### HEDA provided security and collateral for LGX Bonds

On 6-16-1998 HEDA entered into a Limited Liability Agreement and Security Agreement with Bank One to secure the issuance of the Bonds to LGX. The Security Agreement between Bank One and HEDA specifies that the Bond amount shall be \$6,400,000.00 and will be collateralized by "110% of the balance owing by LGX".

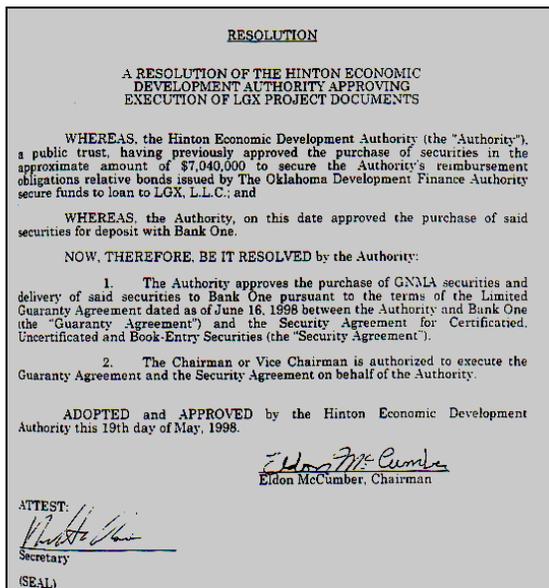
HEDA pledged, as security for the Bond issuance, Government National Mortgage Association (GNMA) Bonds with a par value of \$7,550,000.00. As a result the Bonds were issued and on June 15, 1998, a total of \$6,400,000.00 was deposited into a Bank One account for use by LGX for the purpose of plant construction.

In support of that agreement was an attached security agreement between HEDA and Bank One stating, in part, the following:

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- The Oklahoma Development Finance Authority will issue bonds in the amount of \$6,400,000.00.
- The bonds will be used to finance the cost of the "LGX Project".
- HEDA, as Pledgor, will guarantee the faithful performance of LGX.
- A requirement of 110% collateralization of the balance owed by LGX.

Attached to and in support of the Security Agreement, as Exhibit A, was a listing of Government National Mortgage Association (GNMA) Bonds with a par value of \$7,550,000.00. A security agreement was also attached listing the items in Exhibit A as being the items used for collateral.



Attached to the agreement was a Resolution from the HEDA Board stating that HEDA had Adopted and Approved a Resolution on May 19, 1998, providing for the use of the previously purchased securities to be used as collateral as per the previously noted agreement between HEDA and Bank One.

We obtained the minutes for the HEDA Board Special Meeting held May 19, 1998. In those minutes we found the following item:

*"Discussion was held on financial investments. Mr. Chaloner briefed the board on information received from Bank One, Nations Bank, Bank of Oklahoma, Legacy Bank, 1<sup>st</sup> National Bank and Mid-First. A motion was made by Kenneth Doughty to authorize Mr. Chaloner to proceed in achieving the necessary investment pledge needed for the requested ODFA Bond Letter of*

*Credit. A second was made by Bill Sparks. All voted in favor."*

We examined the minutes for the Town of Hinton, Beneficiary of the HEDA Trust for the period from January 1997 through December 1998. We were unable to find any indication that the Trust Beneficiary (Town of Hinton) approved this transaction.

On December 8, 2000, the Letter of Credit provided by HEDA for the purpose of securing the Bond funding for LGX was redeemed. At the time of the redemption the amount redeemed was \$6,001,975.68.

**HEDA board members obtain interest in LGX**

We were provided a copy of a promissory note issued by Kenneth Doughty [the "Lender"] to Eldon McCumber, HEDA Board Chairman [the "Maker"], indicating the sale of 3.675 units of LGX from Kenneth Doughty to Eldon McCumber. This agreement, valued at \$21,000.00, includes the following language:

Payment of principal and interest on this Note is a special limited obligation of the Maker payable solely from seventy-five percent (75%) of distribution made to the Maker resulting from his 3.675 Unit ownership interest in LGX, L.L.C. purchased from the Lender. Said distributions include all proceeds, regardless of whether distributions are made in cash or some form of property which distributed to its Members in accordance with the Amended and Restated Operating Agreement. The Maker shall not be personally obligated for the payment of this Note.

Attached to the promissory note was a 'post it' note indicating that Kenneth Doughty and Don Hall had each executed similar notes to the other HEDA Board members giving each member a total of 7.35 units of LGX (7/10<sup>th</sup> of 1%).

I got a note like this  
from each of the B.O.D.  
Don Hall got the same  
note from each B.O.D.  
3.675  
3.675  
-----  
7.35 units  
To each B.O.D.

Atkins Benham Constructors filed a lawsuit against LGX<sup>2</sup>. We were provided a copy of a transcript entitled "Deposition of Michael Chaloner" taken on March 29, 2002.

In that deposition Chaloner states that he is a 7/10<sup>th</sup> of 1% owner of LGX as a result of the sale of LGX units by Kenneth Doughty and Donald Hall. Further, Chaloner states that the units were purchased by means of a promissory note and that the value, at that time, was \$42,000.00.

In addition we were provided another deposition from the same case entitled "Deposition of Eldon McCumber" taken on October 18, 2001. In this deposition we noted that Eldon McCumber, Chairman of the HEDA Board, stated the he also was an investor in LGX.

Additionally we noted the following exchange<sup>3</sup>:

Q. Are any other members of the Board of Directors of HEDA shareholders in LGX, L.L.C.?

A. Yes.

Q. Which ones?

A. All of them.

It appears, from the records provided to us by Kenneth Doughty and the transcripts of Michael Chaloner and Eldon McCumber, that all of the HEDA Board Members had a financial interest in LGX after July 1, 1998. We noted nineteen (19) HEDA to HEI to LGX transactions that occurred after July 1, 1998, in the cumulative amount of \$1,370,822.07.

<sup>2</sup> District Court of Oklahoma County, case CJ-2001-2567-65.

<sup>3</sup> Page 10 starting at line 10.

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**LGX, L.L.C. (LGX) Financial Transactions:**

We were provided bank statements for LGX for the period from 11/30/1997 to 9/13/2002.

During this period we identified 1,694 transactions including 57 deposits in the total amount of \$9,761,757.01 and 1,637 checks in the total amount of \$9,761,650.69, a variance amount of \$106.32. The ending balance for the last bank statement provided was \$106.32.

<b>LGX Credit/Debit Summary</b>	
Deposits	\$9,761,757.01
Checks	\$9,761,650.69
Variance	<b>\$106.32</b>
Ending Balance	\$106.32
Variance	<b>\$0.00</b>

On 10/24/1997 HEDA issued a check in the amount of \$64,017.06 to HEI. HEI, in turn, issued a check the same date to LGX in the amount of \$63,967.06, a difference of \$50.00.

We were not provided bank records prior to the 11/30/1997 statement. The starting balance of that statement was \$726.45 indicating that expenditures were made from the LGX account in the amount of \$63,240.61. Due to insufficient records we are unable to make any determinations regarding those expenditures, which occurred prior to 11/30/1997.

**Total funding provided to LGX:**

From the LGX bank records provided we identified fifty-seven (57) deposit items totaling \$9,761,757.01.

<b>Source</b>	<b>Amount</b>	<b>%</b>
Bank One Bond Account	\$6,261,059.59	64.14%
Doughty Funds	\$1,850,915.35	18.83%
Hinton Enterprises, Inc	\$1,725,569.16	17.02%
Other/Unknown	\$250.00	0.003%
	<b>\$9,837,794.10</b>	<b>100.0%</b>

Additionally we identified what appears to be an additional \$63,976.06 provided to LGX from HEDA through HEI and an additional \$12,796.48 provided to LGX through Doughty funds. We identified one \$250 deposit from an unknown source, bringing the total LGX funding amount to \$9,837,794.10.

As previously noted the Bank One Bond Account was backed by a Letter of Credit from HEDA in the amount of \$7,550,000.00. On December 8, 2002, Bank One redeemed the Letter of Credit in the amount of \$6,001,975.68.

12/08/00	CASH DISBURSEMENT PAID TO BANK ONE, TEXAS, NA, DALLAS, TEXAS REIMB OF LETTER OF CREDIT DRAW REIMBURSE LOCH# STI10103      OKLLGX98	6,001,975.68-
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We identified what appears to be a loan payment from LGX to HEI (subsequently from HEI to HEDA) in the amount of \$138,666.21. It appears, when the repayment amount is considered, that HEDA ultimately expended \$7,588,878.63 for the Hinton project (attachment C).

**Financial Condition of LGX at time of bankruptcy:**

On November 5, 2002, LGX filed for Chapter 7 Bankruptcy. On November 21, 2002, a *Summary of Schedules* was filed indicating LGX had \$1,800,106.32 in assets and \$11,888,696.40 in liabilities. During the period for which we were able to obtain records we identified 1,638 debit items from the LGX account totaling \$9,761,650.69.

**Hall Management fees not to exceed \$720,000.00:**

As previously noted in the various *Development, Operating and Amended Operating* it does not appear that the requirements set forth in the *Operating and Amended and Restated Operating* agreements pertaining to compensation to Hall Management became effective in that one requirement was the continuous production of a product for sale to a third party.

It appears that Hall Management was entitled to a maximum payment amount of \$720,000.00. Section 3.4 of the *Construction And Development Agreement* states:

*“Aggregate Limitation: In no event shall the Development Fee and Overhead Fee exceed a total of \$720,000.”*

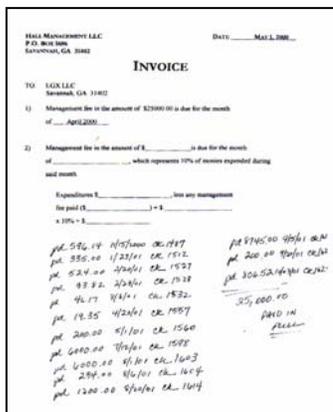
On October 16, 1997, LGX, HEI and New Vision entered into a contract for the purpose of building a pilot plant in Savannah, Georgia. Under that agreement New Vision (Don Hall) was the “Developer” of the project. There are no provisions for payments to be made neither to Hall Management nor to the President of Hall Management for management or development fees.

Additionally the agreement states that the cost of the plant will not exceed \$300,000.00 and further states, in part:

*“[3.1] Draws will not be approved for payment of employee salaries.”*

**Compensation paid to Don Hall, Hall Management and other related entities**

Between December 9, 1997, and April 10, 1998, LGX made six (6) payments to New Vision in the cumulative amount of \$171,000.00. We were not provided records for New Vision; therefore we are unable to make any determinations regarding the purpose or use of these expenditures.



We noted that Donald Hall appears to be the Manager and President of Hall Management, the President of New Vision and the President of LGX. It also appears, from our examination of the LGX operating account bank statements, that Don Hall had sole signature check writing ability with regards to the LGX operating account.

We identified twenty-four (24) payments to Hall Management in the cumulative amount of \$720,000.00 from the LGX operating account. This amount represents the “maximum aggregate” amount to be paid according to the previously cited contracts.

In addition we noted eight (8) payments to Donald Hall in the total amount of \$165,602.83. One (1) of the eight (8) payments was in the amount of \$150,000.00 for “Reimbursement of Development Expenses”, the remaining seven (7) payments (\$15,602.83) appear to have been for travel reimbursements.

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It appears that Hall Management and/or Donald Hall received thirty-two (32) payments totaling \$885,602.83 from the LGX operating account.

We examined invoices from Hall Management to LGX for Management Fees. The invoices included handwritten notations indicating the date paid, amount paid and check number.

We identified two invoices for Management fees in the total amount of \$118,000.00. One of those invoices, dated May 1, 2000, in the amount of \$25,000.00 appears to indicate the payment was made by a combination of fourteen (14) checks ranging in amounts from \$19.35 to \$8,745.00 and dates ranging from November 15, 2000, to October 3, 2001. We noted that none of the fourteen check dates or amounts coincide with the checks we examined from the LGX operating account.

The second invoice dated April 1, 1999, in the amount of \$93,000.00 includes handwritten notations indicating the payment of \$30,000.00 by check number 1074 on April 1, 1999.

Check #1074 from the LGX operating account was dated April 1, 1999, and made payable to "LGX LLC" in the amount of \$20,500.00.

In addition to the invoices from Hall Management to LGX for management fees, we also identified thirty-two (32) additional invoices from Hall Management to LGX in the cumulative amount of \$142,201.22.

These invoices appear to have been for clerical services provided by Bonnie Winsett, an employee of Hall Management.

We made inquiries of the HEDA employees and Board Members who advised us that Bonnie Winsett is the daughter of Donald Hall.

HALL MANAGEMENT LLC P.O. BOX 1686 SAVANNAH, GA 31402	DATE <u>4-1-99</u>
<b>INVOICE</b>	
TO: LGX LLC Savannah, GA 31402	
1) Management fee in the amount of \$30,000.00 is due for the month of _____	
2) Management fee in the amount of \$ <u>93,000.00</u> is due for the month of <u>March 99</u> which represents 10% of monies expended during said month.	
Expenditures \$ <u>965,000</u> , less any management fee paid (\$ <u>30,000.00</u> ) = \$ <u>930,000.00</u> x 10% = \$ <u>93,000.00</u>	
<div style="font-family: cursive; font-size: small;"> <p>pd 4-1-99 \$30,000.00                      ck # 1074                      ck # 1077 - pd 4-27-99 (25,000.00) ck # 1079                      pd 5-4-99 (25,000.00) ✓                      13,000.00</p> </div>	

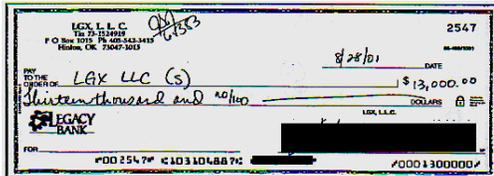
**Payments from unknown account**

We noted that these invoices, as with the Management invoices, included handwritten notations that appear to indicate the date paid, check number and amount. We noted that none of the dates, check numbers or amounts coincides with the records we examined for the LGX operating account.

It appears that an additional \$55,000.00 in management fees and \$142,201.22 for clerical fees (\$197,201.22 total) may have been paid to Hall Management from an account for which we do not have records, bringing the total compensation amount paid to Hall Management, the President of Hall Management and a Hall Management employee to \$1,082,804.05.

In addition to the funds paid to Hall Management, we noted that Hall Management is also listed as a creditor in the LGX Chapter 7 filing indicating that Hall Management is owed an additional \$560,202.19.

While we were not able to find records for an LGX bank account that corresponds to the check numbers, dates and amounts indicated on the above mentioned invoices, we identified checks being written from the LGX operating account that were made payable to "LGX LLC" or "LGX LLC (S)".



We identified forty-eight (48) payments from the LGX operating account made payable to "LGX LLC (S)" in the cumulative amount of \$672,683.38. The LGX (S) account appears to be a Wachovia Bank account in Savannah, GA.

We were unable to find sufficient records to make any determinations as to the purpose of or the expenditures from this account.

### **Additional consulting fees paid to New Vision Associates**

In addition to the Management fees, LGX appears to have also been paying for consultant fees. We noted a total of forty-three (43) payments that were made to two (2) consultants in the cumulative amount of \$421,380.40.

It appears that one consultant, Mike Moser, was paid at a rate of \$14,000.00 per month and another consultant, L.V. Benningfield, was paid at a rate of \$10,000.00 per month for their consulting services. In addition it appears that the out-of-pocket expenses of the consultants were also being paid from the LGX account. In total Mike Moser was paid \$321,840.88. L.V. Benningfield received a total of \$99,539.52.

In addition L.V. Benningfield is listed as a creditor in the LGX Bankruptcy filings indicating an additional \$19,000.00 being owed to Benningfield by LGX.

We obtained records from a lawsuit filed in the Federal District Court of Southern Georgia. In that suit an Affidavit by Mike Moser was filed in which Mike Moser states that he and L.V. Benningfield were "instrumental" in the creation of New Vision Foods.

### **Legal Fees Paid By LGX.**

On August 18, 2000, Cargill, Incorporated filed a lawsuit against LGX claiming an infringement on the extraction process used by LGX. We have been able to obtain a limited number of documents from this suit. Records from the LGX bankruptcy proceeding included a schedule setting forth the following:

*A memorandum of understanding was entered into between the Debtor [LGX], Cargill & Hinton Economic Development Authority ("HEDA") whereby Cargill has agreed to pay HEDA a sum of money to be determined. The memorandum contemplates the settlement of Civil Action 00-CV-4252 pending in the U.S. District Court for the Eastern District of Pennsylvania. The Debtor will not receive any payment under the proposed settlement.*

From the U.S. Court PACER system we obtained a docket indicating that this case had been 'terminated' on September 6, 2001. We contacted the LGX Bankruptcy Trustee, Lyle Nelson, and inquired about any compensation that had been paid to any of the parties as a result of this suit and were told that while the Memorandum of Understanding (MOU) was reached, the terms of

that MOU have yet to become reality. This suit is now being appealed in an effort to have the MOU enforced.

Starting in October 2000 and continuing until August 2001 it appears that LGX funds were expended for legal fees. These fees included (detailed in Attachment B):

- \$530,575.74 to Stradley Ronon, a Philadelphia law firm<sup>4</sup>.
- \$178,338.78 to Caesar Rivise, a Philadelphia law firm<sup>5</sup>.
- \$27,903.08 for an expert witness.
- \$9,204.94 for depositions & other court reporting services.

In addition we noted in the LGX Chapter 7 filing the following creditors and amounts owed by LGX:

- Stradley Ronon law firm: \$210,195.01.
- Caesar Rivise law firm: \$54,598.17.
- Marc Sims, SFE, expert witness fees: \$22,341.41.
- Esquire Deposition Service: \$940.06
- Forte & Associates, Philadelphia: \$2,133.60.

We obtained from the United States Patent Office Website<sup>6</sup> information regarding patent #6,569,480 filed April 30, 2001 and issued May 27, 2003. This patent was issued for "Liquefied gas extraction process".

The "Inventors" are listed as Don Hall, Michael Hall, Michael Moser and L.V. Benningfield. As previously noted Moser and Benningfield were the recipients of \$421,380.40 in consulting fees from the LGX operating account.

The "Attorney, Agent or Firm" listed on the patent was the Caesar Rivise law firm that was paid \$178,338.78 from LGX funds.

We examined the invoices from the Caesar Rivise law firm and were unable to determine what amounts may have been paid to this firm for work done on the Cargill lawsuit or payment for work done on the patent process.

We obtained, through the U.S. Court Pacer System, a case summary of the Cargill v. LGX suit listing the attorneys representing both sides. We noted that all of the attorneys representing Don Hall and/or LGX were from the Stradley Ronon law firm.

Further, we noted that New Vision also became a party to the suit and was also represented by the Stradley Ronon law firm. We are unable to find where Caesar Rivise was a part of the LGX litigation.

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<sup>4</sup> Stadley Ronon Stevens & Young LLP, Philadelphia Pennsylvania.

<sup>5</sup> Caesar, Rivise, Bernstein, Cohen & Pokotilow, Ltd., Philadelphia Pennsylvania.

<sup>6</sup> <http://www.uspto.gov/>.

## The COLLAPSE AND FALLOUT OF LGX:

### Success of plant doubtful from the beginning

While we cannot make any determinations as to the actual legal owner of the LGE process it seems evident, based on the May 9, 1997, Cargill letter, that from the start of this project LGX would find itself in litigation with Cargill sufficient to prevent the plant from ever reaching an operational status.

We noted that the Cargill letter mentioned CF Systems, as well as New Vision, as having been involved in the previous activities between Cargill and New Vision. We contacted David Finton and Alan Walters, both formerly of CF Systems (CFS).

According to Finton and Walters, CFS had introduced the Halls to the LGE process and had contracted with the Halls to further the technology. As the Hinton project got underway Hall, through the New Vision entity, informed CFS that New Vision was now claiming rights to the LGE process.

CFS was prepared to file suit against Don Hall and New Vision for the theft of what CFS felt like was its intellectual property. However, before that suit was filed CFS was sold by its parent company, Morrison-Knudsen (MK), to ConAgra. ConAgra had no interest in pursuing the LGE process so that suit was never filed.

Finton stated that one of the reasons MK sold off CFS was because MK had invested a significant amount of money in the LGE process without getting a return. Finton stated that MK had "lost millions" on the LGE plant in Conroe, Texas.

### Financial problems of LGX

According to the April 1, 1998, *Development and Construction Agreement* between LGX and HEI, the estimated development and construction costs for the Hinton plant was \$7.2 million. LGX expenditures reached the \$7.2 million amount by December 1999. From October 1999 through September 2002<sup>7</sup> LGX was funded entirely by the Doughty Funds and or money provided by HEDA to HEI and then passed on to LGX.

Using the bank processing dates for the LGX transactions (checks and deposits) we noted that the LGX account balance, starting in April 2000, was often a negative balance. By the end of June 2000 LGX was operating with a -\$2,301.93 balance eventually reaching -\$112,489.41 before LGX was infused with \$245,000.00 from HEDA/HEI funds.

In February 2001 the LGX operating account balance was -\$129,601.46 prior to another infusion of \$173,000.00 by HEDA/HEI funds. Between June 2000 and August 2002 we noted one hundred twenty one (121) instances where the LGX account was charged for overdraft and/or insufficient check fees and charges.

Don Hall, Hall Management, was terminated on December 3, 2001. At that time LGX had an operating account balance of \$466.22 having expended some \$9.7 million up to that point.

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<sup>7</sup> We were not provided LGX records beyond September 2002.

**Legal fees for patent attorney in question**

On August 18, 2000, Cargill filed a lawsuit against LGX. Due, apparently, to the confidentiality agreements signed and the Court records being sealed, we have had little success in obtaining any information pertaining to this lawsuit.

In total over \$700,000 was expended by LGX to two Philadelphia law firms. We were unable to determine if the \$178,000 paid to Caesar Rivise was paid to defend the Cargill lawsuit or pay for the Hall/Moser/Benningfield LGE patent that was issued in 2003. We noted that all of the Court proceedings appear to indicate that solely Stradley Ronon attorneys represented LGX.

**HEDA/LGX lawsuit**

On October 16, 2002, HEDA filed a lawsuit in District Court of Caddo County against LGX and Kenneth Doughty. This lawsuit appears to stem from the promissory agreements executed between HEI and LGX. We noted that this lawsuit refers to HEI as being HEDA's "assignor".

During the course of the development and construction of the Hinton plant we identified promissory notes between HEI and HEDA and between LGX and HEI. We did not find any direct contracting or promissory notes between HEDA and LGX. It appears that all of the HEDA funding was 'passed through' HEI to LGX. However, after the failure of the plant project, HEDA sued LGX directly.

**LGX bankruptcy**

On November 5, 2002, LGX filed for Chapter 7 Bankruptcy listing assets of \$1.8 million and liabilities of \$11.8 million. In addition the Bankruptcy records reflect that Cargill, Atkins Benham Constructors, Stradley Ronon Stevens law firm, and Baker Hughes have filed suit against LGX.

At the conclusion of this audit the LGX plant is closed, LGX is still tied up in bankruptcy and, as best we can determine from the limited information provided to us, the Cargill vs. LGX lawsuit is currently on-going.

## **Concerns, Findings and Recommendations:**

### **FINDING (1): FAILURE TO DISCLOSE PENDING LEGAL ISSUES.**

The May 9, 1997 Cargill letter to Don Hall, New Vision, reflects that Cargill was taking significant issue with Hall and New Vision over the ownership and proprietary rights of the LGX process as it applies to cocoa butter. The letter states that Cargill will take "whatever steps are necessary" to protect what it believes to be its proprietary process.

Regardless of who actually owns the LGE process it is evident that if Don Hall and/or New Vision continued to pursue the idea of using the LGE process for the purposes of extracting cocoa butter, Cargill intends to file suit. As it turns out, that is what occurred.

Don Hall received this letter from Cargill prior to any action having been taken by HEDA concerning the Hinton cocoa project. According to the HEDA Board members, Hall did not share this information, and, in fact, alluded that there were no issues to be concerned with regarding the LGE process.

We interviewed four of the five HEDA Board members who all stated that had they known this information they would not have joined in this venture. One member stated he "would not have wanted to get involved in anything that had a built-in lawsuit".

Moreover, it appears there was also a legal issue between Don Hall/New Vision and CF Systems over the LGE process. CF Systems was prepared to file suit against Hall/New Vision until CF Systems was sold to another company.

### **RECOMMENDATION:**

We recommend the proper authorities review this finding to determine what action may be necessary.

### **FINDING(2): CONFLICT OF INTEREST.**

The purpose of LGX was to develop, construct and operate the cocoa butter plant in Hinton, Oklahoma. The primary funding for LGX came from HEDA in the form of direct payments, albeit through HEI, and by way of a Letter of Credit used as collateral for the issuance of Bonds to LGX.

Based on records available to us during our audit, it appears that LGX was funded by three sources:

- \$6,400,000.00 in Industrial Bonds (net \$6,261,059.59).
- \$1,725,569.16 in funds paid by HEDA, passed through HEI.
- \$1,850,915.35 in funds provided by Kenneth Doughty & Family.

HEDA provided Letter of Credit for the issuance of the LGX bonds. On December 8, 2000, the Letter of Credit was redeemed in the amount of \$6,001,975.68. LGX also received \$1,725,569.16 from HEDA through HEI, of which, it appears that \$138,661.21 was paid back. The net loss to HEDA was \$7,558,878.63.

HEI appeared to serve as a 'pass through' funding vehicle between HEDA and LGX. We noted that HEI appears to have been funded entirely by HEDA with no outside source of income, no capital and no assets. Therefore, we question why HEDA entered into promissory notes with HEI when it appears that HEI has no revenue source other than funds provided by HEDA.

Kenneth Doughty, Vice Chairman of the HEDA Board was an initial investor in LGX. Additionally, on or about July 1, 1998, the remaining four members of the HEDA Board also became interest owners of LGX through transactions with Donald Hall, representing Hall Management, and Kenneth Doughty.

Although the transactions related to the Letter of Credit and, ultimately, the issuance of the Bonds, occurred prior to the July 1, 1998, we noted that HEDA, through the HEI funding vehicle, provided funds to LGX after July 1, 1998, in the total amount of \$1,370,822.07.

**RECOMMENDATION:**

We recommend the proper authorities review this finding to determine what action may be necessary.

**FINDING(3): LETTER OF CREDIT; BOND OBLIGATION NOT APPROVED BY BENEFICIARY.**

HEDA entered into a security agreement with Bank One for the purpose of providing collateral for the issuance of Bonds to LGX. The Town of Hinton is the beneficiary of HEDA. We examined the meeting minutes for the Town of Hinton and were unable to find any indications that the Town of Hinton, as beneficiary, approved the \$7.5 million dollar obligation between Bank One and HEDA.

State statutes appear to require that the Trust Beneficiary (Town of Hinton) approve obligations made by the HEDA. In this case HEDA had the funds available to post the Letter of Credit to allow the funding of the LGX Bond issue. It is the position of the Board that since HEDA had the funds available there was no requirement for the Trust Beneficiary to approve the obligation.

**RECOMMENDATION:**

We recommend the proper authorities review this finding to determine what action, if any, may be necessary.

**FINDING (4): HEDA BOARD FIDUCIARY RESPONSIBILITY.**

The trustees for HEDA have, at a minimum, an implied fiduciary responsibility, as an oversight body, to provide accountability and exercise control over the resources that come into their possession. Since the HEDA Board guaranteed the LGX bonds, the Board also assumed the risk for LGX in the event of a default on the bonds.

**RECOMMENDATION:**

We recommend that HEDA implement internal controls governing funds utilized by third parties.

**FINDING(5): AMOUNT PAID FOR CONSULTING FEES QUESTIONABLE.**

The *Development and Construction Agreement* between HEI and LGX specifies LGX as the "Developer". This contract specifies that the Developer shall "design, engineer, fabricate, construct, test and deliver" the project, including the Hinton plant.

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This agreement states, "[I]n no event shall the Development Fee and Overhead Fee exceed a total of \$720,000".

We noted payments to Hall Management from the LGX operating account in the total amount of \$720,000.00. In addition to the payments to Hall Management we noted that two consultants were paid a total of \$421,380.40 from LGX funds.

The October 26, 1998 HEDA minutes indicate that Mike Moser is an employee of New Vision. Moser was paid \$321,840.88 from the LGX operating account. L.V. Benningfield was paid \$99,539.52 directly from the LGX operating account.

In addition to the consulting payments, an additional \$165,602.83 was paid directly to Don Hall from the LGX operating account including a payment of \$150,000.00 in May 1998. The remaining \$15,602.83 appears to have been travel reimbursement payments.

<b>Payee</b>	<b>Amount</b>
Mike Moser	\$321,840.88
Don Hall	\$165,602.83
L.V. Benningfield	\$99,539.52
Hall Management	\$720,000.00
Total	\$1,306,983.23
Contract Amount	\$720,000.00
Variance	\$586,983.23

Based on the language found in the *Development and Construction Agreement* it appears the payments made to Mike Moser, L.V. Benningfield, Don Hall, and the associated travel reimbursements were expenses included in the maximum aggregate \$720,000.00.

It appears that a total of \$1,306,983.23 was from the LGX operating account for services that could be considered the responsibility of Hall Management. This represents an overpayment of \$586,983.23.

**RECOMMENDATION:**

We recommend the proper authorities review this finding to determine what action may be necessary.

**Finding (6): Request for Funding Discrepancies**

We obtained from HEDA the last *Request for Funds* (RF) submitted by Don Hall to HEDA (HEI). This RF, dated September 24, 2001, indicated a request for a total amount of \$49,712.24. It appears the total amount was provided in that we identified a deposit, dated October 5, 2001, in the same amount.

The RF includes an itemized listing of expenditures totaling \$49,712.24. At the time this deposit was made to the LGX operating account, the account had a balance of -\$24,935.77. This leaves \$24,776.77 to pay the itemized list totaling \$49,712.24.

We examined all payments made by LGX for the period from the date of the funding, October 5, 2001, through the time of the next deposit that occurred on December 7, 2001. We noted several discrepancies between what appears to have been requested and what was actually paid. These discrepancies include:

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<b>Indicated Payee</b>	<b>Request</b>	<b>Paid</b>	<b>Variance</b>
Caddo Electric Coop	\$8,715.66	\$0.00	\$8,715.66
Miracle Pest Control	\$240.00	\$80.00	\$160.00
Oklahoma Dept. of Labor	\$750.00	\$0.00	\$750.00
Baker Process (Hughes)	\$3,000.00	\$500.00	\$2,500.00
HRH Insurance	\$9,336.00	\$0.00	\$9,336.00
Project Co Gas Marketing	\$966.50	\$721.50	\$245.00
Kanox	\$121.00	\$71.46	\$49.54
Andrews Davis Law Firm	\$1,325.00	\$0.00	\$1,325.00
Accounts Payable Don Hall	\$7,000.00	\$93.80	\$6,906.20
<b>Totals</b>	<b>\$31,454.16</b>	<b>\$1,466.76</b>	<b>\$29,987.40</b>

A check was issued to the LGX "S" account in the amount of \$9,700.00. The RF indicates a request for payroll for Bonnie Winsett (\$4,000), "Savannah Operations/Utilities" (\$1,100), "Travel Expenses" (\$3,500) and "On-hand for misc expense" (\$1,000) totaling \$9,600.00.

As of this date we have not been provided the "S" account records, therefore, we are unable to make any determinations regarding the \$9,700.00 in funds paid to the "S" account and the possible relationship to the \$9,600.00 in payments cited previously.

Additionally, we noted that of the eight vendors (excluding Hall) listed in the table above, six are listed as creditors in the LGX Bankruptcy proceedings, including:

- Caddo Electric.
- Miracle Pest Control.
- Baker Process (Bird Baker, Baker Hughes).
- Project Co. Gas Marketing.
- Andrews Davis Law Firm.
- Kanox.

We also obtained a RF dated October 18, 2000, requesting funds in the total amount of \$71,486.76. We noted a corresponding deposit on October 19, 2000, in the amount of \$70,500.00.

The RF indicates a request for \$23,375.84 for "Bank One Interest Sept 2000". We were unable to find a payment to Bank One occurring after the October 19, 2000 deposit. We identified a previous payment to Bank One in the amount of \$21,608.57 (September 5, 2000).

In addition the RF also indicated a request for \$35,000.00 for "Attorney Fees". We noted one payment to the Stradley Ronon law firm in the amount of \$35,000.00. We also noted an additional payment of \$5,000.00 to the Caesar Rivise (CR) firm.

CR is the attorney listed on the patent obtained by the Halls, Moser and Benningfield. We have been unable to find where CR was listed as an attorney of record in the Cargill v. LGX suit.

**Summary of LGX (S) Records (1998 - 2002):**

We identified payments totaling \$672,683.38 from the LGX operating account to an "LGX (S)" account in Wachovia, Georgia. We were not provided records for this account during our fieldwork, which ended in May 2005.

In June 2005 we met with the Attorney General's Office and advised them of our audit findings including the lack of records concerning the LGX (S) account. The Attorney General's Office advised us that they would attempt to obtain those records by legal process and provide them to us.

On August 1, 2005 we received some of the records for the LGX (S) account. The records lacked much of the supporting detail required for us to perform an expenditure analysis.

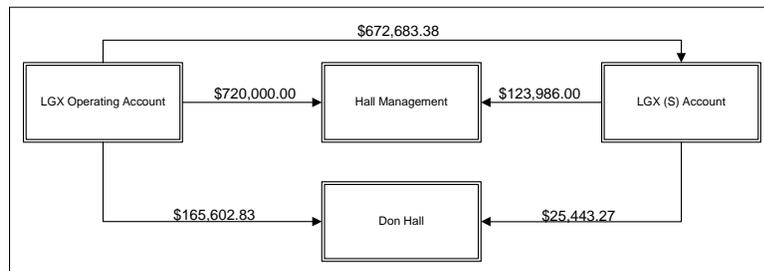
On October 27, 2005 we received additional records for the LGX (S) account, again, however, due to lack of detailed information we could only identify expenditures totaling \$306,221.36 (45.5%) of the \$672,683.38 transferred to this account from the LGX operating account.

From the expenditure records provided we noted the following:

- Four (4) checks totaling \$125,000.00 were issued from the LGX to the LGX (S) account. We were not provided any records for the LGX (S) account for 1998.
- Sixteen (16) checks totaling \$252,066.71 were issued from the LGX to the LGX (S) account. LGX (S) account records reflect expenditures of \$263,542.56. The records provided lacked sufficient detail to make any determinations concerning these expenditures.

The LGX (S) records for 2000 and 2001 reflected 92% of the identifiable payments totaling \$281,887.55 were as follows:

- Sixteen (16) payments to Don or Donald Hall totaling \$25,443.27.
- Twenty-two (22) payments to Hall Management totaling \$123,986.00.
- Thirty-seven (37) payments to Wachovia Bank totaling \$132,458.28.



The remaining 8% (\$24,333.81) of the identifiable expenditures were expended on utility payments, office supplies and stamps.

### Other Concerns

- According to the April 1, 1998, *Development and Construction Agreement*, Hall Management was contracted to "design, engineer, fabricate, construct, test and deliver...a liquefied gas extraction ("LGX") plant in Hinton, Oklahoma..."

At the time the Agreement was executed, Hall Management did not exist. Hall Management was not created until April 22, 1998. Also, on April 1, 1998, *the Amended and Restated Operating Agreement* was executed. Section 3.5 of the Agreement provides in relevant part,

*In consideration of the knowledge and experience of Hall Management in the liquefied gas extraction industry and the management expertise of Hall Management to become the Manager of the Company...*

- On April 28, 1998 LGX entered into a promissory note with HEI in the amount of \$7,425,000.00. As a result, HEI entered into a promissory note with HEDA. HEDA was executing promissory notes to HEI although it appears that HEI has no other source of revenue other than funds provided by HEDA. Essentially, HEDA executed a promissory note with itself.
- Prior to the collapse of LGX, we noted no direct transactions between HEDA and LGX. All transactions were passed through HEI. However, subsequent to the collapse of LGX, HEDA filed a lawsuit naming LGX and the HEDA vice chairman as defendants. We question how HEDA can file suit directly against LGX when prior to the LGX collapse HEDA never conducted business directly with LGX without going through HEI.
- During the course of our audit, there were other concerns brought to our attention. However, these concerns were out of the scope of our engagement; therefore, we did not address these areas at this time. Due to the nature of these concerns, these matters may require further review.

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**Attachment A**

HEDA to HEI			HEI Direct Match Payments To LGX / JSC			HEI Non Categorized Expenditures			
10/24/1997	509	\$64,017.06	10/24/1997	--	LGX LLC	\$63,967.06	11/12/1997	ACH [Business Checks]	\$73.55
11/12/1997	514	\$100.00					8/31/1998	1006 Oklahoma Tax Commission	\$10.00
12/2/1997	523	\$62,497.50	12/2/1997	1001	LGX LLC	\$62,497.50	8/31/1998	1007 Orstott Craddock & Hyde	\$100.00
1/13/1998	5003	\$62,455.83	1/14/1998	1002	LGX LLC	\$62,455.83	9/28/1998	1008 Orstott Craddock & Hyde	\$175.00
3/24/1998	5014	\$29,165.50	3/24/1998	1003	LGX LLC	\$29,165.50	2/2/1999	1009 Orstott Craddock & Hyde	\$45.00
5/4/1998		\$136,661.20	5/4/1998	1004	LGX LLC	\$136,661.20	6/28/1999	1010 Orstott Craddock & Hyde	\$300.00
8/31/1998	837	\$100.00					6/29/1999	1011 Legacy Bank	\$3,664.00
9/28/1998	879	\$500.00					8/30/1999	1012 Oklahoma Tax Commission	\$10.00
4/26/1999	2306	\$1,000.00					8/30/1999	1013 Orstott Craddock & Hyde	\$75.00
6/30/1999	2498	\$4,500.00					9/14/2000	1027 Leroy Patton	\$11.12
10/15/1999	1018	\$100,000.00	10/15/1999	1014	JCS Industries LLC	\$100,000.00	9/14/2000	1028 Orstott Craddock & Hyde	\$350.00
11/30/1999	1020	\$50,000.00	11/30/1999	1015	JSC Industries LLC	\$50,000.00	5/4/2001	1036 Orstott Craddock & Hyde	\$656.00
1/13/2000	3353	\$25,000.00	1/13/2000	1016	JSC Industries	\$25,000.00	8/14/2001	1039 OC + H PC	\$75.00
2/2/2000	3449	\$25,000.00	2/2/2000	1017	JSC Industries	\$25,000.00	8/14/2001	1040 Oklahoma Tax Commission	\$10.00
2/25/2000	3510	\$25,000.00	2/25/2000	1018	JSC Industries	\$25,000.00	3/5/2002	Overdraft Service Charge	\$2.25
3/3/2000	3597	\$40,000.00	3/3/2000	Trnsfr	Transfer 9364158	\$40,000.00	7/14/2002	1054 OC + H PC	\$75.00
3/30/2000	3692	\$25,000.00	3/30/2000	1019	JSC Industries	\$25,000.00	7/31/2002	1051 Orstott Craddock & Hyde	\$424.00
4/13/2000		\$65,000.00	4/13/2000	1020	JSC Industries	\$65,000.00	10/23/2002	1055 Oklahoma Tax Commission	\$11.20
4/26/2000	3796	\$75,000.00	4/27/2000	1021	JSC Industries	\$75,000.00	10/29/2002	1056 Mark Kuehling Esquire	\$2,500.00
5/24/2000	3938	\$10,000.00	5/24/2000	1022	JSC Industries	\$10,000.00	4/10/2003	1057 Bob Kokojan	\$150.00
6/2/2000		\$210,000.00	6/2/2000	1023	LGX LLC	\$210,000.00	6/17/2003	1058 Bob Kokojan	\$300.00
6/8/2000	4026	\$10,000.00	6/8/2000	1024	JSC Industries LLC	\$10,000.00	7/15/2003	1060 Bob Kokojan	\$150.00
7/31/2000	1044	\$245,000.00	7/31/2000	1026	LGX	\$245,000.00	7/24/2003	1062 Micheale Hart, CPA	\$260.00
10/17/2000	4647	\$70,500.00	10/19/2000	1031	LGX	\$70,500.00	8/18/2003	1063 Bob Kokojan	\$150.00
10/27/2000	4679	\$20,000.00	10/27/2000	1032	LGX	\$20,000.00	9/24/2003	1064 Bob Kokojan	\$150.00
12/22/2000	4971	\$81,000.00	12/21/2000	1033	LGX	\$81,000.00	10/21/2003	1065 Bob Kokojan	\$150.00
2/27/2001	1047	\$173,000.00	2/27/2001	1034	LGX	\$173,000.00	4/9/2004	1066 Hart & Merchant CPA's	\$260.37
4/18/2001	100	\$32,000.00	4/17/2001	1035	LGX	\$32,000.00	4/9/2004	1068 LGX LLC	\$144.68
5/22/2001	1050	\$175,890.58	5/22/2001	1038	LGX	\$175,890.58	5/12/2004	1069 Bob Kokojan	\$150.00
8/24/2001	1052	\$291,465.49	8/24/2001	1041	LGX	\$291,465.49	6/15/2004	1070 Bob Kokojan	\$150.00
10/4/2001	1053	\$49,712.24	10/4/2001	1042	LGX	\$49,712.24	7/20/2004	1071 Bob Kokojan	\$150.00
12/7/2001	6786	\$2,000.00	12/7/2001	1043	LGX	\$2,000.00	8/18/2004	1072 Bob Kokojan	\$150.00
12/21/2001	6828	\$2,000.00	12/21/2001	1044	LGX	\$2,000.00	9/28/2004	1073 Bob Kokojan	\$150.00
12/24/2001	6829	\$500.00	12/23/2001	1045	LGX	\$500.00	10/29/2004	1074 Bob Kokojan	\$150.00
1/6/2002	6838	\$2,190.94	1/4/2002	1046	LGX	\$2,190.94			
1/18/2002	6878	\$2,520.94	1/18/2002	1047	LGX	\$2,520.94			
2/5/2002	6906	\$2,520.94	2/1/2002	1048	LGX	\$2,520.94			
2/16/2002	6936	\$2,520.94	2/18/2002	1049	LGX	\$2,520.94			
3/4/2002	6971	\$6,000.00	3/4/2002	1050	LGX	\$6,000.00			
8/1/2002	7334	\$2,000.00	7/31/2002	1053	LGX LLC	\$2,000.00			
10/29/2002	8159	\$2,500.00							
6/23/2003	9038	\$300.00							
7/28/2003	9187	\$410.00							
8/14/2003	9243	\$150.00							
9/29/2003	9371	\$150.00							
11/7/2003	9491	\$150.00							
4/12/2004	9913	\$394.68							
5/18/2004	10023	\$900.00							
		<b>\$2,186,773.84</b>				<b>\$2,175,569.16</b>			<b>\$11,182.17</b>

HEI Direct LGX / JSC: \$2,175,569.16  
HEI Other Expenses: \$11,182.17

**\$2,186,751.33**

HEI Expenditures: \$2,186,751.33  
HEDA to HEI: \$2,186,773.84  
**-\$22.51**

HEI Current Balance: \$22.51

**Variance Amount: \$0.00**

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**Attachment B**

<b>Date</b>	<b>Chk #</b>	<b>Payable To:</b>	<b>Stradley</b>	<b>Caesar</b>	<b>Depositions</b>	<b>Experts</b>
10/12/2000	2268	Stradley Ronon	\$35,000.00			
10/26/2000	2296	Caesar Rivise Bernstein Cohen		\$5,000.00		
12/21/2000	2348	Stradley Ronon	\$35,000.00			
1/10/2001	2362	Caesar Rivise Bernstein Cohen		\$11,892.63		
2/14/2001	2393	MGB Reporting			\$3,831.90	
2/21/2001	2397	Stradley Ronon	\$69,386.50			
2/22/2001	2395	Caesar Rivise Bernstein Cohen		\$42,950.03		
3/6/2001	2420	GATS Reporting Services			\$761.65	
3/16/2001	2425	Caesar Rivise Bernstein Cohen		\$29,594.25		
4/3/2001	2443	Marc Sims SFE				\$27,903.08
5/21/2001	2471	Verbatin Court Reporting			\$695.60	
5/21/2001	2472	Caesar Rivise Bernstein Cohen		20,148.76		
5/21/2001	2473	Olender Reporting			\$718.30	
5/21/2001	2475	JD Reporting, Inc			\$996.50	
5/21/2001	2476	Stradley Ronon	\$182,161.21			
8/27/2001	2544	Stradley Ronon	\$209,028.03			
8/29/2001	2545	Caesar Rivise Bernstein Cohen		\$68,753.11		
8/27/2001	2546	Esquire Deposition Service			\$2,200.99	
			<b>\$530,575.74</b>	<b>\$178,338.78</b>	<b>\$9,204.94</b>	<b>\$27,903.08</b>
						<b>\$746,022.54</b>

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**Attachment C**

Date	Source	Amount
10/24/1997	HEI Counter Chk	\$63,967.06
12/3/1997	HEI Check #1001	\$62,497.50
1/14/1998	HEI Check #1002	\$62,465.83
3/25/1998	HEI Check #1003	\$29,165.50
5/4/1998	HEI Check #1004	\$136,661.20
6/2/2000	HEI Check #1023	\$210,000.00
8/1/2000	HEI Check #1026	\$245,000.00
10/19/2000	HEI Check #1031	\$70,500.00
11/6/2000	HEI Check #1032	\$20,000.00
12/22/2000	HEI Check #1033	\$81,000.00
2/28/2001	HEI Check #1034	\$173,000.00
4/18/2001	HEI Check #1035	\$32,000.00
5/23/2001	HEI Check #1038	\$175,890.68
8/24/2001	HEI Check #1041	\$291,465.49
10/5/2001	HEI Check #1042	\$49,712.24
12/7/2001	HEI Check #1043	\$2,000.00
12/21/2001	HEI Check #1044	\$2,000.00
12/26/2001	HEI Check #1045	\$500.00
1/9/2002	HEI Check #1046	\$2,190.94
1/18/2002	HEI Check #1047	\$2,520.94
2/13/2002	HEI Check #1048	\$2,520.94
2/19/2002	HEI Check #1049	\$2,520.94
3/5/2002	HEI Check #1050	\$6,000.00
8/5/2002	HEI Check #1053	\$2,000.00
		<b>\$1,725,569.16</b>

Date	Source	Amount
10/24/1997	Private Funding	\$12,796.48
12/3/1997	Private Funding	\$11,354.77
12/3/1997	Private Funding	\$1,147.73
1/14/1998	Private Funding	\$12,650.00
3/25/1998	Private Funding	\$5,678.67
5/4/1998	Private Funding	\$27,338.80
12/31/1998	Private Funding	\$70,000.00
10/7/1999	Private Funding	\$151,000.00
11/8/1999	Private Funding	\$183,000.00
12/2/1999	Private Funding	\$370,000.00
1/13/2000	Private Funding	\$200,000.00
2/10/2000	Private Funding	\$150,000.00
3/9/2000	Private Funding	\$150,000.00
4/7/2000	Private Funding	\$183,661.20
6/5/2000	Private Funding	\$76,913.28
8/9/2000	Private Funding	\$76,662.72
3/13/2001	Private Funding	\$45,000.00
5/21/2001	Private Funding	\$31,582.28
6/5/2001	Private Funding	\$92,109.42
		<b>\$1,850,915.35</b>

Date	Source	Amount
6/25/1998	Bond Account	\$250,000.00
7/30/1998	Bond Account	\$125,000.00
9/1/1998	Bond Account	\$76,000.00
9/29/1998	Bond Account	\$239,000.00
10/29/1998	Bond Account	\$225,000.00
11/30/1998	Bond Account	\$43,000.55
1/6/1999	Bond Account	\$468,932.60
2/20/1999	Bond Account	\$462,007.12
4/1/1999	Bond Account	\$948,053.15
5/4/1999	Bond Account	\$1,155,949.04
6/1/1999	Bond Account	\$481,206.79
7/1/1999	Bond Account	\$731,985.31
7/30/1999	Bond Account	\$561,459.28
9/2/1999	Bond Account	\$132,465.75
9/21/1999	Bond Account	\$371,000.00
		<b>\$6,261,059.59</b>

Total LGX Funding Amount		
HEI Total	\$1,725,569.16	17.540%
Private Funding	\$1,850,915.35	18.814%
Bank One	\$6,261,059.59	63.643%
Other/Unknown	\$250.00	0.003%
	<b>\$9,837,794.10</b>	<b>100.000%</b>

Net Funding By Public Funds	
Redeemed Bond Amount	\$6,001,975.68
HEDA/HEI Funds	\$1,725,569.16
<i>Subtotal</i>	\$7,727,544.84
LGX/HEVHEDA Repayment	-\$138,666.21
	<b>\$7,588,878.63</b>

Attachment D

