UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re: SRC Holding Corporation, f/k/a Miller & Schroeder, Inc., and its subsidiaries, Debtors.	Chapter 7 Case BKY Case Nos. 02-40284 to 02-40286 Jointly Administered
Brian F. Leonard, Trustee, Plaintiff, vs. Roger J. Wikner, Defendant.	ADV Case No. 03-4153 **AFFIDAVIT OF J. PATRICK McDAVITT**

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

J. PATRICK McDAVITT, being first duly sworn upon oath, deposes and states:

1. I am an attorney with the law firm of Briggs and Morgan, which acted as counsel for MI Acquisition Corporation with respect to its purchase of the stock of Roger Wikner and James Iverson ("the Selling Shareholders") in Miller & Schroeder, Inc. and its subsidiaries ("MSI") on July 31, 1997.

2. As part of the due diligence investigation concerning threatened and existing litigation matters of MSI disclosed by the Selling Shareholders in Schedule 3.7 of the Stock

Purchase Agreement, I prepared the memorandum which is attached hereto as Exhibit A on or about July 15, 1997.

3. After the July closing, the parties entered into a Settlement Agreement with respect to an adjustment of the purchase price. Attached as Exhibit B is a memorandum located in the files of Briggs and Morgan related to that Settlement Agreement. The memorandum attached as Exhibit B is a summary of the cost estimated to be incurred to litigate or settle certain claims against MSI which are referenced in the memorandum attached as Exhibit A.

FURTHER YOUR AFFIANT SAYETH NOT.

J. Patrick McDavitt

Subscribed and sworn to before me
this 5th day of March, 2004.

Notary Public

JANE NYSTROM
Notary Public
Minnesota
My Commission Expires Jan. 31, 2005

MI ACQUISITION CORPORATION
LITIGATION DUE DILIGENCE
JULY 15, 1997

I. CLAIMS ASSERTED AGAINST MILLER & SCHROEDER AND IN LITIGATION

A. Charles Graham, et al.

Taxpayers' suit challenging public financing of Target Center. Plaintiffs claim issuance of municipal bonds by the City of Minneapolis violates Plaintiffs' constitutional rights by depriving them of the right to vote on the issues. The case was dismissed by the U.S. District Court and the plaintiffs (appearing *pro se*) have appealed.

Plaintiffs seek a judgment declaring the bonds to be invalid. The Eighth Circuit has agreed to schedule oral arguments in this matter.

B. Century Park Pictures Corporation and Thomas K. Scallen

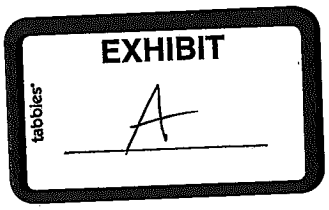
Pat Stanchfield, an employee of Miller & Schroeder (M&S) had a side business that made hats and shirts for the Minnesota Fighting Pike (arena football team). Stanchfield took action to recover $35,000 to $40,000 in products provided to the Minnesota Fighting Pike that were not paid for. Scallen brought a counterclaim against Stanchfield and a third-party complaint against M&S alleging Stanchfield represented he could provide refinancing for the Minnesota Fighting Pike through M&S clients and move the team to St. Paul. Scallen relied on such representations and did not pursue opportunities to sell the Minnesota Fighting Pike in such reliance. Refinancing did not occur.

M&S has denied the claim on the basis that the transaction did not involve M&S and that Stanchfield was acting on his own behalf and on behalf of his side business, not as an employee of M&S.

The amount of damages on the third-party complaint being sought has not yet been identified.

C. Halverson

Arbitration matter before the MSRB by a customer who lost $100,000 on bonds that defaulted. Halverson (who is appearing *pro se*) claims that Miller & Schroeder did not do its due diligence before buying and selling bonds on the Southeast Texas Garland Oaks Project, and the broker made false representations and refused to sell the bonds when the customer requested.



Halverson has sought damages of $100,000, which represents the repurchase of his initial investment in the bonds at issue.

II. CLAIMS ASSERTED AGAINST MILLER & SCHROEDER BUT NOT IN LITIGATION

A. Lester Mayo

Customer claims that he was ill advised to invest in CMOs when he had been investing in CDs. Total investment of approximately $700,000 now trading for 85% to 90% of the initial investment. A demand letter was sent to Miller & Schroeder and a complaint was filed with the Minnesota Department of Commerce in February 1997.

Investor is seeking damages of $100,000. Miller & Schroeder responded to the Department of Commerce denying any liability. Miller and Schroeder currently has an offer outstanding to settle this claim for $12,000.

B. Lorraine Nalivako

Customer purchased $92,000 of limited partnership interests and has written numerous letters complaining about the risk factors associated with such purchases and claiming she should not have been sold such investments. At her request, the Minnesota Department of Commerce also initiated an investigation.

Customer is seeking $92,000 for the repurchase of her investments. The current value of her investments is approximately $30,000. Miller and Schroeder has offered the client $5,000 to settle this dispute. The offer was made June 26, 1997. The client has not yet responded to the offer by Miller & Schroeder.

C. Jessica Neal Matter

A former employee of Miller & Schroeder, through her attorney, submitted a demand letter on May 7, 1997 demanding payment of $200,000 in regards to certain claims by Ms. Neal against Miller & Schroeder relating to alleged sexual harassment by her supervisor. The employee left her employment after working only two months for the supervisor.

Miller & Schroeder has responded to the demand letter requesting that it be allowed to review Ms. Neal's medical records. No response has been provided by Ms. Neal's counsel to date.

D. Washington County HRA/Scandia Oak Hill Cottages Project

Miller and Schroeder underwrote and sold a bond issue on behalf of the Washington County HRA/Scandia Oak Hill Cottages Project. The IRS challenged the tax-exempt status of the project. The Washington County HRA

settled with the IRS to allow the issuance as a tax-exempt issuance in exchange for a $200,000 payment by the HRA to the IRS.

The Washington County HRA has submitted a settlement offer of $40,000 to Miller & Schroeder to settle this matter. The settlement offer remains open with no deadline established.

E. Limited Partnership Investments

Miller & Schroeder received a demand letter in February 1997 from a law firm in Florida requesting payment of $700,478 on behalf of Miller & Schroeder customers who invested in limited partnerships. None of the investments is in default. Miller & Schroeder has also received calls from two other law firms concerning similar claims, and has obtained a copy of a solicitation letter from another Florida lawyer to investors, but has received no other demand letters.

Miller & Schroeder's general counsel has had a telephone conversation with the attorney who sent the demand letter, and the attorney asked for further customer information from Miller & Schroeder in April. The information has not been supplied, and no further communication has been received.

III. POTENTIAL FUTURE CLAIMS FOR WHICH NO DEMAND AS YET HAS BEEN MADE

A. Washington County HRA/Woodland Park Project

Miller & Schroeder supplied a construction loan on a project on which the Washington County HRA then issued bonds. Miller and Schroeder did not underwrite the bonds. Miller and Schroeder issued a "Financial Consultant's Certificate" at closing relating to the bids for funds held by the Trustee. The Washington County HRA has taken the position that this was an acknowledgment by Miller & Schroeder that it was a "financial advisor" to the HRA.

The bond was intended to be a nonrecourse bond, but due to an error in the final draft of the bond, it was defined as a recourse bond. Miller & Schroeder had no role in the drafting. Washington County HRA brought suit against its bond counsel for $5 million dollars. Washington County HRA reached settlement with its bond counsel after several days of trial, believed to be in the $1.5 to $2.5 million range.

Miller & Schroeder entered into a tolling agreement with the Washington County HRA extending the tolling period to July 26, 2001. The Washington County HRA claims that Miller & Schroeder, as its investment advisor, should have known that the project was financially unstable and did not provide appropriate advice to the Washington County HRA. No demand has yet been made by the Washington County HRA; however, the HRA has indicated it wishes to terminate the tolling agreement.

B. South Central Multi Counties

Bonds of approximately $20 million issued as moral obligation bonds which require participants to levy taxes to make up for shortfalls. Projects have experienced shortfalls and are currently using reserves to make payments. The counties have been requested and have declined to levy a tax as required under the moral obligation clause. Franklin Fund has sued the counties who have refused to levy such tax.

There have been no direct threats of suits against Miller & Schroeder.

C. Northwest Multi Counties

Similar to transactions described for South Central Multi Counties. Bonds of approximately $12.5 million have not yet defaulted, but payments are currently being made out of reserves.

Several investors have complained about the investment, but no demands have yet been made.

D. Southeast Texas Bond Issue

Miller & Schroeder bought $1.25 million of bonds in the secondary market and resold to investors. The bonds relate to an apartment project in Texas, and a default has been declared. The bonds have no value. Suit has been brought by the borrower, the title company, and the two firms which sold the initial offering. The initial offering was for $3.9 million. Halverson is one of Miller & Schroeder's largest individual investors in the transaction (*see* I.C. above).

Customers have expressed dissatisfaction, but no demands have been made.

E. United Market Services

Original debt offering by Miller & Schroeder in the amount of $6,000,000. The debtor, United Market Services, is unable to meet its financial obligations. Investors were sent a letter by United Market Services offering to pay investors $.30 for each dollar invested plus the issuance of stock in United Market Services. The offer was approved by investors.

No written demands have been made by investors in this matter; however, sales representatives have received verbal complaints from customers.

F. St. Paul Port Authority

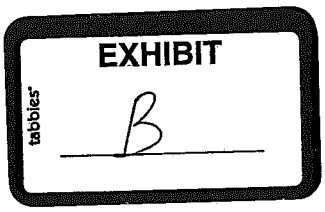
Miller & Schroeder underwrote hundreds of millions of dollars of bonds which are projected to default in approximately the year 2000. Bond reserves exist for payments to be made through the year 2000.

MI Acquisition Corp.
Summary of Litigation Exposures

Case		Claim	Expected Legal Fees	Estimated Loss
Graham	$	0	10,000	0
Scallen		1,000,000	10,000	0
Halverson		100,000	25,000	50,000
Mayo		100,000	0	50,000
Nalivako		62,000	0	25,000
Neal		200,000	25,000	50,000
Scandia (W.C.)		40,000	10,000	25,000
Woodlands (W.C.)		5,000,000	0	0
Ltd. Partnerships		700,000	0	0
South Central M.C.		0	0	0
Northwest M.C.		0	0	0
S.E. Texas		1,250,000	20,000	0
U.M.S.		6,000,000	0	0
St. Paul P.A.		0	0	0
PRANA		0	0	0
Totals	$	14,452,000	100,000	200,000

Amounts in the table above are based on discussions with Pat McDavitt of Briggs & Morgan. The claims amounts are based on legal documents or the maximum loss incurred by a customer. The amounts presented for legal fees and estimated loss are reasonable estimates of the cost expected to be incurred to litigate or settle the respective claims.

Cases with no amounts in the claims column represent matters where the Company has exposure, however, at July 31, 1997, no claims have yet been filed.

These amounts do not include accruals which could be established in recording the purchase transaction (a purchase accounting adjustment as compared to a purchase price adjustment).

A purchase price adjustment of $300,000 has been proposed in the consolidated balance sheet at July 31, 1997.