SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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FORM 10-KSB/A
AMENDMENT NO.2

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 1998
[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from . . . to . . . .

COMMISSION FILE NO. 2-91651-D

PEACOCK FINANCIAL CORPORATION

| | |
|---|---|
| COLORADO | 87-0410039 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

248 E. MAIN STREET SAN JACINTO, CA 92583
(ADDRESS AND ZIP CODE OF PRINCIPAL EXECUTIVE OFFICES)

(909) 487-8911
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, $.001 PAR VALUE
(TITLE OF CLASS)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES X NO .

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OR REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K.

THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT AS OF DECEMBER 31, 1998, WAS $1,176,012.

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF DECEMBER 31, 1998, WAS 20,750,370.

DOCUMENTS INCORPORATED BY REFERENCE: NONE.

This Amendment No. 2 applies to Item 7 and Item 13 only.

Item 7. Financial Statements.

The financial statements required by this item begin immediately following Item 13 of this report.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibit Table.

None

(b) Reports on Form 8-K filed during the quarter ended December 31, 1998.

None.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

C O N T E N T S



INDEPENDENT AUDITORS' REPORT

Peacock Financial Corporation and Subsidiaries
Board of Directors
San Jacinto, California

We have audited the accompanying consolidated balance sheet of Peacock Financial Corporation and Subsidiaries as of December 31, 1998 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1998 and 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial tatements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peacock Financial Corporation and Subsidiaries as of December 31, 1998 and the results of their operations and their cash flows for the years ended December 31, 1998 and 1997 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the consolidated financial statements, the Company has suffered losses from operations for the years ended December 31, 1998 and 1997, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Jones, Jensen & Company
Salt Lake City, Utah
March 30, 1999

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet

ASSETS

| | December 31, 1998 |
|---|---|

| | |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | $ - |
| Due from related party (Note 11) | 2,396 |
| Notes receivable (Note 7) | 19,300 |
| Total Current Assets | 21,696 |
| FIXED ASSETS, NET (Notes 2 and 5) | 366,780 |
| OTHER ASSETS | |
| Notes receivable - related parties (Note 11) | 114,000 |
| Developer fees receivable | 154,077 |
| Development costs (Note 3) | 1,216,036 |
| Investments in limited partnerships (Note 4) | 1,224,292 |
| Other investments (Note 6) | 200,000 |
| Licensing rights, net (Note 8) | 30,000 |
| Other assets | 29,201 |
| Total Other Assets | 2,967,606 |
| TOTAL ASSETS | $ 3,356,082 |

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>

December 31,

1998

\- ------------
<S>
<C>

CURRENT LIABILITIES

Accounts payable$
227,743
Bank overdraft
4,509
Other current liabilities
280,982
Lines of credit (Note 9)
6,365
Notes payable - current portion (Note 10)
753,060
Note payable to stockholder (Note 11)
57,058

\- ------------

Total Current Liabilities
1,329,717

\- ------------

LONG-TERM DEBT

Notes payable - long term (Note 10)
864,501

\- ------------

Total Liabilities
2,194,218

\- ------------

COMMITMENTS AND CONTINGENCIES (Note 13)

STOCKHOLDERS' EQUITY

Preferred stock: 10,000,000 shares authorized at $0.01 par value;
672,300 shares issued and outstanding
6,723
Common stock: 250,000,000 shares authorized at $0.001 par value;
20,750,370 shares issued and outstanding
20,750
Additional paid-in capital
3,519,882
Accumulated deficit
(2,385,491)

\- ------------

Total Stockholders' Equity
1,161,864

\- ------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY
$3,356,082

</TABLE>
\- ------------

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The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations

<TABLE>
For the
Year Ended

December 31,
--------------
\- --------------
1998
1997
-----------
\- -----------
<S> <C>
<C>
REVENUES

Home building and development sales $ 591,006
$ 1,992,736
Property management and administration income 4,270
1,375
Commissions income -
6,977
Other income 14,535
74,298
-----------
\- -----------

Total Revenues 609,811
2,075,386
-----------
\- -----------

EXPENSES

Home building and development costs 585,490
1,989,958
General and administrative 1,089,130

| | | |
|---|---|---|
| | | 770,094 |
| Depreciation and amortization | 43,319 | 14,385 |
| | ----------- | ----------- |
| Total Expenses | 1,717,939 | 2,774,437 |
| | ----------- | ----------- |
| LOSS FROM CONTINUING OPERATIONS | (1,108,128) | (699,051) |
| | ----------- | ----------- |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 5 | 1 |
| Interest expense | (132,912) | (173,431) |
| Bad debt expense | (164,057) | - |
| Loss on investments | (11,225) | - |
| Loss on disposition of assets | (117,119) | - |
| | ----------- | ----------- |
| Total Other Income (Expense) | (425,308) | (173,430) |
| | ----------- | ----------- |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (1,533,436) | (872,481) |
| Income taxes (Note 2) | - | - |
| | ----------- | ----------- |
| LOSS FROM CONTINUING OPERATIONS | (1,533,436) | (872,481) |
| DISCONTINUED OPERATIONS (Note 15) | | |
| Gain (loss) from operations of discontinued segment | - | 90,956 |
| Gain on disposal of discontinued segment | - | 1,003,534 |
| | ----------- | ----------- |
| Total Discontinued Operations | - | 1,094,490 |
| | ----------- | ----------- |
| NET INCOME (LOSS) | (1,533,436) | 222,009 |
| OTHER COMPREHENSIVE INCOME | - | - |
| | ----------- | ----------- |
| NET COMPREHENSIVE INCOME (LOSS) | $(1,533,436) | $ 222,009 |
| | ----------- | ----------- |
| | ----------- | ----------- |

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (Continued)

| | For the Year Ended December 31, 1998 | 1997 |
|---|---|---|
| BASIC EARNINGS (LOSS) PER SHARE | | |
| Continued operations | $ (0.10) | $ (0.08) |
| Discontinued operations | - | 0.10 |
| BASIC EARNINGS (LOSS) PER SHARE | $ (0.10) | $ 0.02 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 15,053,919 | 11,253,615 |
| FULLY DILUTED EARNINGS (LOSS) PER SHARE | $ (0.08) | $ 0.02 |
| FULLY DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 19,950,219 | 14,090,915 |

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

| | Preferred Stock Shares | Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit |
|---|---|---|---|---|---|---|
| Balance, | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 1996 | 672,300 | $ 6,723 | 10,695,295 | $ 10,695 | $ 2,215,474 | $(1,074,064) |
| Common stock issued for cash | - | - | 422,002 | 422 | 59,618 | - |
| Common stock issued for services | - | - | 646,500 | 647 | 83,459 | - |
| Accrued dividends | - | - | - | - - | (23,172) | - |
| Net income for the year ended December 31, 1997 | - | - | - | - - | - | 222,009 |
| Balance, December 31, 1997 | 672,300 | 6,723 | 11,763,797 | 11,764 | 2,335,379 | (852,055) |
| Common stock issued for cash | - | - | 1,609,413 | 1,609 | 217,456 | - |
| Common stock issued for services | - | - | 3,108,040 | 3,108 | 599,967 | - |
| Common stock issued on conversion of debentures | - | - | 1,559,834 | 1,560 | 104,033 | - |
| Common stock issued for investments and licensing rights | - | - | 2,420,000 | 2,420 | 257,580 | - |
| Common stock issued under failed financing package | - | - | 289,286 | 289 | 28,639 | - |
| Accrued dividends | - | - | - | - - | (23,172) | - |
| Net (loss) for the year ended December 31, 1998 | - | - | - | - - | - | (1,533,436) |
| Balance, December 31, 1998 | 672,300 | $ 6,723 | 20,750,370 | $ 20,750 | $ 3,519,882 | $(2,385,491) |

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

<TABLE>

For the Year Ended December 31,

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<S> <C> <C>

| | 1998 | 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $(1,533,436) | $222,009 |
| Adjustments to reconcile net income (loss) to net cash (used) by operating activities: | | |
| Depreciation and amortization | 43,319 | 14,385 |
| Bad debts | 164,057 | - - |
| Loss on disposition of assets | 117,119 | - - |
| Loss on investments | 11,225 | - - |
| Stock issued for services | 632,003 | 84,106 |
| Discontinued operations | - | (244,982) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts and notes receivable | 4,633 | 68,000 |
| (Increase) decrease in accounts receivable - related parties | (2,396) | (78,152) |
| (Increase) decrease in other assets | (17,275) | (6,725) |
| Increase (decrease) in accounts payable | 7,809 | (75,947) |
| Increase (decrease) in bank overdraft | 4,509 | - - |
| Increase (decrease) in other liabilities | 68,387 | (146,591) |
| Net Cash (Used) by Operating Activities | (500,046) | (163,897) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (27,000) | - - |
| Sale of investments | 15,775 | - - |
| Construction in progress | - | (104,863) |
| Sale of property and equipment | - | 214,890 |
| Purchase of property and equipment | (20,884) | (1,951) |
| Net Cash Provided (Used) by Investing Activities | (32,109) | 108,076 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Due to shareholders | 33,189 | (20,902) |
| Repayment of notes payable | (88,029) | (883,312) |
| Proceeds from long-term borrowings | 353,153 | 823,785 |
| Stock issued for cash | 219,065 | 60,040 |
| Net Cash Provided (Used) by Financing Activities | $ 517,378 | $ (20,389) |

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

| | For the Year Ended December 31, | |
|---|---|---|
| | 1998 | 1997 |
| NET INCREASE (DECREASE) IN CASH | $ (14,777) | $ (76,210) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 14,777 | 90,987 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ - | $ 14,777 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | $ 41,230 | $ 272,867 |
| Income taxes paid | $ - | $ - |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES | | |
| Common stock issued for services | $ 632,003 | $ 84,106 |
| Common stock issued on conversion of debentures | $ 105,593 | $ - |
| Common stock issued for investments | $ 200,000 | $ - |
| Common stock issued for licensing rights | $ 60,000 | $ - |

The accompanying notes are an integral part of these consolidated financial statements.

PEACOCK FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 1998

NOTE 1 - COMPANY BACKGROUND

The consolidated financial statements include those of Peacock Financial Corporation (Colorado) (Peacock) and its wholly-owned subsidiaries, Peacock Financial Corporation (California) (PFC) and

Peacock International Corporation (Bahamas) (PIC). Collectively, they are referred to herein as "the Company".

Peacock was incorporated under the laws of the State of Colorado on February 16, 1984 under the name of Oravest International, Inc. It later changed its name to Camdon Holdings, Inc. and then to American Temperature Control, Inc., Connectivity and Technology, Inc., and finally to Peacock Financial Corporation on February 27, 1996. Peacock was incorporated for the purpose of creating a vehicle to obtain capital to seek out, investigate and acquire interests in products and businesses which may have a potential for profit.

PFC, a wholly-owned subsidiary, was formed on May 22, 1986. Its operations consist of the acquisition and enhancement of income-producing properties and the development of multi-use property including home building. Certain properties are owned by limited partnerships managed by the Company.

PIC, a wholly-owned subsidiary, was formed on December 8, 1997. It has had no operations to date, but was formed to invest and trade in securities on an international basis.

On February 27, 1996, the Company completed an Agreement and Plan of Reorganization whereby Peacock issued 7,767,702 shares of its common stock and 672,300 shares of its preferred stock in exchange for all of the outstanding common stock of PFC. Pursuant to the reorganization, the name of the Company was changed to Peacock Financial Corporation.

The reorganization was accounted for as a recapitalization of PFC because the shareholders of PFC control the Company after the acquisition. Therefore, PFC is treated as the acquiring entity. Accordingly, there was no adjustment to the carrying value of the assets or liabilities of Peacock . Peacock is the acquiring entity for legal purposes and PFC is the surviving entity for accounting purposes.

On September 15, 1998, the Company filed with the Securities and Exchange Commission to become a Business Development Corporation as defined under the Investment Act of 1940. Simultaneously, the Company registered an offering circular with the SEC for 13,000,000 shares of common stock under Regulation E of the Investment Act to raise capital and to make investments in real estate and in eligible portfolio companies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

a. Accounting Method

The Company's consolidated financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 year end.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the time of acquisition.

c. Partnership Investments

The Company's general and limited partnership interests are accounted for using the equity method, which reflects historical cost adjusted for the proportionate share of partnership earnings or losses. The Company has not recorded its share of losses in excess of its investment in each partnership.

d. Fixed Assets

Fixed assets are recorded at cost. Major additions and improvement are capitalized. The cost and related accumulated depreciation of equipment retired or sold are removed from the accounts and any differences between the undepreciated amount and the proceeds from the sale are recorded as gain or loss on sale of assets. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

| Description | Estimated Useful Life |
|---|---|
| Furniture and fixtures | 5 to 7 years |
| Computers and software | 5 years |
| Buildings | 40 years |

e. Basic and Fully Diluted Loss Per Share

The computations of basic loss per share of common stock are based on the weighted average number of common shares outstanding during the period of the consolidated financial statements. Common stock equivalents, consisting of convertible debt and preferred shares, have not been included in the calculation as their effect is antidilutive for the periods presented. Convertible debt and preferred shares have been included in the fully diluted loss per share.

f. Change in Accounting Principle

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" during the year ended December 31, 1998.
In accordance with SFAS No. 128, diluted earnings per share must be calculated when an entity has convertible securities, warrants, options, and other securities that represent potential common shares.
The purpose of calculating diluted earnings (loss) per share is to show
(on a pro forma basis) per share earnings or losses assuming the exercise or conversion of all securities that are exercisable or convertible into common stock and that would either dilute or not affect basis EPS. As permitted by SFAS No. 128, the Company has retroactively applied the provisions of this new standard by showing the fully diluted loss per common share for all years presented.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Change in Accounting Principle (Continued)

The Company also adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" during the year ended December 31, 1998. SFAS No. 130 established standards for reporting and display of comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. This statement requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The Company has retroactively applied the provisions of this new standard by showing the other comprehensive income (loss) for all years presented.

g. Principles of Consolidation

The consolidated financial statements include those of Peacock Financial Corporation (Colorado) and its wholly-owned subsidiaries, Peacock Financial Corporation (California) and Peacock International Corporation (Bahamas). All significant intercompany accounts and transactions have been eliminated.

h. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Concentrations of Risk

Credit losses, if any, have been provided for in the consolidated financial statements and are based on management's expectations. The Company's accounts receivable are subject to potential concentrations of credit risk. The Company does not believe that it is subject to any unusual, or significant risks in the normal course of its business.

j. Provision for Taxes

At December 31, 1998, the Company has net operating loss carryforwards of approximately $2,380,000 that may be offset against future taxable income through 2013. No tax benefit has been reported in the consolidated financial statements because the Company believes there is a 50% or greater chance the net operating loss carrryforwards will not be used. Accordingly, the potential tax benefits of the net operating loss carryforwards are offset by a valuation allowance of the same amount.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

NOTE 3 - DEVELOPMENT COSTS

Land improvements and related property development costs have been capitalized and will be amortized to the cost of the houses sold based upon the total number of homes to be constructed in each project. The land and land improvements of $1,216,036 at December 31, 1998 are recorded at the lower of cost or estimated net realizable value (see Note 13).

NOTE 4 - INVESTMENTS IN LIMITED PARTNERSHIPS

On June 29, 1992, the Company formed a limited partnership agreement to acquire two apartment buildings to be repaired, developed, and managed which are referred to as the Riverside Park Apartments. The partnership acquired the property for $3,350,000 on July 10, 1992 for $670,000 in cash and a promissory note of $2,680,000. In July 1992, the partnership entered into an agreement whereby the City of Riverside loaned the partnership $650,000 at 10.5 percent interest. The loan will be forgiven by August 1, 2007. The debt and accrued interest are forgiven at one-fifteenth of the original balance per year. The agreement requires the partnership to meet certain restrictive covenants. The Company remains the general partner with a 1% interest and receives a property management fee.

In December 1995, the Company formed a limited liability company to acquire a 63-lot residential subdivision in the San Jacinto Valley. In March 1996, the limited liability company acquired an additional 110-lot subdivision also in the San Jacinto Valley. The Company retains a 50% ownership in the limited liability company and also receives an overhead fee for the construction and marketing of the homes.

During 1995, the Company received a $975,000 loan that converted to a grant from the City of Riverside to acquire and rehabilitate a 120-unit apartment complex (see Note 13). During April 1996, the Company was awarded $2,400,000 in Federal tax credits. During December 1996, the Company sold the completed project to a tax credit partnership named Canyon Shadows, L.P. retaining a 1% interest as general partner and receiving a $905,000 capital account in the partnership. Additional expenses of $319,292 were incurred by the Company on behalf of the partnership resulting in a total investment in Canyon Shadows, L.P. of $1,224,292 at December 31, 1998.



## NOTE 5 - FIXED ASSETS

Fixed assets consist of the following at December 31, 1998:

| | |
|---|---|
| Building | $ 381,874 |
| Furniture and fixtures | 18,985 |
| Computers and software | 46,220 |
| | 447,079 |
| Accumulated depreciation | (80,299) |
| Net fixed assets | $ 366,780 |

## NOTE 6 - OTHER INVESTMENTS

During the year ended December 31, 1998, the Company became a Business Development Corporation whereby the Company can raise capital under a simplified and cost effective informational filing with the Securities and Exchange Commission for the purpose of investing in small businesses and government securities. The Company intends to provide capital for these companies and to later take these companies public through a spin-off process.

On October 19, 1998, the Company issued 1,000,000 shares of its outstanding common stock valued at $100,000 to acquire an approximate 33% interest in IPO/Emerging Growth Company, LLC. (IPO). IPO was inactive through December 31, 1998. The investment has been recorded under the equity method.

On October 23, 1998, the Company issued 820,000 shares of its outstanding common stock valued at $100,000 to acquire an approximate 5% interest in San Diego Soccer Development Corp. (SDSDC), owner of the San Diego FLASH pro soccer team. As part of the agreement, the Company has the option to purchase an additional 5% interest. The investment has been recorded under the cost method and the Company does not exercise any influence or control over management of SDSDC.

Following is a summary of the investments held as of December 31, 1998:

| | |
|---|---|
| 33% interest in IPO/Emerging Growth Co. | $ 100,000 |
| 5% interest in SDSDC | 100,000 |
| Total | $ 200,000 |

NOTE 7 - NOTES RECEIVABLE

Notes receivable consist of the following at December 31, 1998:

| | |
|---|---|
| Note receivable at 10%, unsecured, principal and interest due March 17, 1999 | $ 10,000 |
| Note receivable at 6%, unsecured, principal and interest due August 17, 1999 | 9,300 |
| Total Notes Receivable | 19,300 |
| Less: Current Portion | (19,300) |
| Long-Term Notes Receivable | $ - |

NOTE 8 - LICENSING RIGHTS

Licensing rights consist of the following at December 31, 1998:

| | |
|---|---|
| Licensing rights | $ 60,000 |
| Accumulated amortization | (30,000) |
| Net licensing rights | $ 30,000 |

During the year ended December 31, 1998, the Company issued 600,000 shares of its outstanding common stock valued at $60,000 pursuant to a license agreement with Linzy Capital, Inc. (Linzy). Linzy is a private business development company which has invented and developed an "Option Day Trading System." Pursuant to the license agreement, the Company was granted a non-exclusive license to use the option program, and the Company will pay Linzy a management fee of 10% on the profits generated by the day trading system. The license agreement became effective on October 2, 1998 and terminates on October 2, 2008.

The licensing rights have been recorded at cost and are amortized using the straight-line method over a two year life. Amortization expense for the year ended December 31, 1998 was $30,000.

NOTE 9 - LINE OF CREDIT

The Company has a line of credit with a bank at December 31, 1998. Borrowings outstanding under this line of credit at December 31, 1998 was $6,365. The credit line bears interest at the bank's index rate plus 2 percent or 12 percent currently and expires during July, 1999.

## NOTE 10 - NOTES PAYABLE

Notes payable consist of the following at December 31, 1998:

| | |
|---|---|
| Note payable at 5%, secured by an assignment of partnership cash, interest payable quarterly, principal due January 1, 2007, convertible to common stock. | $ 500,000 |
| Note payable at variable rate (18.0% at December 31, 1998) collateralized by deed of trust on real property. Lump sum payment is due May 21, 1999. | 205,540 |
| Note payable at 10%, unsecured, due with accrued interest on or before February 1, 1997, currently in default. | 371 |
| Note payable at 10%, secured by deed of trust, due March 31, 1996, currently in default. | 65,000 |
| Note payable at 3%, collateralized by deed of trust on real property, due June 24, 2024. | 70,000 |
| Note payable at 7%, secured by deed of trust on real property, payable in monthly installments of $1,621 including interest, due March 1, 2000. | 22,912 |
| Loan payable at 9%, collateralized by deed of trust on property, accrued interest and principal due February 15, 1997 (see Note 13(b)). | 193,088 |
| Note payable to individual at 10%, collateralized by deed of trust, payable in monthly interest only payments, principal due January 19, 1997 (see Note 13(b)). | 125,000 |
| Note payable, non-interest bearing, unsecured, payable in monthly installments of $1,000. | 13,250 |
| Debentures at 10%, unsecured, convertible into common shares at rates of $0.05 to $0.10 per share at the option of the holder, due December 31, 1998 through December 31, 2000. | 422,400 |
| Total Notes Payable | 1,617,561 |
| Less: Current Portion | (753,060) |
| Long-Term Notes Payable | $ 864,501 |

NOTE 10 - NOTES PAYABLE (Continued)

The aggregate principal maturities of notes payable are as follows:

| Years Ending December 31, | Amount |
| --- | --- |
| 1999 | $ 753,060 |
| 2000 | 364,501 |
| 2001 | - - |
| 2002 | - - |
| 2003 | - - |
| 2004 and thereafter | 500,000 |
| Total | $ 1,617,561 |

NOTE 11 - RELATED PARTY TRANSACTIONS

The Company is a partner in several limited partnerships (Note 4). The Company occasionally pays for operating expenses of the partnerships and is reimbursed as funds become available to the partnerships. These advances are non-interest bearing and are reimbursed on a regular basis.

In 1994, the Company paid a legal settlement on behalf of one of the partnerships of which it is a partner. The payment has been recorded as a note receivable from the partnership. The note is non-interest bearing and is due on demand. The amount outstanding as of December 31, 1998 was $114,000.

Certain stockholders have made loans to the Company. The loans bear interest at rates from 8 percent to 10 percent per annum. The balance outstanding at December 31, 1998 is $57,058.

The Company also holds a receivable from an officer of the Company in the amount of $2,396. The amount is non-interest bearing and due on demand.

NOTE 12 - PROFIT SHARING PLAN

In 1989, the Company adopted a profit sharing plan covering all eligible employees. Contributions are made at the discretion of the Board of Directors. There were no contributions to the plan for the years ended December 31, 1998 or 1997.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

a. GENERAL PARTNER OBLIGATIONS

The Company serves as general partner in several real estate development partnerships. The Company may be held liable for certain liabilities of these partnerships in its capacity as general partner.
At December 31, 1998, the partnerships had certain liabilities with recourse against the Company although management does not feel that the potential liabilities will have a material impact on the Company.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

b. RENTS AND LEASES

During 1996, the Company acquired an historic 15-room hotel in downtown San Jacinto and converted it into an executive suites office building. The Company currently occupies approximately half of the offices and rents the remaining space to others. Financing, which consisted of a seller carry-back loan of $125,000 for the acquisition and a City of San Jacinto Redevelopment loan of $193,088 for the rehabilitation, is currently being restructured into long-term financing.

c. WRAP AROUND MORTGAGE

The Company has sold a property subject to a mortgage. The mortgage has not been fully assumed by the buyer. If the buyer defaults on the mortgage, the Company may be liable for the balance owing.

d. VISTA RAMONA DEVELOPMENT COSTS

The Company has incurred costs associated with the development of a residential housing project. The costs incurred have been for engineering and planning for the project. The project encompasses 489 acres of land containing approximately 1,800 residential building lots. The Company controls 277 acres of the project through a joint venture. The remaining 212 acres are controlled by a separate joint venture which has filed for chapter 11 bankruptcy. If the 212 acres are not brought under the control of the Company, there is some uncertainty as to the recoverability of all development costs. The Company believes that regardless of the outcome of the attempt to gain control of the 212 acres, that more likely than not the entire amount of the development costs will be recovered from the remaining joint venture. The Company entered into a joint venture agreement subsequent to December 31, 1998 that is intended to develop the Vista Ramona project. Pursuant to the joint venture agreement and conditional upon the Company being able to meet certain requirements and conditions, the joint venture partner will invest up to $5,000,000 to develop the project.

e. HOUSING GRANT

In April 1995, the Company acquired a 120 unit apartment complex using a $975,000 loan that converts to a grant from the City of Riverside, California. The loan is non-recourse and is secured by a second trust deed on the property. If the Company meets certain requirements pertaining to the complex, which have been stipulated by the city, the loan will be forgiven in its entirety. Management has complied with all of the requirements and believes that the repayment of $905,000 (the grant portion) of the $975,000 is highly remote. Accordingly, $905,000 of the amount has been recorded as income to the Company for the year ended December 31, 1997.

If the Company fails to meet the requirements, however, the entire unpaid principal balance, together with accrued interest, will become due at the discretion of the City of Riverside and foreclosure proceedings may be initiated on the property.



NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

f. BUILDING PURCHASE

During 1998, the Company entered into an agreement to purchase a building adjacent to their corporate headquarters. The purchase price will be $200,000 and closing is set to occur once the Company has paid an initial down payment of $60,000 at which time financing for the remaining $140,000 will occur. As of December 31, 1998, the Company has paid $24,000 towards the down payment which is included in other assets in the accompanying financial statements. The Company has agreed to pay rent on the building of $750 per month until the closing date. The Company had not closed on the property as of the date of this audit report.

NOTE 14 - PREFERRED STOCK

The Company's preferred stock has the right to quarterly dividends to be paid at the annual rate of 6%. The quarterly dividend is to be paid to all shareholders of record, as of the last day of each quarter until such time as the Company causes such shares to be converted to common shares and "registered" (free trading) with the S.E.C. and the appropriate State regulatory agency.

Each preferred share is convertible into one share of the common stock of the Company, such conversion to occur automatically and registered concurrently with any public offering of the common shares of the Company.

Each share of preferred stock comes with a warrant. Each warrant entitles the holder to purchase one share of the common stock at a price of $2.20 per share, from the date of purchase until 180 days following the completion of the Company's initial public offering of common stock, or commencement of public trading therein. During the exercise period of the warrants, the Company, at its option, may call the warrants for redemption on a 30-day prior written notice to warrant holders of record at a redemption price of $.05 per warrant.

NOTE 15 - DISCONTINUED OPERATIONS

The Company decided to either sell or dispose of a portion of its operations during 1997. The operations of these projects are being netted together as loss on discontinued operations. The resulting gain for the year ended December 31, 1997 was $90,956. In addition, the Company recognized a gain on the disposition of the discontinued operations of $1,003,534 for the year ended December 31, 1997.



NOTE 16 - GOING CONCERN

The Company's consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant losses and does not currently have the means to pay the current maturities of its long term debt as they become due. These factors create an uncertainty about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company has, however, entered into three separate joint venture agreements subsequent to December 31, 1998 which management believes will enable them to develop certain properties that the Company owns or properties owned by certain investment partnerships that the Company has an interest in. Management believes that the real estate market in California has improved substantially which increases the potential of the Company to generate revenues sufficient to cover its costs.

The Company has also been able to raise an additional $390,000 in capital during January and February 1999. One of the Company's investments, San Diego Soccer Development Corp. is in the process of going public through a SB-1 filing and if successful, will allow the Company to be a selling shareholder in the offering which is expected to raise $450,000 of new capital for the Company.

NOTE 17 - SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the following transactions occurred:

1) On January 28, 1999, the Company issued 750,000 shares of its outstanding common stock to acquire a 20% interest in Solutions Media, Inc. (SMI). SMI provides a variety of professional services including web site design and implementation, database and graphic design and web based marketing and advertising. SMI's product development strategy centers on developing and licensing interactive television interfaces.

2) The Company converted outstanding debentures of $50,000 plus accrued interest of $1,565 into 1,031,300 shares of common stock at $0.05 per share.

3) The Company entered into three separate joint venture agreements that will be utilized to develop certain properties (See Note 16).

The accompanying notes are an integral part of these consolidated financial statements.

POWER OF ATTORNEY

The Registrant and each person whose signature appears below hereby authorizes Steven R. Peacock, the agent for service named in this Report, with full power to act alone, to file one or more amendments to this Report, which amendments may make such changes in this Report as such agent for service deems appropriate, and the Registrant and each such person hereby appoints such agent for service as attorney-in-fact, with full power to act alone, to execute in the name and in behalf of the Registrant and any such person, individually and in each capacity stated below, any such amendments to this Report.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEACOCK FINANCIAL CORPORATION (Registrant)

By: /s/ Steven R. Peacock
Steven R. Peacock
President and Chief Executive Officer

Date: February 9, 2000

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
| --- | --- | --- |
| /s/ Steven R. Peacock<br>Steven R. Peacock | President, Chief Executive | February 9, 2000 |
| /s/ Lisa L. Martinez | Secretary | February 9, 2000 |