ROBB EVANS
ROBB EVANS & ASSOCIATES

Temporary Receiver of J.K. Publications, Inc.
MJD Service Corp.
and their Affiliates and Subsidiaries

REPORT OF RECEIVER'S ACTIVITIES
JANUARY 6, 1999 THROUGH FEBRUARY 5, 1999

This report covers activities of Robb Evans and Robb Evans & Associates (collectively the Temporary Receiver) since the Temporary Receiver's appointment and includes the Temporary Receiver's observations, projected near term activities, and a brief conclusion.

During the temporary receivership period, the day to day operations, investigation, and activities of the Temporary Receiver were directed and led by Kenton Johnson and Brick Kane, principals of Robb Evans & Associates with substantial banking and receivership experience. Operating under the overall direction of Mr. Evans, Messrs. Johnson and Kane were primarily responsible for: (a) analyzing data turned over by J.K Publications, MJD Service Corp. and the companies identified as subsidiaries and affiliates itemized below on page 10 (the "receivership defendants"); (b) analyzing data turned over by third party independent contractors, financial institutions, and others; (c) interviewing service providers and former employees; and (d) making decisions pertaining to customer service and consumer complaints. Messrs. Johnson and Kane were assisted by other members of Robb Evans & Associates, including Anita Jen, who is a Certified Public Accountant and was responsible for compiling financial and accounting data. Messrs. Johnson and Kane were also assisted by independent contractors who are specialists in telephone, computer systems, and internet commerce.

Observations

The Temporary Receiver's initial observations include the following substantial concerns:

- The Temporary Receiver is dealing with a common enterprise involving multiple corporate entities and potential multiple owners with differing ownership in the different entities.
- There are huge credit card volumes not supported or documented by website ownership, other files, or identified customer data files.
- There are extensive sums transferred offshore with very limited documentation.

Following his appointment on January 6, 1999, the Temporary Receiver, along with others, entered and later secured the rented premises at 22761 Pacific Coast Hwy, #105, Malibu, California. Concurrently, the Temporary Receiver, along with others, served the Court Order on other locations and requested that documents and assets belonging to the receivership defendants and their affiliates and subsidiaries be turned over.

Common Enterprise:

From a discussion with the landlord and from quickly reviewing records and documents scattered throughout the facility, the Temporary Receiver learned the premises were occupied by not only the receivership defendants but also several of their affiliates and subsidiaries. These same records and documents, which are later discussed in greater detail, also indicated individuals and employees were signing for or working for several or all of the affiliates and subsidiaries. The records also indicate that subsidiaries and affiliates are transacting business among themselves and with mutual customers. As discussed later in more detail, the Temporary Receiver presently believes that the multiple corporate entities and potential multiple owners with differing ownership in the different entities are a common enterprise.

Credit Card Volumes:

The Temporary Receiver is very concerned about credit card transaction volumes, and corresponding deposits to the receivership defendant's bank accounts, that cannot be supported by the identified customer data files, or the records located that identify and support owned websites, or website sharing arrangements. The exhibits introduced by the receivership defendants fail to acknowledge or account for the enormous credit card dollar deposits credited to the receivership defendants' bank accounts. The unaccounted dollar amount totals $45,479,465. As stated earlier, much of the unaccounted proceeds have been sent offshore, and should be the subject of intense investigation.

The Temporary Receiver learned that Automated Transaction Services (ATS) in Los Angeles had been providing a credit card approval and transaction service for the receivership defendants and some affiliates and subsidiaries since early 1996. In several meetings since the Temporary Receiver's appointment, David Goldfarb, the Chief Operating Officer, explained the services ATS provided and turned over recent transaction data. Mr. Goldfarb stated that ATS sent the customer historical transaction database on a CDROM to Lee Sacks, Esq. Although the receivership defendants claim the CDROM was left at the premises, it has never been located.

David Goldfarb stated that ATS was no longer processing charges for new memberships and had discontinued processing reoccurring monthly charges for all receivership entities.

Despite continuing requests to turn over information about receivership assets, the receivership defendants remained silent about the location of the website servers. These servers exist to provide the link between consumers, the adult-material websites, and the processing service provided by ATS. About two weeks after the Temporary Receiver's appointment, we discovered an invoice previously mailed to J.K. Publications that identified a San Diego internet facility. We learned that the identified company provides unmanaged internet access and commerce transmission for the four internet computer servers owned by the receivership defendants and located at the company site. Access to these servers was protected by passwords.

Because previous attempts by the Temporary Receiver and the Temporary Receiver's counsel to obtain all computer passwords had been ignored or delivered piecemeal, we reviewed the business records and identified a consultant, Adam Joffe, who had performed website and other computing services for the receivership defendants. We made contact with the consultant, instructed him to provide the passwords and access instructions to the computer servers located in San Diego, and to change the passwords to the servers. We have since accessed and analyzed all of the data on these servers (Tab 1). Richard Sandler, an information systems consultant with 20 years experience, including over 3 years experience with internet/e-commerce, completed this analysis. We have learned that these servers host 22 merchant identification numbers (merchant id(s)) for third party websites under various website-sharing arrangements. Office files relating to these arrangements include previous invoices and limited correspondence. The servers also host 4 merchant ids for the receivership defendants' wholly owned adult-content websites.

The Temporary Receiver has analyzed and drawn initial conclusions from the data provided by ATS, and reached additional conclusions when the ATS data was matched to records from the merchant depository banks. The data includes merchant ids assigned by ATS, credit card volume broken down by individual merchant ids, bank deposits, charge-back and sales credit activity, and customer complaints.

Under Tab 2 is a summary, prepared by the Temporary Receiver from source data supplied by ATS, of sales activities by ATS merchant id. ATS assigned 149 merchant ids to the receivership defendants, to which we have assigned a numerical sequence under the column titled Rec. ID. ATS was unable to supply complete information for October through December 1998. As discussed earlier, ATS informed the Temporary Receiver that this digital data was transferred to a CDROM and delivered to the receivership defendants.

The table below summarizes the following detailed comments about merchant ids.

Merchant ids assigned to 3rd party websites	52
Merchant ids assigned to receivership defendants' websites	4
Merchant ids with no identified websites	93

Total merchant ids 149

Merchant ids assigned to 3rd party websites

Office files validate that Rec. ID numbers 1 through 25, 29, 54 through 59, 115 through 131, and 147 through 149, totaling 52, are assigned to third parties and are operated under verified and presumably legitimate website sharing arrangements. The receivership defendants would provide merchant depository services for these third parties in return for a 10% to 25% service charge on gross sales. All the information the Temporary Receiver has been provided and reviewed leads us to believe that these 52 merchant ids generated $1,087,517 in 1998 sales.

Merchant ids assigned to receivership defendants' websites

Rec. ID numbers 30, 32, 34, and 35, totaling 4, are the merchant ids for the websites owned by the receivership defendants. All the information the Temporary Receiver has been provided and reviewed leads us to believe that these merchant ids generated $2,850,160 in verified and presumably legitimate 1998 sales.

Merchant ids with no identified websites

There are 93 remaining merchant ids. The sales information provided by ATS included details of daily and monthly activity for each merchant id. According to David Goldfarb, the receivership defendants asked that ATS prepare this information and to submit the information to the receivership defendants on a monthly basis. The data produced by ATS shows the 93 merchant ids have common characteristics that are not consistent with the activity of the other 56 merchant ids.

None of these 93 merchant ids is mentioned in any office file, nor is there any record of a website sharing arrangement, nor is there any correspondence referencing a purchase of a book(s) of business. Twenty-seven of the 93 merchant ids were assigned to the name of Donovan Sands at PO Box 11, St. Anns Bay, Jamaica, W.I. This is the same address used by Dennis Rappaport.

Furthermore, none of the 93 merchant ids has any daily, or sign-up, activity. Please refer to Tab 3, which is an example of the monthly printout provided to the receivership defendants by ATS. This example, along with all report data, was turned over to the Temporary Receiver by ATS.
This lack of daily or sign-up activity is inconsistent with all other merchant id activity provided by ATS, whether the ultimate website tied to the merchant id was hosted at the San Diego facility or at another website host location.

According to ATS, the receivership defendants would periodically e-mail "new customer business" with an attached spreadsheet or text file listing credit card numbers. David Goldfarb stated that this e-mail data did not always include customer names or other identifying information such as the individual customer's e-mail address. ATS, and later the receivership defendants, would assign pre-reserved merchant id's to the new group of customers. The data sent by e-mail would be incorporated in the ATS database. The new credit card numbers would then be set up to receive monthly recurring charges. Often the first month's volume of recurring charges exceeded $100,000.

Because of the lack of file support and the irregular credit card activity, the Temporary Receiver seriously questions the validity and proper authorization of the credit card volume for these 93 merchant ids. Furthermore, the Temporary Receiver has found no information to substantiate that the credit card charges processed through these 93 merchant ids were the result of valid and authorized internet activity.

The Temporary Receiver has completed a preliminary summary of business operations, which is under Tab 4. The summary was prepared from the Temporary Receiver's analysis of credit card processing detailed on the merchant bank statements for J.K. Publications and MJD Service Corp. The merchant banks are Charter Pacific and Heartland Card Services.

Among other things, these statements itemize all monthly deposits from credit card activity for the receivership defendants. As is itemized in the summary, the total monthly deposits from credit card activity during 1998 at the two merchant banks was $49,417,142. Therefore, the unverified and highly questionable activity is the difference between

$3,937,677, the aggregate amount of verified and presumably legitimate third party business ($1,087,517) and verified and presumably legitimate receivership defendants' business ($2,850,160), as discussed above, and $49,417,142, the total of bank deposits from credit card activity, an unexplained discrepancy of $45,479,465. This means that 92% of the receivership defendants' 1998 sales volume is unverified, unexplained, and highly suspect.

Tab 2 represents the sales activity reported by ATS in 1998 by merchant ids. If reflects only $27,472,528 in annual sales volume, which while still over $23 million more than legitimate and verified sales, is significantly less than the $49 million bank deposit figure.

This is because ATS was unable to supply the Temporary Receiver with all customer transactional data for the period from October, 1998 through December, 1998 as it pertained to J.K. Publications and MJD Service Corp. because, as noted above, ATS turned that data over to Mr. Sacks and that information has not been turned over to the Temporary Receiver by the receivership defendants. The Temporary Receiver believes that if the receivership defendants turn over this database it will match the credit card deposit activity of the merchant banks and evidence that an additional $22 million was generated by the receivership defendants in questionable sales activity.

Sums Transferred Offshore:

The Temporary Receiver has completed a thorough search of the premises and found no meaningful business or accounting records. The Temporary Receiver has since spoken to or written to the former and current offsite bookkeepers and to a CPA. We have also contacted all known domestic depository banks and credit card banks. We have requested and received accounting detail on all of the receivership defendants' accounts, except Adult Banc. During these efforts, the Temporary Receiver and the Temporary Receiver's counsel had to overcome numerous obstacles put in place by the receivership defendants and their attorneys, including failing to turn over some accounting records and important digital data. The Temporary Receiver did not receive the accounting data for MJD Service Corporation until February 4th. As of this writing, we are still missing some bank detail, and a significant amount of digital data.

Nevertheless, the Temporary Receiver has been able to complete an initial review of the accounting data turned over by the defendants for the Receivership entities, including JK Publishing/Netfill, MJD Service Corporation, and Herbal Care. The review of these records indicate that at least $23 million was withdrawn from the accounts of the Receivership entities and was transferred, through different entities and several accounts, to the accounts of an offshore corporations. The payments are sometimes supported by invoices in large, even dollar amounts for "Advertising." There are no further details. The invoices are usually for several hundred thousand dollars, sometimes for more than a million dollars. Sometimes there is no invoice support.

All of these transfers have common characteristics as to the method and routing of the transfer and a single offshore bank destination. Please refer to Tab 5, which includes printouts from the QuickBooks accounting data, and examples of invoices and checks, all of which were turned over by the receivership defendants. Subject to further orders of the Court, the Temporary Receiver plans to aggressively trace these withdrawals and determine if they are receivership assets.

<u>Customer Service and Consumer Information</u>

Since the Temporary Receiver's appointment, we have been mindful of the concerns of consumers who have been trying to make contact with the entities. The Temporary Receiver's belief is that a very high percentage of these consumers are trying to cancel their membership, or seeking information about charges for which they have no information or did not authorize. We have based this belief on a review of pre-receivership and post-receivership letters and facsimile requests and from listening to voice mail messages. Additionally, we have spoken to a select number of consumers.

We have reviewed the telephone bills from various providers of the 800 number service for the entities. According to these documents, inbound telephone calls have steadily increased beginning at the level of 19,000 in January 1998, and reaching a crescendo of 152,000 in September 1998. Inbound 800 number telephone calls for 1998 total about 684,000.

We also believe that a very high percentage of these callers were trying to cancel their memberships or learn about charges for which they had no information or did not authorize.

As discussed earlier, David Goldfarb stated that ATS was no longer processing charges for new memberships and had discontinued processing reoccurring monthly charges for all receivership defendant entities. We have confirmed that no other processor has been identified. Therefore, we can reasonably conclude that consumers are not now receiving charges against their credit cards and bank accounts from any of the receivership defendants.

Pending the hearing to determine whether a preliminary injunction should be issued, the business decision made by ATS to stop processing charges has addressed the concerns of consumers who fear their credit cards or bank accounts will be charged for unwanted services. However, the Temporary Receiver has instructed the internet service provider in San Diego to maintain the four servers and keep access to the adult-content websites available for consumers who have subscribed and recently paid for service.

Among other passwords not turned over by the receivership defendants were those to the Samsung telephone voice mail system and the telephony interactive system. The telephony system allowed consumers to enter a request to cancel a membership and referred them to other telephone numbers for customer service. The Temporary Receiver learned that an unknown person had turned off the Samsung voice mail system the day the Temporary Receiver took control of the premises. The Temporary Receiver located a consultant, Paige Dunlap, who had previously provided telephone support and who restored the voice mail system.

The Temporary Receiver restored and changed the announcement on the telephony interactive system to provide information about the actions filed and the establishment of the receivership. The system announcements allow consumers to enter a credit card number to cancel a membership. The announcements instruct consumers and creditors how to write to the Temporary Receiver for additional information, including how to request a refund. Additionally, four facsimile machines are accepting incoming messages from those consumers who were previously given a fax number.

The entities and the employees have claimed there was a strong effort to initiate credits to consumers rather than allow charge backs to be processed by the credit card system. The total of charge backs and sales credits in 1998, was $5,620,000.00, which we compiled from the merchant bank statements (Tab 4). Regardless of efforts to initiate credits, charge backs totaled 70% of the entire refund process and remained from 62% - 79% during the last six months.

If the receivership becomes permanent, the Temporary Receiver will propose that future credits be processed under a claims administration procedure, rather than issuing credits as they are requested. This will not be a radical departure from past practice since only 30% of the refunds resulted from credits. Indeed, in a recent 13-day period, the entities have received 1,216 retrieval requests from the merchant processing banks. These requests represent probable future charges. Additionally, the Temporary Receiver will create an efficient and fast moving claims procedure in order to provide the quickest redress for consumers. David Goldfarb stated that the customer service system was intact and would be available to electronically process further requests for refunds.

The Temporary Receiver asked one of the merchant processing banks, Charter Pacific Bank, to waive the $10 per item charge back fee. The bank refused to waive the charge. The Temporary Receiver will be following up with Heartland Payments Systems to request a waiver of charge back fees.

Additional Comments Regarding Common Activities

On January 7, 1999, the Temporary Receiver entered the premises at 22761 Pacific Coast Hwy. Counsel for the receivership defendants arrived shortly thereafter, reviewed the Court's Order, declared it invalid as to that location, advised the Temporary Receiver he was trespassing, and demanded that the Temporary Receiver leave the premises. The Temporary Receiver declined to follow such demand. The employees were reluctant to reveal their assignments and duties or even their names. At a subsequent meeting, they also refused, on advice of counsel, to provide computer passwords. We were able to conclude that a customer service operation with terminals apparently linked to a database was operating in the rear portion of the premises. In the center of the premises, two or three individuals stated they were attempting to market to additional websites and developing "website material."

We did not locate any of the named individual defendants on the premises and later learned their Apple Powerbook laptop computers were not on the premises.

On the same day the Temporary Receiver also met with the leasing representative of the landlord, and later spoke to the landlord on the telephone. Both informed the Temporary Receiver that the premises were originally leased in December 1997 to J. K. Publications, Inc. with the personal guarantee of Ken Taves. In October 1998 Ken Taves, signing for the KULM Consulting Group, Inc., asked to lease additional space and renew the existing lease for one year. The landlord's office told us that another entity, possibly Adult Banc or Discreet Bill, was added as a lessee in December 1998.

Scattered throughout the premises were mail, memoranda, and other documents, including telephone message slips, in the name of almost every entity listed on page 10. Included in the documents were invoices from one entity to another. The internal telephone list identifies entities assigned to telephone numbers, including MJD, Webtel, N-Bill, Discreet Bill, Assist On Line, and On Line Billing. The list also identifies telephone numbers assigned to Ken Taves, Gary Mittman, and Dennis Rappaport.

Twelve employees are shown on the December 1998 Christmas bonus list. The applications for employment for six of the employees list the employing organization as KULM Consulting Group, Inc. Six of the employment applications do not list an employing organization. The 1998 payroll information furnished by Payroll Plus reports these same twelve employees were employed and paid by Herbal Care, Inc.

We have reviewed invoices, copies of prepared checks, and a printout detailing payments of $183,085 made to vendors whose invoices are addressed to NetFill, Inc. However, the checks were drawn on the bank account of AdultBanc, Inc. at U.S. Bank in Nevada.

The location served in the city of Riverside was occupied by Chase Publications, Inc., the agent for service for J.K. Publications, Inc. The Office Manager informed us that Chase's business relationship with Mr. Taves was to set up corporations in Nevada and to receive mail from an address in Nevada and forward that mail to an address in Malibu. In addition to turning over files documenting the formation of J.K. Publications, Inc. and Herbal Care, Inc., we received a file labeled "Coastal Holding, Ltd. Ken Taves." H. K. Termohlen, the reported owner of Chase Publications, Inc., is shown as the officer for each of the four official positions of Coastal Holding Ltd. Ken Taves, on behalf of Coastal Holdings, Ltd., executed the management agreement between Coastal Holding, Ltd. and Chase Publications, Inc.

From a review of these records, documents, and activities the Temporary Receiver has identified the following likely affiliates and subsidiaries:

1. Adult Banc, Inc.
2. Billing On Line
3. Coastal Holding Ltd.
4. Discreet Bill, Inc.
5. Fun On Line
6. Herbal Care, Inc.
7. KULM Consulting Group, Inc.
8. Online Billing
9. TAL Services, Inc.

The Temporary Receiver believes good cause exists at this time to conclude that the above listed entities are affiliates. The Temporary Receiver has, therefore, taken steps to freeze assets in the names of these entities. Listed below are bank accounts of the receivership defendants and the affiliates and subsidiaries:

Receivership Entities	**Status**	**Balance**
J.K. Publication	Transferred to Receiver's Account	566,188.52
J.K. Publication	Frozen	128,388.26
MJD Service Corp.	Transferred to Receiver's Account	205,560.22
MJD Service Corp.	Frozen	728,544.43
Total Receivership Entities		**1,628,681.19**

Affiliates & Subsidiaries		
Adult Bank	Frozen	50,117.17
Coastal Holdings, Ltd.	Frozen	20,897.59
Discreet Bill	Transferred to Receiver's Account	564,760.18
Discreet Bill	Frozen	15,517.09
Netfill.	Frozen	8,710.22
Netfill	Merchant Card processing accounts	N/A
Total Affiliates & Subsidiaries		**760,002.25**

Projected Near Term Activities

As information becomes available the activities the Temporary Receiver is currently projecting as priority matters may change, depending on what we learn, the conclusions we reach, and any direction from this Court. Presently, the Temporary Receiver has identified the following as immediate priorities:

- Formulate and implement a strategy to set up an efficient and fast-moving claims process. We believe it largely can be an electronic process.
- Continue to identify transfers to third parties, including transfers offshore. Concurrently, locate any other bank accounts and assets.
- Determine if other merchant accounts or credit card processors exist.
- Continue to locate additional Receivership assets.

Conclusion

It was clear within a short time of entry of the premises that although there were multiple corporate entities and potentially multiple owners with differing ownership in the different entities, the Temporary Receiver was dealing with a common enterprise. Mail and phone messages and the limited records in the names of the various business names were commingled. The complex of corporate entities was clearly a single operation with differing names designed either for marketing purposes, asset protection, or purposeful confusion. The Temporary Receiver believes a complete evaluation is impossible until all entities are examined.

The Temporary Receiver is continuing to evaluate the validity of all credit card transactions. We will continue to closely study all accounting records and review cancelled checks and wire transfer orders as they become available. The Order should be clarified to encompass all identified entities and provide the Temporary Receiver clear authority to obtain all records.

Respectfully submitted,

Robb Evans
Temporary Receiver