

**Robb Evans, Receiver of TLC Investments & Trade Co., et al.**  
**Interim Report to the Court**  
**A Financial History from August 1, 1998 to October 4, 2000**  
**June 27, 2001**

The purpose of this interim report is to inform the Court that the financial reconstruction of the Receivership Defendants' business activities has been completed. This report includes a discussion of the reconstructed combined financial statements of the Receivership Defendants.

The financial reconstruction was undertaken when the Receiver determined that the books and records maintained in Brea were incomplete, inaccurate, and misleading. The Receiver obtained copies of all bank and property records that had been seized by the Federal Bureau of Investigation and the Internal Revenue Service on or about September 14, 2000. The Receiver determined that many bank account statements, checks, and deposit details were missing from the documents that were seized. The Court has been informed by the Receiver's previous reports that the process of obtaining documents from the various banks has been a long and difficult procedure. With the assistance of this Court and the Commission, the Receiver has now received all of the documents from the banks necessary to prepare the financial reconstruction .

The Receiver's staff assigned to this project included three Certified Public Accountants. These individuals, and other members of the Receiver's staff, entered every check issued by the TLC Receivership Defendants (TLC) and every deposit received by TLC into an accounting software package. Other senior members of the Receiver's staff consulted with the CPAs about certain classifications of the financial transactions. Concurrently, the Receiver's staff reconstructed investor data from the information received from the banks and from TLC's investor files. We were unable to classify financial transactions of about \$1.25 million net, consisting of receipts of \$1.85 million and disbursements of \$0.6 million, because the depository banks could not locate the documents or because the copies of documents that were located are not legible. The unclassified amount is not material to the total amounts of receipts and disbursements and would not significantly affect the results presented in the financial statements.

The sections of this report that follow will present a brief overview of the history of TLC and discussions about the combined financial statements.

### **Brief History of the Receivership Defendant Companies**

Mr. Terence Kettenhofen and Mr. Eunan B. Aeria founded TLC Investments and Trade Co. in San Diego in 1994. TLC Investments and Trade Co. used Bank of Commerce and Grossmont Bank in San Diego as its depository banks. TLC Investments and Trade Co. engaged Mr. Frank Cossey as a sales agent. Reportedly, a dispute arose between Messrs. Kettenhofen and Cossey and Mr. Cossey took control of the business of TLC Investments and Trade Co. in August 1998 and moved the company's operations from San Diego to Brea. Mr. Cossey began operating as TLC Brokerage, Inc., dba TLC Marketing, a company he formed in May 1998. TLC America, Inc., dba Brea Development Company, was formed in October 1998. Two other entities, TLC Development, Inc. and TLC Real Properties, RLLP-1 were also formed. Because the banking transactions of the entities were commingled, the use of TLC in this report refers to all of the Receivership Defendants.

After the operations were moved from San Diego to Brea, the entities initially used Coast Federal Savings Bank as their depository bank. The Coast Federal Savings Bank accounts were opened in August 1998 and were funded by transfers of the residual funds in the Bank of Commerce account. There was a small amount of business transacted through the TLC Investments and Trade Co. account in August 1998. That amount was later transferred to the TLC account at Coast Federal Savings Bank.

Mr. Kettenhofen transferred cash and real property assets to Mr. Cossey valued at \$4.6 million. He also transferred liabilities to investors of \$11.5 million. Therefore, the newly formed TLC began operations with a negative capital position of approximately \$6.9 million. TLC's initial reconstructed Balance Sheet is under Tab 2.

In November 1998 TLC Brokerage, Inc. and Mr. Cossey filed a lawsuit against TLC Investments and Trade Co. and Mr. Kettenhofen alleging breach of contract, fraud, conversion and breach of fiduciary duties (Tab 1). On March 17, 1999 a Stipulation for Judgment in the amount of \$2.0 million was entered against TLC Investments and Trade Co. and Mr. Kettenhofen in the Orange County Superior Court. The Receiver is not aware of why a judgment for just \$2.0 million was entered, when it was clear the initial capital deficit of TLC was much greater than that amount. The recovery potential for this judgment is under investigation.

## Balance Sheets

Under Tab 2 are Balance Sheets for selected period-ending dates, and an ending Balance Sheet as of October 4, 2000.

The Balance Sheet at October 4, 2000 reflects that TLC received about \$161.6 million, which was raised from about 1,850 investors. That amount is overstated by about \$10.0 million because TLC was periodically required to send IRA funds to the IRA administrators so that the administrators could deduct their annual fees. Those funds were immediately returned to TLC, but were booked as new investments. TLC raised funds through the following entities:

	(In millions)
TLC America	\$105.6
TLC Marketing	54.3
RLLP-1	1.4
TLC Investments & Trade Co.	0.3
Less returns from IRAs	(10.0)
Total Net Investor Funds	\$151.6

The Balance Sheet also reflects that TLC returned to investors about \$55.0 million in total. This amount includes the \$10.0 million that was sent to IRA administrators. Therefore, the adjusted total returns to investors are about \$45.0 million.

The underlying purported business of TLC was investment of funds raised from consumers in real properties for the purpose of selling the properties at a sufficient profit to pay company operating expenses and to pay returns to the consumers on their investments. TLC raised funds by promising returns of 8% to 15% to the investors. However TLC actually paid most investors returns of 12% to 14% on the amounts loaned to the company.

Under Tab 3 is a Summary of Gains and Losses and the Resulting Cash Flows from Real Property Transactions from August 1, 1998 to October 4, 2000. Also under Tab 3 is a Detailed Schedule of Gains and Losses and the Resulting Cash Flows from Real Property Transactions from August 1, 1998 to October 4, 2000. For the period, TLC generated positive net cash flow of about \$1.6 million from property sales, primarily from selling real properties that were transferred from Kettenhofen without cash expenditure.

The positive net cash flow of \$1.6 million generated from property sales was not sufficient to fund the approximately \$45.0 million paid to investors.

## Profit & Loss Statements

Under Tab 4 are Profit and Loss Statements for selected periods, which reflect an operating loss for the life of the company of \$33.5 million. The Profit and Loss Statements also show that TLC was unprofitable in each accounting period. Some of the more noteworthy expenses made by TLC were:

	(In millions)
Net payments to Frank Cossey	\$8.9
Purchase of racehorses titled to Cossey	3.3
Payments to Defendant Cloud	1.1
Payments to agents and others	16.5
Donation to the Brahma Foundation	1.5
Private jetplane rental	0.8
Total	\$32.1

Had these payments not been made, TLC may have been in a break-even position or may have even posted a small profit from additional interest income, before any returns to investors.

Property operations (rental income minus rental property operating expenses) generated operating income of about \$1.4 million. The net gain from property sales amounted to approximately \$2.0 million. Interest income, unidentified net cash receipts, and miscellaneous income totaled about \$2.2 million.

Therefore, only about \$5.6 million was available to fund payments totaling \$87.1 million: approximately \$45.0 million returned to investors in the form of principal and interest payments, \$32.1 million in expense payments described above, and about \$10.0 million in other operating expenses.

## Summary of Cash Flows

Under Tab 5 are a Summary of Cash Flows from August 1, 1998 to October 4, 2000, and a Detailed Schedule of Cash Flows for selected periods.

In no period did TLC have sufficient available cash from its operations to make payments for interest returned to investors or principal returned to investors. The only available cash came from new investors, who funded the payments to other investors.

Because this is clearly a Ponzi scheme, we have treated funds paid to investors that were stated to be interest payments as a return of capital.

Respectfully submitted,

Robb Evans  
Receiver