

Quarterly Report to the Court

As of December 31, 2000

Robb Evans, Receiver of TLC Investments & Trade Co., et al.

Submitted January 31, 2001

This is the first quarterly report to the Court. The purpose of this report is to:

- Provide a current summary of major issues confronted by the Receivership Estate.
- Update the Court regarding the status of various issues addressed in previous reports.
- Outline issues that will likely be subjects of motions to the Court by the Receiver in the near future or regarding issues which the Receiver believes the Court should be informed.
- Request confirmation or approval of the Receiver's activities to date and of certain proposed future actions.

This report does not constitute an audit of the financial condition of the Receivership, is intended only for the information of the Court and should not be relied upon for other purposes.

Major Activities and Issues, October 31, 2000 to December 31, 2000

Overview of Receivership as of December 31, 2000

As of year-end, the Receivership had under management 523 parcels of real estate with an aggregate cost of \$69,831,808 of which 6 parcels, costing \$5,078,000 were in escrow with a total sales price of \$5,586,000 and estimated net proceeds of about \$5,200,000.

There were also under management other assets, including 45 racehorses with a cost of \$4,376,500, four of which are held in partnership with third parties. Other assets also included real estate mortgages with an approximate face amount of \$2,000,000.

The total cost of all assets under management is \$76,208,308 and has a projected recovery value of \$69,242,198. The projected recovery value is before Estate operating expenses and net property operating expenses, which currently are projected to be about \$3,200,000.

As of December 31st, the full time staff of TLC had been reduced from 26 on the date of the initial freeze order to 12, with seven people working in Brea, and five on site at property locations in Georgia, Alabama, Texas and California.

Control and Sales of Assets

The Receiver or his staff has inspected all but one property valued in excess of \$1,000,000. An inspection of that property is scheduled in February 2001. Insurance has been confirmed or placed and the properties secured. A project is underway to rationalize the amount and type of insurance coverage for all properties. Preliminary cash flow projections have been completed and a marketing plan has been developed for the major properties, those valued at \$250,000 or more. These properties consist of 32 commercial properties and one condominium complex with 55 units. These major properties have an aggregate cost of \$54,023,933.

For the 436 minor properties, those valued under \$250,000, all have been inspected by either the Receiver's or TLC staff, insurance confirmed or placed, and cash flow projections completed. Marketing plans for these properties will be completed during the first quarter.

As of December 31st, seven properties and two units in a residential loft project were sold and escrows closed. Those properties cost \$217,359, had additional rehabilitation costs of \$148,914 and were sold for an aggregate gross price of \$648,200. After paying expenses of sale, extinguishing liens against the properties and other costs, the net proceeds of \$587,980 resulted in a profit of \$221,707.

There were six properties in escrow as of year-end. These properties cost \$4,758,886, had additional rehabilitation costs of \$319,463, and it is anticipated they will produce net proceeds of \$5,178,353 and a profit of \$100,004.

Financial Reconstruction

The most time consuming and difficult project has been reconstruction of the financial and investor records. This task was complicated by the multiple sets of records that were not reconciled and by the seizure, before the Receivership, of many records by the FBI and IRS. The FBI and IRS have been cooperative in permitting copying of and access to records, although, in most cases, they kept originals in order to maintain the chain of custody.

It was necessary to reconstruct the financial records item-by-item and day-by-day from the inception of the company to October 5, 2000, the date of seizure.

That reconstruction is now substantially completed, but submission to the Court at this time is premature as we await additional photocopies of certain checks, wire transfers, and deposit items from several financial institutions. The copies of these items will clarify the proper accounting classification of certain receipts and disbursements. The Receiver anticipates completing this project soon and will file a special report with the Court.

The Ponzi Scheme

In reviewing the substantially completed financial records, the Receiver believes it is now confirmed that the funds of later investors were utilized to make payments to earlier investors. It is also clear that the company was unprofitable in every year. These are the elements of a Ponzi Scheme. The Receiver will present these elements in greater detail when he files the financial reconstruction report with the Court.

Investor Communications

An early strategic decision was taken to be as responsive as practical to investor concerns and questions. While it is not unusual under circumstances such as these to minimize contact with and responses to investors, for the sake of economy, the opposite approach was considered appropriate in this case.

One concern was that many hundreds of investors are retired and their investment in TLC constitutes a major portion, and in some cases, all of their retirement funds. They need information to plan their futures.

A surprising number of investors have Internet access. The Receiver has actively responded to e-mail communications and posted all relevant public documents on the Internet at "robbevans.com". Of course, more traditional avenues remain available to those who do not have Internet access.

Three public meetings were held during December and January. Although investors are located nationwide, there are California concentrations. Over three hundred investors attended meetings in Orange, Kern and San Luis Obispo Counties. A copy of a letter to investors announcing the meeting is included under Tab 1 of the attachments to this Report. The format of the meetings was informal and mostly consisted of questions and answers.

Another factor in initiating these meetings was the fact that some agents have been circulating information such as the following from a Bakersfield agent in a Memorandum dated October 25th:

"I have received information from various sources that TLC has real estate assets, which may very likely exceed the obligations owed to investors."

Clearly, such misinformation could cause investors to make inappropriate decisions and needed to be corrected.

We did receive unconfirmed reports that some agents were discouraging attendance, falsely indicating to some clients that the meetings had been cancelled. Local banks or public institutions donated space for the meetings, so cost was minimal. The reaction was as positive as could be expected under the circumstances. Almost without exception, investors expressed gratitude for both the availability and frankness of information.

The possibility of conducting other meetings in other locations will be considered as circumstances allow.

Investors Legal Representation

A large number of investors were approached by attorney Richard Weed who sent a letter to investors based on names and addresses presumably provided to him by agents. A copy of his letter to investors is attached under Tab 2 of the attachments to this Report. Mr. Weed makes it clear his fee has been paid by apparently unidentified brokers or agents.

Mr. Weed has advised the Receiver that he represents 1,144 investors and has named about 223 of those investors. Several brokers or agents were included with investors on the client list provided by Mr. Weed.

These letters were sent in advance of the investor meetings and were cited repeatedly by investors at those meetings. Mr. Weed attended one of the meetings after having sought and being granted permission to do so by the Receiver.

Several investors have told the Receiver that they signed and returned copies of Mr. Weed's letter at the request or insistence of the agent who convinced them to invest in TLC. Their reported belief was that there was nothing to lose by signing and there might be something to gain. It was clear from comments at investor meetings that some believed this was a pending or potential class action and they could be waiving their rights to receive money if they did not sign.

The Receiver avoided giving advice to investors regarding selection of private counsel, but made it clear that there was no requirement that they do so. In response to questions, he also opined that, contrary to the belief of some investors, the presence of additional counsel in this matter would not necessarily be helpful to the recovery effort.

On January 14th Mr. Weed informed the Securities and Exchange Commission ("SEC"), my counsel, and various defense counsel that he intended to file a motion with this Court to intervene in the case. A copy of his letter and draft motion is under Tab 3 of the attachments to this Report.

On January 16th Marianne Wisner, Esq. informed Mr. Weed that he is statutorily barred from intervention in the case without approval of the SEC, which was denied (Tab 3).

The Receiver has learned from an investor's attorney that Mr. Weed, and perhaps others, have talked about filing an involuntary Chapter 11 bankruptcy petition. Subject to further research, the Receiver believes that an involuntary Chapter 11 would subject the Estate and its ultimate beneficiaries to an unnecessary and wasteful burden.

Update Regarding Issues Previously Addressed

Emergency Advances to Distressed Investors

In a previously submitted motion, a program to provide emergency advances to a limited number of investors in severe economic distress was recommended.

To date no advances have been made. We intend to notify investors by mail about the availability of emergency advances.

Intangible Assets

A major potential source of recovery is return of money paid from investor funds to a variety of parties. They include:

- Agents for commissions and bonuses
- Other investors
- Bonuses for the acquisition and sale of property
- Expenses for which no value was received
- Return of personal assets purchased with investor funds
- Loans for automobiles or other purposes

TLC employed a multi-level structure in payment of agent's commissions. The first level, or agent, received 4% to 5% as commission depending on which TLC "product" was sold. The second level, or Producing General Agent (PGA), received from 0.4% to 0.5% override on funds raised by any agent in the PGAs organization. The third level, or General Agent (GA), received from 0.4% to 0.5% override on funds raised by any agent and PGA in the GAs organization. Six GAs were paid commissions on the production of their down-line agents (i.e., Agents and PGAs) and then subsequently paid their down-line agents a commission that was slightly lower than the TLC structure. The top level, or Recruiting General Agent (RGA), received from 0.75% to 1.0% override on funds raised by any agent, PGA and GA in their organization. The Receiver has identified three RGAs: Ernest F. Cossey; Pacific Shores Financial, Inc. (Mark Sprague); and Insurance Services Network (Hector Serrano).

These agreements would have created commission payments of about \$10 million. However, total commission payments were about \$20 million.

TLC also paid "Quick Start" bonuses of up to 1% to the agents when a new "product" was being offered. In 1999, the GA's received a volume or production bonus of up to 0.5% for sales of \$3,000,000 in a six-month period. Mr. Cossey appears to have entered into a series of informal bonus arrangements with select agents. These arrangements were not reduced to writing. The Receiver has determined that payments for these types of "informal bonuses" could total \$10 million.

Our legal research indicates that brokerage commissions and bonuses paid to agents from funds of later investors are recoverable. Demand will be made on all of those to whom brokerage commissions and bonuses were paid for return of the funds upon Court approval of this report. In the event payment or arrangements for payment are not made within 30 days after demand, lawsuits will be filed. It has also been determined that a number of agents received expense paid travel and other benefits. Repayment of the cost of those benefits will likely be demanded as well.

Many investors closed their accounts with TLC before the seizure and received their original principal investment plus "interest" on that investment. Our legal research indicates that "interest" paid to Ponzi Scheme "winners" is recoverable. Subject to Court approval, demand will be made on those investors to return those funds to the Receivership Estate.

TLC paid incentive bonuses to consultants and others for the acquisition and sale of property in spite of the fact that, in most cases, TLC already paid the customary real estate commissions pursuant to traditional sales and listing agreements. Our investigation and legal research is not complete regarding recovery of these bonuses. If our research supports recovery, the Receiver will initiate demand procedures similar to those previously outlined in this report for recovery of agent's commissions.

Sienna Financial Ltd.

In my previous reports, I advised the Court of a series of transactions involving Sienna Financial Ltd. As reported, TLC invested \$20 million of investor funds in a so-called Prime Bank Trading Scheme operated by James F. Garro. Counsel acting for the Receiver have examined bank records and interviewed persons handling the escrow account for transfer of the funds to Sienna Financial Ltd. It is clear from this review that the funds were pooled with other investor funds and transferred to an account maintained by Mr. Garro. The funds were then transferred to a Wisconsin company, Citation Financial Management, in what now appears to be a bogus stock purchase and acquisition of another company. The bulk of the funds were then transferred to a purported investment company controlled by Mr. Garro and others. Some of the funds were not invested with Citation Financial Management but were transferred directly to offshore accounts. The Receiver is investigating all of these transfers. In one instance, an overseas investor whose funds were pooled with the TLC funds has alleged that his funds were transferred to an offshore account without his consent.

Efforts are continuing to identify and freeze any offshore accounts holding investor funds. Mr. Garro has contacted the Receiver and verbally offered to repay the un-recovered principal and interest (not at the rate promised in the Prime Bank Trading Scheme, which was 100% to 200%). As previously reported, \$10 million of the \$20 million initial investment was returned to TLC prior to the appointment of the Receiver. Counsel acting for the Receiver has advised Mr. Garro of the procedures for returning the additional funds. To date, however, no additional funds have been returned. Additionally, a single-family ocean front residence in La Jolla, California, was conveyed to the Receiver in arrangements made between Mr. Garro and Mr. Cossey shortly before the Court's October 5th Order. Brokers have recommended that the house be listed for sale at \$7,250,000 and listing arrangements have been negotiated.

A review of bank records also discloses several other persons and companies receiving investor funds, including stock brokerage accounts and title companies. The Receiver is reviewing each of these transactions and has sent demand letters seeking return of investor funds. The Receiver will file claims against such persons and entities to recoup investor funds as is appropriate.

Counsel to the Receiver has scheduled additional interviews and has issued subpoenas for production of records to identify and trace the accounts or entities holding investor funds. At this stage, it is not possible to predict how much or how quickly these funds will be recovered, as legal actions may be necessary in various overseas jurisdictions.

Marina Coves on the Colorado River

TLC invested over \$4.4 million in Phase I of this lakefront lot development project since July 1999. Professional opinions indicated that the current immediate liquidation value of the investment is between \$1.5 million and \$2 million. Upon review of the status of the project development, it became evident that completion of Phase I of the project should result in the Estate realizing all the investment by sale of developed Phase I lots either in bulk sale or make a profit by retail sales within a reasonable period.

Completion of Phase I and marketing of the developed lots is contingent upon TLC obtaining the rezoning and subdivision plat. An application for approval of platting and zoning was filed a year ago for a total acreage of 215 acres including an adjoining land parcel of 87 acres controlled by the Arizona State Land Department. It became known that the preliminary plat and acceptance of the plat for the existing project was contingent upon TLC purchasing the 87 acres from the Arizona State Land Department. If this adjoining land were not acquired, the plat would have to be redesigned to exclude the new acreage and to be resubmitted for planning and other development approvals. The approval process for the redesigned subdivision would take more than 12 months. The contiguous parcel of 87 acres also provided for a link between the proposed lake and the Colorado River thereby improving marketability of the whole project. The Receiver pursued acquisition of the land, and purchased the land at a public auction on December 14, 2000, at the published minimum bid amount of \$1.4 million.

The Receiver is investigating the possibility of sale of a small portion of the newly acquired land to a separate developer to recoup a portion of the purchase price of the 87 acres, thereby facilitating the platting and other entitlements for the whole project while increasing the cash flow to fund Phase I.

The Receiver wishes to recover the entire investment, with a profit, within a reasonable time, but not to become a real estate developer. He therefore, intends to complete Phase I and market the developed lots in an orderly fashion. He will concurrently explore the possibility of a profitable bulk sale of all the 254 Phase I lots and the additional 87 acres after obtaining zoning and other platting approvals for the whole project. The Receiver anticipates accomplishing this before December 2002. The Receiver intends to finish the development of the first 99 lots under Phase I by May 2001 and market them for retail sales. The Receiver will assess a variety of options for the remaining 155 lots, including a bulk sale.

The project development agreement entered between TLC and the equity developer provided for TLC to receive a return of 40% on the investment assuming that Phase I and II of the project would be completed with a total outlay in excess of \$17 million. The Receiver voided that agreement and has recently negotiated a new agreement with the developer to eliminate any requirement to complete the remaining 155 lots in Phase I or any portion of Phase II and to ensure the following repayment:

- The investment made to date by TLC shall be returned on priority basis, together with an assured return of 40% per annum until paid in full.
- Additional development costs funded by the Receiver after November 30, 2000 shall be returned on a priority basis, together with an assured return of 15% per annum until paid in full.
- Once all the principal and returns as described above, are paid in full, the balance, i.e., the profit, will be shared equally between the Receiver and the developer.

If the economy maintains its current level and the market absorption remains steady, the Receiver hopes to recover the entire investment of \$7.4 million plus an estimated profit of about \$1.5 million. In the event of a downturn in economy and the real estate market, the Receiver still anticipates full recovery of the investment, albeit with a marginal profit.

Lines of Credit

As mentioned in prior filings and approved by this Court, the Receiver has negotiated a revolving line of credit with a local bank to bridge temporary operating cash needs while the sale of properties is completed.

The revolving line of credit is for \$4.5 million, secured by a Receiver's Certificate, and maturing on the earlier of 12 months from the day of the Receiver's Certificate or when \$15 million has been recovered from the liquidation of real property held in the Estate.

The Receiver has also negotiated a non-revolving \$3 million line of credit to provide partial financing for distributions to investors/victims, either for individual hardship situations or as part of a regular distribution for all victims. This credit facility will also be secured by a Receiver's Certificate and will mature on the earlier of 12 months from the day of the Receiver's Certificate or when the first \$3 million has been recovered from the liquidation of real property held in the Estate.

Horses

Of the 47 horses turned over to the Estate, four consisted of partnership interests of between 5% and 25%. The partnership agreements called for the other partners to have first right of refusal upon one or more of the partners wishing to sell an interest. The Receiver obtained three appraisals for each of these horses. One horse was sold by the other partners for 157% of the average appraisal, for which we received \$11,000 for our 10% interest. The Receiver has obtained bids for the remaining three horses at or above the average appraisal. Based on these offers, we anticipate receiving \$30,000 for the Estates' interest in these horses.

Three horses were sold in claiming races for a total of \$95,000. These claiming race commitments were made prior to the appointment of the Receiver.

The remaining 40 horses were sold at a public auction on January 22nd & 23rd. The auction, conducted by Barretts Equine Limited at the Hinds Pavilion Fairplex in Pomona, yielded \$2,082,000. This auction attracted between 2,000 and 3,000 potential bidders each day. There were a total of 532 horses included in the sale.

Donations for Construction of a High School Stadium

An initial meeting was held with the Diamond Bar Superintendent of Schools and the District's counsel. The meeting was in the nature of mutual fact-finding regarding the circumstances and was adjourned on the basis that further meetings would be appropriate once both parties had the opportunity of consultation and study.

Basically, the facts are that a donation of approximately \$1.5 million of investor funds were made to the Diamond Bar High School Booster's Club, which is a not-for-profit foundation. The Booster's Club utilized the funds to construct a football stadium on land already owned by the school district. Mr. Cossey was an active participant in the construction process and the district was under the impression that contractors or builders employed by Mr. Cossey performed much of the construction.

After completion of the work, the Booster's Club donated the stadium to the Diamond Bar High School District.

Additional research is required to determine the details of payments to contractors on this project and their relationship, if any, to Mr. Cossey and TLC. Additional legal research followed by negotiations will be required to evaluate the recovery potential.

Actions to Recover Personal Residence and Seized Cash

The US Attorney's Office has initiated a civil forfeiture action against \$252,000 in cash seized from Mr. Cossey's residence and against Mr. Cossey's residence, currently valued at approximately \$1.2 million and unencumbered. The Receiver is working with the San Diego (law enforcement) Task Force and the FBI's Asset Forfeiture Team and will coordinate the recovery of diverted investor funds with the US Attorney's Office and the FBI in San Diego. Mr. and Mrs. Cossey are contesting the forfeiture. The matter is stayed pending the conclusion of the SEC proceedings and the criminal investigation.

Texas Recovery Litigation

The Receiver filed a Supplemental Declaration with this Court on December 26, 2000 regarding the action in Texas identified as TLC America, Inc. ("TLC") vs. Richard Clark ("Clark"), Nelda Sue Terrell, Earl L. Goen, Ruth Goen, Edgar L. Parker, Art Brietkruez, Livingston Abstract Company and Hutson Abstract Company, Cause No. 1999-50317, 133rd Judicial District Court, Harris County, Texas ("Texas Litigation"). The Receiver is attempting to recover \$270,000 in actual damages sustained by TLC as a result of fraud perpetrated by the individual defendants in two separate real estate transactions and \$300,000 in punitive damages and attorneys' fees.

The Texas Litigation alleges that the individual defendants acted in concert to defraud TLC out of \$270,000. In two separate real estate transactions, sellers of the property participated with TLC employees and a local real estate agent to conceal from TLC the original selling price of each property, and to artificially inflate the purchase price actually paid by TLC. The sellers were unjustly enriched by avoiding payment of the agreed upon real estate commission. In one case, the seller also received a portion of the inflated sales price. TLC employees and the local real estate agent participated in drafting the documents that contained the inflated prices, and shared in the increased purchase price paid by TLC.

On December 29, 2000, this Court signed the ORDER RE *EX PARTE* APPLICATION OF ROBB EVANS, PERMANENT RECEIVER, FOR INSTRUCTIONS RE EFFECT OF STAY PROVISION ("December 29, 2000 Order") authorizing the Receiver to proceed with the Texas Litigation. A copy of the Order has been filed with the Court in Texas. A trial date is expected to be set in the immediate future and will take four or five days. We will update the Court on the Texas Litigation in the Receiver's next comprehensive report.

Estimated Recovery Amount and Timing

Based on a conservative estimate of the timing of property sales, the Receiver is projecting net recoveries this year from the sale of real estate and horses of about \$34 million. Net recoveries from the sale of real estate are projected to be about \$32 million for 2002. This estimate is contingent on the economy not going into recession.

Other Issues

Below are briefly discussed other topics that have arisen that may be of interest to the Court.

The Mortgage Loan Portfolio

TLC has a portfolio of mortgages consisting primarily of thirty-year amortizing loans on single-family residences in low-income areas of Alabama and Texas. The loans were made because the company was not able to otherwise sell the properties. The total of these loans aggregate about \$2,000,000.

My staff reviewed some of the loan files and determined that TLC likely violated a myriad of Federal lending and compliance regulations. The Receiver engaged a firm experienced in financial institution due diligence and loan review procedures. A copy of that firm's summary of the due diligence report is under Tab 4 of the attachments to this Report. The Receiver has not included detailed information from the report to maintain the financial privacy of the borrowers.

The Receiver has determined it would not be cost beneficial to the Estate and would create a great deal of confusion with the borrowers to attempt rectifying the irregularities and disclosure problems with loans that were previously made.

Preferential Treatment for Property Sales

There have been requests from agents or investors that they be permitted the first opportunity to purchase properties that are listed for sale. Requests for property lists have been declined. Preferential treatment of anyone regarding property sales is considered inappropriate.

We do not discount the possibility that at some future date we may determine it profitable to post a listing of available properties for all to review. However, to do so at this point would, in the Receiver's opinion, result in excessive distraction for minimum potential gain.

Annuity Exchange Proposals

There have been multiple approaches, obviously coordinated to some extent, including by Mr. Weed, mentioned above, and at least one agent that suggest there is a major insurance company ready to immediately exchange some type of annuities for the entire real estate portfolio in an amount that should "make investors whole." It was strongly suggested that the Receiver enter into immediate negotiations and a due diligence exercise that would be fruitful if conducted in a limited one time "window of opportunity" between that November date and the just past year-end.

Among the approaches was one from an individual in London, whose letter to the Receiver's counsel is included under Tab 5 of the attachments to this Report. The verbiage is quite similar to those used by others and is obviously coordinated. Also, included under Tab 5 is the response to that and other similar letters.

It has been suggested by several agents and a number of investors, obviously directly or indirectly being provided the same information, that such a proposal could be based on the insurance placed on the properties rather than more conventional methods of valuation. In other words, it is suggested that a sophisticated investor would be willing to use property and casualty insurance coverage amounts as a basis for a bulk asset purchase of the entire Estate. The Receiver has never heard of any sophisticated investor willing to do so. For example, what is the relevance of fire and casualty insurance or lack thereof to the value of undeveloped land? The Receiver declined requests to provide intermediaries with copies of the property and casualty insurance in force, lists of assets owned, or lists of investors to include their addresses and social security numbers.

In the case of every contact from every source in this regard the Receiver's response has been to request two things. First, he would like to have the insurance company identified. Second, he would like to know the broad framework of a proposed transaction. Additionally, he has made it clear that, if that information were to be provided, it would be unlikely that he would enter negotiations with other than a principal.

While the Receiver is eager to examine any proposal from a verifiably legitimate source, he is dubious of investing the Estate's resources in pursuit of proposals not put forward by credible principals.

To date, no insurance company or other credible principal has been identified and no proposed framework has been presented. It was clear from comments and questions at the investor meetings that some investors have been given false hopes for early resolution by this so-called proposal. It is also clear that some investors were told that the Receiver was discouraging whole portfolio proposals for his personal gain.

Internal Revenue Service

The Receiver intends to prepare and file a motion to 1) consolidate entities of the Receivership Estate; and 2) pool assets and liabilities of the Receivership entities. The Receiver believes that pursuant to this Court's equitable powers and wide discretion applicable in Receivership proceedings, consolidation of the Estate's assets and liabilities will ensure that all investors and creditors are treated fairly. Additionally, by consolidating the entities, the Receivership Estate will avoid the costs related to preparation of individual tax returns for each Receivership entity. Instead, the Receiver will be able to prepare and file with the appropriate taxing agency one consolidated return reflecting the financial activity of the Receivership Estate. And, by pooling the assets and liabilities, the Receiver will avoid time and expense relating to attempting to identify the actual entity, which is indebted to a particular investor.

Investor Claims

Treatment of Investors on Pro Rata Basis in a Common Pool

It is recommended that all distributions be made on a pro rata basis based on the adjusted claim balance. Pro rata means the ratio that the amount of the approved investor claim bears to the total amount of all investor claims.

Investors Whose Accounts Are Still Open

Adjustment is appropriate to place investors on an equitable basis with one another. The adjustments should produce an account balance reflecting the investor's actual out-of-pocket loss. This loss is the total amount of the investor's actual investment, less any returns or distributions the investor received from any source. A key element is the adjustment for payments labeled as interest. In spite of whatever agreements or documents exist, there were no actual payments of interest, but rather a payment of funds belonging to earlier investors or an artificial credit to accounts. Therefore, upon Court approval of this report:

- Payments of interest will be treated as a return of capital and accounts reduced accordingly.
- Payments stated as interest and credited to accounts will be reversed.
- In the case of payments for other purposes, such as payments of commissions to brokers who were also investors, those payments shall be treated as a return of capital and accounts reduced accordingly.

Investor Interests in Specific Assets

Some investors have cited a potential ownership interest in a specific property by virtue of a "warranty deed" issued to the investor by TLC. With the exception of six investors who have recorded documents in seven 1031 exchanges, we have found no cases where ownership interests have been properly recorded or transferred. In many cases we see multiple claimed interests in the same property.

It is the Receiver's recommendation that any unrecorded claims to any specific properties be disallowed.

A recommendation regarding the six recorded 1031 exchange properties will be made after further legal review.

Claims Process

Upon approval of this report, investor accounts will be adjusted based on the recommendations and principles approved herein. Statements of the adjusted accounts will then be mailed to all investors.

Investors will be invited to communicate regarding any errors or omissions in the statements. Proposed corrections by investors will be investigated and acted on as considered appropriate by the Receiver.

The adjusted balance will be considered as the approved investor claim amount, upon which distributions will be based. That will also be the basis of establishing a total of approved investor claims against the Estate. At that point it will be possible to make recommendations regarding priorities of all claims against the Estate and a process, including bar dates, for establishing claims other than those by approved investors.

It is hoped that during the second quarter of 2001 the Receivership will be in a position to make payment of a percentage of all approved claims. In that event the Receiver will be submitting a recommendation to the Court to that effect as soon as possible.

Statement of Intent Regarding Recovery Potential and Distributions to Investors

Based on the information cited in this report, the Receiver now believes he is in a position to make projections of 2001 recoveries and funds available for distribution to investors during 2001. Making these projections available by means of this report is also important to those investors whose funds represent assets of retirement plans that must be valued by custodians or trustees to prevent inappropriate negative tax impacts.

As indicated earlier, it now appears that asset sales will be adequate to retire bank debt and make a small initial distribution during the second quarter of 2001. That initial distribution will be no greater than 10% of approved claims. Each quarter thereafter, it appears additional distributions will be possible.

Prior to making a recommendation to this Court requesting approval for an initial distribution, it will be necessary to substantially complete a claims process. That process cannot commence until procedures are approved and implemented. Once the claims process is substantially completed, the Receiver will make a formal recommendation to the Court.

Although the Receiver is reluctant to make projections of ultimate total distributions, some estimate will be helpful to those who have tax and pension issues that require some kind of estimate. For that purpose only, the Receiver therefore estimates that approved claimants will recover 50% of their approved claims by December 31, 2002. This estimate will be updated from time to time as events warrant.

Administrative Expenses

Under Tab 6 of the attachments to this Report are the financial reports for the period of October 31, 2000 through January 26, 2001. The Court is respectfully requested to approve these reports, including fees and expenses of the Receiver totaling \$38,490.61.

Future Reports

Additional financial details as of December 31, 2000 will be filed in a Special Financial Report in the near future. The next overall status report will be submitted by April 30, 2001 with data as of March 31, 2001 unless otherwise directed by the Court. Special reports or motions will be submitted as appropriate.

Requests of the Court

The Court is respectfully requested to:

1. Approve this Report and confirm the actions of the Receiver described therein.
2. Find that any and all claims, with the exception of the recorded 1031 exchange transactions, to a specific property be disallowed.
3. Authorize adjustment of investor accounts as describe herein to establish an approved investor claim amount.
4. Approve the Reduction of Claims by amounts paid out, including interest payments, as described in the report.
5. Find that commissions, bonuses, or other expenses paid to agents are recoverable assets of the Receivership Estate and authorize and instruct the Receiver to pursue repayment.
6. Find that all moneys paid investors who closed accounts and received payments exceeding their principal investment are recoverable assets of the Receivership Estate and authorize and instruct the Receiver to pursue repayment.
7. Authorize or confirm all expenses of the Receivership from October 31, 2000 through January 26, 2001, including fees and expenses of the Receiver detailed under Tab 6.

Respectfully submitted,

/S/

Brick Kane (for)

Robb Evans
Receiver
