

## **Quarterly Report to the Court As of March 31, 2005**

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

This is the eighteenth 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.
- Request confirmation or approval of the Receiver's activities to date.

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

### **Status of Real Property Assets**

During the period from October 5, 2000 (commencement of Receivership) through March 31, 2005, 407 properties have been sold and escrows closed. These properties originally cost \$46,459,260, had capital additions totaling \$21,647,582, and were sold for an aggregate gross price of \$64,244,567. After paying direct expenses of sale, extinguishing liens against the properties and other costs, the net selling price of \$60,559,179 resulted in a loss of \$7,547,663, of which \$13,130 was realized in this quarter. During this quarter, an escrow was closed on an auctioned Texas property resulting in a gain of \$2,404. Also, two lots of the Marina Coves project were sold with selling prices totaling \$151,000, which resulted in a net loss of \$15,534 due to the application of a uniform allocated cost per lot.

Additionally, there were 18 properties in escrow as of March 31, 2005, including 17 lots of the Marina Coves property. These properties originally cost \$218,931, had capital additions totaling \$1,180,030, and it is anticipated they will produce net sale proceeds of approximately \$1,480,000 resulting in a net gain of approximately \$81,000. A status report of the major properties is under Tab 1.

The Receiver previously foreshadowed the losses that were likely to surface as the remaining difficult properties were sold. The last ten reports described losses from the sale of properties carried at costs on TLC's books well above documented

market value. These carrying costs had ballooned beyond market value because of inadequate due diligence and poor valuation analysis at purchase, or from completing improvements far in excess of the value gained. Most of these properties also required multi-year marketing efforts because of specialized use, limited appeal, physical defects, or a combination of these issues. Several properties were bought to carry out poorly conceived, unrealistic, and impractical development plans.

As of the date of this Report, the Receivership Estate had one major property in its remaining asset portfolio, Marina Coves on the Colorado River. Marina Coves is now paying back the required additional investment made by the Receivership Estate, which was previously recommended and approved. The project is also poised to not only recover the amount originally spent by the TLC principals, but also to recover an additional profit. The current status of Marina Coves is described in detail in a following section.

## **Update Regarding Issues Previously Addressed**

### **Intangible Assets**

Since April 2001, demand has been made on 151 sales agents requesting return of commissions and bonuses paid to them. As a result of those demands, and subsequent negotiations, 75 agents agreed to either repay in full the claims made against them, or establish a repayment program on a negotiated settlement.

As a result of the above actions, 62 agents have now completed an agreed repayment schedule. An additional ten accounts are being reduced by quarterly distributions from investment accounts held by the respective agent. It is anticipated that distributions will be sufficient to pay these accounts in full. One agent is continuing to make payments on his account and it is considered current as of this date. The remaining two accounts are technically in default, however, one agent has committed to pay his balance due and is working with our legal counsel to satisfy the debt. The other agent passed away, with his estate not having sufficient assets to pay the balance due. Approximately \$3,011,000 has been collected and approximately \$135,000 is expected pursuant to all of the settlements, including those settlements entered prior to filing lawsuits. The total dollar value of actual and prospective recoveries pursuant to these payments and agreements is approximately \$3,146,000.

Additionally, the Receiver has obtained 29 judgments against agents for an aggregate amount of approximately \$9,471,000. Of these 29 judgments, funds have been received from 20 of the agents (either voluntarily or through garnishments, levies,

etc.), with eight accounts being settled in full. Post judgment efforts have resulted, so far, in the collection of approximately \$590,000.

### **Sienna Financial Ltd.**

Prior reports have extensively addressed the litigation and title issues involved in the sale of the real property assets transferred by Defendants James Garro (Garro), Navajo Capital, Inc., Sienna Financial Ltd., Corfu International LLC, Camelot International LLC, Merlin Financial, LLC, and The Lancelot Foundation.

As previously reported, a \$260,000 promissory note signed by La Piazza, LLC and its officers and directors to James F. Garro and his entities was assigned to the Receiver for collection. To date, this note remains unpaid.

Under Tab 2 is a San Diego Union-Tribune newspaper article that reports of Garro's recent conviction for money laundering and wire and tax fraud.

### **David Price and Durham Capital Group**

As previously reported, the Receiver advised the Court of the outcome of the litigation in the Northern District of Texas initiated to facilitate the transfer of title and sale of real property purchased by David Price and Carol Miller Price located at 7843 Marquette, Dallas, Texas.

Subsequent to the Court hearing, the Receiver reached a settlement agreement with Carol Price. The Receiver will continue to pursue recovery of assets to satisfy the judgment against David Price, subject to the releases to Carol Price as provided in the Settlement Agreement.

The original title/escrow company employed to issue the title commitment and close the pending sale transaction continues to make additional requirements regarding the mortgage lien of record. The title company is requiring the mortgage company to formally stipulate that they intend to file a claim against the sale proceeds and abide by the Court's final ruling regarding the validity and disposition of the mortgage lien.

In an effort to expedite the sale closing, the Receiver contacted another title company to issue the title commitment. The second title company made the same requirement of the mortgage company.

As a result of the title companies' requirement, the Receiver resumed contact with the mortgage company in an effort to resolve this title issue. Pursuant to these discussions, the mortgage company hired an outside counsel to negotiate the

resolution of the title issue with the Receiver. Discussions were held between the Receiver and the outside counsel, but no agreement has been reached. The Receiver has offered to mediate the dispute, but if this offer is rejected, the Receiver intends to file a motion in District Court in Texas seeking an Order to set aside this remaining mortgage lien and authorize the sale closing.

In the interim, the property remains rented by the purchaser and the contract has been extended to allow necessary time for the remaining title issue to be resolved.

### **Marina Coves on the Colorado River**

In the last report to the Court, the Receiver outlined the critical long-term water issues and the potential impact on the fair market value of the individual lots in Phase A and the remaining bulk sale acreage.

Substantial progress has been made to resolve the long-term water issues. The contract to build a tertiary water treatment facility with the Mohave Valley Indian Tribe has been executed by all parties. The construction process for the plant is in the final stages of development. The Receiver anticipates construction will begin during the third quarter of 2005.

The Receiver subsequently met with the consultants who drafted the current Public Report to make the necessary revisions relating to the tertiary plant facility. The report was amended to advise the public that the tertiary water treatment facility would provide the source of the long-term water supply to the lake. The revised Public Report was recently submitted to the Arizona Department of Real Estate and is awaiting approval.

In the interim, sales have continued, but at a slower pace, as most buyers have elected to wait until the Amended Public Report is issued. To date, 55 sales have closed and 17 lots remain in escrow awaiting closing. The Receiver has continued to accept reservations and there are currently eight offers pending. The Receiver is prepared to begin a new marketing campaign to sell the remaining lots as soon as the Amended Public Report is issued.

### **Remaining Properties (Not Including The Coves)**

In prior reports, the Receiver described the results of the public auction to sell the remaining 19 properties in Texas. Sixteen of the properties have closed and one property remains in escrow pending closing. Two of the properties located in San Antonio did not close and have been listed for sale by the auction company.

The one remaining property in Birmingham, Alabama has a sale contract in escrow. Shortly after the date of this report, the sale closed. The only residual property issue in Birmingham is the resolution of a pending lawsuit on a mortgage receivable account. As previously reported, the improvement related to this mortgage had been condemned and demolished by the City of Birmingham. Shortly thereafter, the mortgagor ceased making payment on the mortgage. The Receiver determined that the remaining land value was insufficient to satisfy the mortgage debt and therefore it was decided that the most cost-effective approach was to initiate a lawsuit on the note receivable rather than foreclose on the mortgage receivable. The Receiver is working with a local attorney to reach a settlement to satisfy the outstanding debt.

### **Investor Distributions**

The Receiver did not make a distribution in the first quarter and does not anticipate making a distribution until Marina Coves lot sales can be completed.

### **Administrative Expenses**

Under Tab 3 are the financial reports for the period of January 1, 2005 through March 31, 2005. The Court is respectfully requested to approve these reports, including fees and expenses of the Receiver.

### **Requests of the Court**

The Court is respectfully requested to:

1. Approve this Report and confirm the actions of the Receiver described herein.
2. Authorize or confirm all expenses of the Receivership from January 1, 2005 through March 31, 2005, including fees and expenses of the Receiver detailed under Tab 3.

Respectfully submitted,

/S/  
Robb Evans  
Receiver

**Robb Evans, Receiver of TLC Investments & Trade Co., et al.**  
**Status of Major Properties**  
**As of March 31, 2005**

	Property Address	SFR, Multi, Comm'l, Land, Lots	City	State	Purchase Date	Property Status as of 03/31/05	Carrying Cost as of 10/4/00	Acquisition & Capital Additions from 10/5/00 to 03/31/05	Sales Price	Average Appraisal Values	Sales Price as a % of Average Appraisal Value
1	The Coves Project 'Phase 1' & 'Phase 2'	Land	Mohave Valley	AZ	07/01/99	Since sales commenced in July 2002, a total of 55 lots have been sold for approximately \$3,871,300 and an additional 17 lots are under contract for approximately \$1,557,850. Twenty seven lots remain on the market for sale of which thirteen has been reserved. Sixteen homes have been completed with 24 additional homes under construction. According to the builder, two building permits are currently being processed. Phase A (99 lots) is listed for sale as individual lots with a local Realtor. Concurrently, the Receiver has entered into a contract on the remaining acreage, exclusive of Phase A, which is in the due diligence and overbid phase. The due diligence and overbid phases will simultaneously expire in Mid May, 2005.		\$ 6,367,455.10			
2	235 S Flower	Comm'l	Brea	CA	12/15/98	SOLD	\$ 546,007.98	4,900.00	\$ 495,000.00	\$ 422,500.00	117.16%
3	212 S Orange Ave	Multi	Brea	CA	01/01/99	SOLD	1,864,984.00	8,000.00	1,850,000.00	1,580,000.00	117.09%
4	7500 Hammer Ave	Land	Norco	CA	11/05/99	SOLD	4,465,278.54	161,574.06	5,500,000.00	2,658,500.00	206.88%
5	7556 Hamner Ave. (See # 4, 7500 Hammer)	Land	Corona	CA	11/05/99	SOLD					
6	736 N. State St. Plaza	Comm'l	Hemet	CA	09/30/99	SOLD	470,245.69	6,000.00	550,000.00	487,500.00	112.82%
7	302 Vista de la Playa	SFR	La Jolla	CA	10/06/00	SOLD	-	-	5,550,000.00	6,100,000.00	90.98%
8	10541 Monte Vista (Corral) - See #9 Holt Blvd	Comm'l	Montclair	CA	06/22/99	SOLD					
9	4939-49 Holt Blvd	Comm'l	Montclair	CA	06/22/99	SOLD	393,012.81	6,625.56	805,000.00	633,500.00	127.07%
10	9240-60 Harness (Spring Valley)	SFR/Land	San Diego	CA	11/01/98	SOLD	380,217.76	8,200.00	400,000.00	335,000.00	119.40%
11	3276 El Cajon Blvd.	Comm'l	San Diego	CA	05/01/00	SOLD	1,300,180.00	59,932.71	792,500.00	827,500.00	95.77%
12	510 Turfwood Lane	SFR	Solana Beach	CA	05/15/00	SOLD	261,046.00	-	267,500.00	265,000.00	100.94%
13	1245 Jasmine Circle	SFR	Weston	FL	12/01/98	SOLD	316,014.10	-	310,000.00	312,500.00	99.20%
14	370 Holly & 1600 Carlisle	Multi	Atlanta	GA	12/01/98	SOLD	2,259,780.99	66,839.00	1,710,000.00	1,391,666.67	122.87%
15	470 & 488 Glen St	Comm'l/Loft	Atlanta	GA	04/08/99	SOLD	2,082,669.86	502,328.04	2,000,000.00	1,460,000.00	136.99%
16	Century Lofts, 505 Whitehall St SW (sold units - post-receiver)	Loft	Atlanta	GA	11/01/98	SOLD	3,541,149.72	2,422,991.06	3,430,500.00	3,600,000.00	95.29%
16A	Century Lofts, 505 Whitehall St SW (sold units - pre-receiver)	Loft	Atlanta	GA	11/01/98	SOLD	886,087.85	-	849,000.00	900,000.00	94.33%
17	1908 Judd Hillside	SFR	Honolulu	HI	10/06/99	SOLD	2,220,169.82	989.58	2,300,000.00	2,450,000.00	93.88%
18	715 S Kihei Rd #128	SFR	Kihei	HI	08/01/98	SOLD	33,437.50	580.78	65,000.00	58,500.00	111.11%
19	715 S Kihei Rd	Land Lease	Kihei	HI	01/01/99	SOLD	402,965.30	14,300.00	1,187,867.00	1,263,965.00	93.98%
20	4420 Makena Rd.	SFR	Makena	HI	10/13/99	SOLD	2,809,999.40	500.00	4,000,000.00	4,025,000.00	99.38%
21	4323 Bowser	Multi	Dallas	TX	03/17/00	SOLD	275,479.63	5,082.50	330,000.00	280,000.00	117.86%

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**As of March 31, 2005**

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22	57 Cherrywood Ct	SFR	Houston	TX	12/01/98	SOLD	429,613.78	52,009.36	450,000.00	510,000.00	88.24%
23	10100 E. Freeway	Comm'l	Houston	TX	04/22/99	SOLD	448,718.31	12,190.22	575,000.00	450,000.00	127.78%
24	3000 Bering Dr.	Comm'l	Houston	TX	08/31/99	SOLD	1,199,638.45	50,860.32	1,475,000.00	960,000.00	153.65%
25	2002 Gentryside Dr.	Multi & Land	Houston	TX	03/31/00	SOLD	1,622,312.79	13,750.00	1,550,000.00	1,340,000.00	115.67%
26	5414 Elm St	Multi	Houston	TX	11/01/98	SOLD	2,511,811.94	31,367.63	2,150,000.00	2,150,000.00	100.00%
27	Whitney Place 'Lots 37,39,40&41	Multi	Houston	TX	04/22/99	SOLD	3,130,109.55	1,293,369.37	2,246,000.00	2,122,500.00	105.82%
28	15 N. Chenevert	Comm'l/Loft	Houston	TX	07/14/99	SOLD	4,848,747.29	661,092.09	3,000,000.00	3,366,666.67	89.11%
29	21 Chenevert (see #28, 15 N. Chenevert)	Comm'l/Loft	Houston	TX	07/13/99	SOLD					
30	1331 - 1339 S Flores	Comm'l	San Antonio	TX	01/01/99	SOLD	2,714,374.15	42,655.00	1,995,000.00	1,675,000.00	119.10%
31	Lake Livingston	SFR & Land	San Jacinto	TX	02/01/99	SOLD	652,014.58	193,947.00	684,500.00	477,500.00	143.35%
32	1809-17 Douglas Ave	Multi	Racine	WI	12/01/98	SOLD	425,593.57	3,800.00	440,000.00	460,000.00	95.65%
33	1625 East G St. (55 units)	Multi	Ontario	CA	06/24/99	SOLD	3,944,942.20	14,754.85	4,930,000.00	4,250,000.00	116.00%
34	129-177 Palm Ave.	Multi	Imperial Beach	CA	04/01/99	SOLD	1,823,525.86	20,000.00	2,400,000.00	2,225,000.00	107.87%
35	21880 Golden Canyon Court	SFR	Diamond Bar	CA		SOLD	-	-	1,385,000.00	1,300,000.00	106.54%
36	1114, 1116, and 1118 Murray Hill	Multi	Houston	TX	01/19/00	SOLD	442,631.77	5,198.00	525,000.00	442,000.00	118.78%
37	Hana Highway	Land	Hana	HI	08/24/99	SOLD	187,806.89	572.91	265,000.00	252,500.00	104.95%
38	48 lots in Quail Bridge Gardens	Land	Houston	TX	04/05/99	SOLD	222,839.54	43,881.92	263,000.00	267,500.00	98.32%
	<b>For Major Properties -</b>						<b>\$ 49,113,407.62</b>	<b>\$ 12,075,747.06</b>	<b>\$ 56,725,867.00</b>	<b>\$ 51,299,798.33</b>	<b>110.58%</b>

## La Jolla man convicted in investment scam, fraud

**By Onell R. Soto**

UNION-TRIBUNE STAFF WRITER

April 5, 2005

A La Jolla man who collected \$37.5 million from investors by promising to double their money in about two weeks in overseas bank transactions was convicted of money laundering and wire and tax fraud yesterday.

James F. Garro, 61, faces about 15 years in prison. He has been in custody without bail since his arrest in October 2002.

Garro testified during his trial in San Diego federal court that he acted in good faith but was unable to find a way to deliver on his promises. He said he bought a \$5.2 million beachfront La Jolla home as an investment for one of the people who gave him money.

By reaching a verdict in 2½ hours, jurors sided with prosecutors who said he was a con man who stole from, among others, charities looking to leverage benefactors' cash.

One of the victims was a Florida woman who hoped to start a charity to help horses and disadvantaged families.

Another was a now-defunct Idaho charity called Child's Hope that wanted to help children worldwide.

"What kind of guy steals from people like that, women and children?" prosecutor Sanjay Bhandari said outside court.

Another victim was a scammer who was running a Ponzi scheme and gave Garro \$20 million.

Ernest Cossey, sentenced in 2002 to 57 months in federal prison for defrauding elderly investors of \$146 million, testified that he hoped to recoup some of the money to repay investors in his scam.

Bhandari said Garro is among a group of people who tout overseas bank transactions as the key to quick wealth.

The scam, known as a "prime bank" scheme because con artists say they're investing with the top banks in the world, is on the decline but people still fall for it, Bhandari said.

In September and October 1999, Garro got money by telling investors they could get in on a secret, risk-free program available only to people who planned to use the proceeds for charitable purposes, the prosecutor said in a court filing.

But such investment programs don't exist.

Garro funneled the money through a variety of bank and brokerage accounts and spent more than \$8 million on houses in La Jolla and Santa Fe, N.M., for himself and another home in Encinitas for his daughter, the prosecutor said.

When investors began clamoring for their money, he paid some of it back, eventually paying out \$23 million in what Bhandari called "lulling payments."

He kept telling investors there were problems with the banks and the investments and that their money was on the way until his arrest in 2002 by FBI and Internal Revenue Service agents.

While the adage "If it sounds too good to be true, it probably is" would have saved the investors from risking their money, slick talkers can still overcome such caution, said Denise Rubin, the special agent in charge of IRS criminal investigations in San Diego.

"It's salesmanship that sells it," she said. "Unfortunately, some people fall into that."

**Robb Evans, Receiver of TLC Investments & Trade Co., et al.**  
**Summary of Income**  
**October 31, 2000 (Inception of Permanent Receivership) through March 31, 2005**

	<u>October 31, 2000 to December 31, 2004</u>	<u>January 1, 2005 to March 31, 2005</u>	<u>Total</u>
Proceeds from Sales of Properties	\$ 59,300,935.37	\$ 154,269.00	\$ 59,455,204.37
Rental Income	5,944,364.29	39,240.81	5,983,605.10
Commission Repayments from Agents	3,524,372.76	37,250.00	3,561,622.76
Proceeds from Sales of Horses and Horse Races	2,024,044.88	-	2,024,044.88
Receipts of Assets Surrendered by Ernest Cossey			
Under the Court Judgment	1,475,000.00	-	1,475,000.00
Additional Income from Sales of Ernest Cossey Assets	55,761.40	-	55,761.40
Restitutions Received from Cossey	650.00	59.14	709.14
Interest Income:			
Mortgage Notes	605,903.21	25,430.62	631,333.83
Bank Deposits	221,260.71	4,757.47	226,018.18
Bridge Loan	68,269.71	-	68,269.71
Hardship Loans	38,110.25	-	38,110.25
Other	1,785.65	-	1,785.65
Total Interest Income	<u>935,329.53</u>	<u>30,188.09</u>	<u>965,517.62</u>
Receipts of Cash from Tom G. Cloud and Cloud & Associates			
Under the Court Judgment	374,578.75	-	374,578.75
Revenues Resulting from Activities that Occurred in Pre- Receivership Period	299,197.27	-	299,197.27
Proceeds from Sales of Dogs and Dog Races	136,688.62	-	136,688.62
Receipts of Cash from Gary Williams Under the Court Judgment	22,769.72	-	22,769.72
Receipts of Cash from Ernest Cossey Under the Court Judgment	21,836.08	-	21,836.08
Proceeds from Dispositions of Auto, Furniture & Equipment	15,098.47	-	15,098.47
Proceeds from Granting of Easements	13,200.00	-	13,200.00
Miscellaneous Income	94,467.21	4,959.83	99,427.04
<b>Total Income</b>	<b>\$ 74,238,294.35</b>	<b>\$ 265,966.87</b>	<b>\$ 74,504,261.22</b>

**Robb Evans, Receiver of TLC Investments & Trade Co., et al.**  
**Summary of Expenses**  
**October 31, 2000 (Inception of Permanent Receivership) through March 31, 2005**

	<u>October 31, 2000 to December 31, 2004</u>	<u>January 1, 2005 to March 31, 2005</u>	<u>Total</u>
<b>Business Operating Expenses:</b>			
<b>Property Expenses:</b>			
Repairs & Maintenance	\$ 3,182,745.76	\$ 2,547.97	\$ 3,185,293.73
Property Taxes	2,043,076.36	103.12	2,043,179.48
Insurance	1,023,918.82	2,329.42	1,026,248.24
Utilities	1,001,851.82	7,719.26	1,009,571.08
Management Fees	686,280.30	4,044.97	690,325.27
Engineering & Architecture	625,703.98	-	625,703.98
Advertising & Marketing	394,849.83	9,922.00	404,771.83
Legal Fees	349,921.18	5,007.24	354,928.42
Security, Alarm & Protection	317,811.80	-	317,811.80
Gardening Services	300,831.21	2,580.00	303,411.21
Appraisal & Survey	261,194.69	-	261,194.69
Cleaning Services	174,862.91	-	174,862.91
Development Expenditures	35,845.63	-	35,845.63
Miscellaneous	605,988.14	30,113.81	636,101.95
<b>Total Property Expenses</b>	<u>11,004,882.43</u>	<u>64,367.79</u>	<u>11,069,250.22</u>
Field Office Operating Expenses	2,568,151.32	35,211.28	2,603,362.60
Racehorse Expenses	261,344.53	694.42	262,038.95
Dog Expenses	21,084.81	-	21,084.81
Federal & State Income Taxes (Footnote 1)	(152.12)	-	(152.12)
<b>Total Business Operating Expenses</b>	<u>13,855,310.97</u>	<u>100,273.49</u>	<u>13,955,584.46</u>
<b>Receivership Administrative Expenses:</b>			
<b>Receiver's Fees &amp; Expenses:</b>			
Receiver's Fees	228,470.00	5,148.00	233,618.00
Receiver's Out of Pocket Expenses	5,517.62	-	5,517.62
<b>Total Receiver's Fees &amp; Expenses</b>	<u>233,987.62</u>	<u>5,148.00</u>	<u>239,135.62</u>
<b>Staff Expenses:</b>			
Accounting & Support / Financial Reconstruction	1,243,080.35	19,911.83	1,262,992.18
Project Coordinators / Portfolio Management	699,388.64	12,672.00	712,060.64
Out of Pocket Expenses	199,014.72	986.70	200,001.42
Employer Taxes	88,403.28	1,134.21	89,537.49
<b>Total Staff Expenses</b>	<u>2,229,886.99</u>	<u>34,704.74</u>	<u>2,264,591.73</u>
<b>Other Receivership Administrative Expenses:</b>			
Legal Fees & Costs	1,942,406.73	17,854.18	1,960,260.91
Tax Return Preparation Fees	102,512.00	-	102,512.00
Copying & Records Reproduction	88,317.86	-	88,317.86
Interest Expense	19,420.99	-	19,420.99
Miscellaneous Expenses	332,492.67	8,691.06	341,183.73
<b>Total Other Receivership Administrative Expenses</b>	<u>2,485,150.25</u>	<u>26,545.24</u>	<u>2,511,695.49</u>
<b>Total Receivership Administrative Expenses</b>	<u>4,949,024.86</u>	<u>66,397.98</u>	<u>5,015,422.84</u>
<b>Total Expenses Previously Reported</b>	<b>\$ 18,804,335.83</b>		
<b>Total Current Period Expenses</b>		<b>\$ 166,671.47</b>	
<b>Total Expenses for the Period from October 31, 2000 through March 31, 2005</b>			<b>\$ 18,971,007.30</b>

Footnote 1:  
The negative balance represents the tax refunds received.