

ROBB EVANS
ROBB EVANS & ASSOCIATES
Receiver of J.K. Publications, Inc., et al.

REPORT OF RECEIVER'S ACTIVITIES
FEBRUARY 6, 1999 THROUGH MARCH 26, 1999

During the period covered by this report, two new databases were made available. Those databases were analyzed and the conclusions of that analysis were filed with the Court.

The following new activities, more fully detailed in following sections, were completed or progressed.

- Initiated a Claims Process to resolve claims for unpaid wages filed by former employees of the Receivership Defendants.
- Made plans and took steps to consolidate and relocate premises and equipment.
- Assisted the plaintiff and defendants Adult Banc, Inc. and Gary Mittman to develop procedures to implement a contemplated settlement, as directed by the Court.

The following duties and activities require additional attention in the immediate future.

- Begin inquiries to trace domestic and offshore funds and locate additional assets. (This undertaking had been delayed somewhat pending receipt of formal orders necessary to commence work domestically and in offshore jurisdictions.)
- Develop a 95% confidence-level sample of the transaction database, which can be used for future verification or communication purposes.
- Enlist the cooperation of credit card issuers to develop and implement an electronic communication link with a sample transaction database and, later, with a potential-claimant database.

Activities in Process

Claims Process for Unpaid Wages

It was determined that 14 persons, excluding defendants, were employed in some capacity by one or more of the Receivership entities on January 7, 1999. Ten of the employees submitted claims, with seven of them asking for severance pay and two weeks' vacation pay, in addition to payment for hours actually worked. My staff made contact with the four remaining employees and learned the details of their claims. I elected to initiate a Claims Process for the wage claims of these 14 persons, which totaled \$31,864.19.

Consequently, I allowed Claims of 11 persons totaling \$21,652.56 and am now recommending an immediate partial payment of \$9,187.21 toward the 11 Allowed Claims. I recommend now paying unpaid wages for actual hours worked from December 30, 1998 through January 7, 1999, which totaled between 56 and 65 hours for each of the 11 employees. The balance of each Allowed Claim, representing severance and vacation pay, will be administered with the Allowed Claims of other creditors.

I approved the Claims of three other persons but did not include them in the Claims Process because the Claims were directed to and accepted by defendant Adult Banc, Inc. The Claims have been administered under a pending settlement agreement between Adult Banc, Inc., Gary Mittman, and the plaintiff. Under Tab 1 is a detail of the wage and other claims made by employees, along with the amount of each Claim allowed and the amount of each Allowed Claim that is recommended for payment.

Consolidate and Relocate Premises and Equipment

It was determined that consolidating and relocating the Malibu premises and the equipment will save the Receivership Estate at least \$7,000 each month. I have notified the landlord of the Malibu Office location that the property will be surrendered by April 15. The computer equipment, salvageable office furniture, and other items have been moved to a warehouse under my control. The furniture rental company has removed the rented office furniture, which is subject to a delinquent rental agreement. Steps have been taken to reduce and transfer telephone service covering 44 local lines and 16 inbound toll-free lines to my offices.

We have arranged for the inbound fax machines to be redirected to my office and entered the details of approximately 1,500 mail and facsimile letters into a database.

The Interactive Voice Mail System (IVMS) continues to deliver a detailed announcement to consumers, allows the caller to record a cancellation of membership, and further directs consumers to write requesting a refund, if appropriate. The IVMS will also be moved to my office, which will require only a brief evening-time interruption and result in significant savings.

Procedures Related to the Pending Adult Banc, Inc. Settlement

Several telephone meetings were conducted with William Rothbard, counsel for Gary Mittman and Adult Banc, Inc. and with the plaintiff. Staff also met several times, in person and on the telephone, with Gary Mittman. The meetings were to implement the Court's directive to salvage the business of Adult Banc, Inc. for defendant Gary Mittman.

I have released funds to Mittman from a proposed settlement payment. The released funds have been directed to Adult Banc, Inc. employee claims, and to budgeted move-in expenses for a new business location. I will release additional funds that are budgeted for monthly operating expenses. We have reviewed the lease for the new location and approved it for form and content, but did not include the Receivership Estate as a party. My colleagues also reviewed and accepted the budgets for move-in expenses and monthly operating expenses that were prepared by Mittman.

We have reviewed our time records and also evaluated to what entity much of our analysis of documents and ATS information was directed. We have concluded that it is appropriate to allocate 10% of the Receiver's Fees and Staff Expense and 5% of the Administrative Expenses to defendants Adult Banc, Inc. and Gary Mittman. We have made this allocation contemplating that the estate will be reimbursed for Adult Banc, Inc.'s and Gary Mittman's expenses by the TAL funds, to which those defendants have waived any current or future claim.

Mr. Mittman was informed that I am not able to transfer title to the web sites formerly operated by J.K. Publications, Inc. and MJD Service Corporation and later operated by Adult Banc, Inc. All of those web sites are registered in the name of Phaeton, Inc. Under Tab 2 is a listing of the web sites for which Phaeton, Inc. is the registered owner. The ownership of these web sites conflicts with the testimony given by Mr. Taves in his deposition as to the nature of Phaeton, Inc.

Anticipated Duties and Activities

Tracing and Locating Additional Assets

We have begun domestic investigations targeted toward financial institutions and individuals that may unearth additional assets. Concurrently, counsel has been engaged in other jurisdictions to invoke procedures to reveal account information and details of banking transactions. The sought information is partially linked to undocumented transfers and payments described in my initial report. It is also linked to other entities whose direct and/or beneficial ownership remains unknown. It is too early to predict, or even speculate, whether such efforts will lead to additional assets. Nevertheless, data gathered so far strongly suggests these various leads should be pursued further.

We have discovered a property located in Malibu, CA that was owned by Satmax Family Limited Partnership. The general partner of that partnership is Coastal Holding, Ltd., a receivership defendant. We have documentation that clearly shows Ken Taves formed Coastal Holding, Ltd. This property is not the residence address used by Ken Taves nor was the existence of this property previously disclosed to the plaintiff. On March 5, 1999, a Quit Claim Deed, dated February 12, 1999, was recorded in Los Angeles County to transfer the property to a Trans Global Development

Corporation, which is purportedly a Canadian entity. The transfer tax assessment on the quit claim indicates the property is valued at about \$2 million. We are intensively investigating this transaction which appears to be a fraudulent transfer. On March 30, 1999, the Receiver filed an action to avoid the transfer.

Develop a Reliable Sample of the Transaction Database

We have started to confirm a sample size of the transaction database that would produce a 95% confidence level. The transaction database includes approximately 900,000 unique credit card numbers. It may be useful in the future to complete various tests and verifications on a reliable sample of the database and also to survey or otherwise communicate with such a reliable sample. Early indications from dependable sources indicate that a properly developed sample of approximately 1,000 credit card numbers would achieve a 95% confidence level when surveying or verifying the transaction database population.

Electronic Communications

While the number of potential claimants is unknown at this time, the data gathered to date indicates the potential claimants could number in the hundreds of thousands. To communicate with such a population, or to attempt to administer a claims procedure, let alone distribute any restitution, requires an extremely efficient process. My associates will begin to meet with credit card issuers to enlist their cooperation to electronically communicate with cardholders. The ability to communicate electronically with part or all of the transaction database for claim management and other purposes should be extremely cost effective. The ability to remit consumer restitution already exists with the arrangements in place at Automated Transaction Services.

Financial Report

Under Tab 3 is the Receiver's Financial Report for the period beginning January 6, 1999 and ending February 28, 1999. Expenses relative to the Receivership operations were approximately 38% of total expenses, which have been paid or accrued by the estate. In contrast, the defendants' expenses were approximately 62% of total expenses. The intensive activity generated by the defendants, combined with the defendants' lack of cooperation in producing documents and other information required by the Court's Order, caused a significantly higher level of staff and legal expense than would ordinarily be the case.

Conclusion

I request that:

- This Report be approved.
- The allocation of expenses between defendants AdultBanc, Inc., Gary Mittman, and the other defendants be approved.
- I be authorized to pay the indicated accrued expenses owing to the Receiver's staff members, attorneys, other professionals and myself.
- I be authorized to pay allowed staff claims as indicated earlier in this report.
- My actions in making other payments and taking such other actions as described in this report be confirmed.

In the near future, I will submit a request to approve ongoing administrative procedures for the Receivership Estate. The request will include recommended periodic reporting and clarification of authority to pay future expenses. If the Court has any guidance in this regard, it will be most welcomed and be incorporated in the recommendation. Absent such guidance, procedures will be recommended that, in my view, based on experience with procedures that have been acceptable in other Courts in the Central District and Washington D.C., provide the optimum oversight and maximum efficiency.

Respectfully submitted,

/s/

Robb Evans
Receiver