

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

REPORT OF RECEIVER'S ACTIVITIES
DATED AUGUST 4, 1999

This report summarizes major activities since my last full report for the period ending March 26, 1999, excluding the information included in my Special Report dated April 29, 1999.

Offshore Assets

Pursuant to my duties as Receiver over J.K. Publications, Inc., MJD Service Corp., TAL Services, Inc., and their affiliates and subsidiaries, and as Receiver over the assets of Kenneth Taves and Teresa Taves, I have continued the investigation regarding potential assets of the receivership defendants located offshore, including assets of the receivership defendants located in the Cayman Islands.

In my Special Report dated April 29, 1999, I alerted the Court about accounts in the name of Ken and Teresa Taves held at Euro Bank Corporation (Euro Bank) in the Cayman Islands. Subsequent to Euro Bank bringing an action in the nature of an interpleader with respect to these accounts, the bank was closed on May 11th by order of the Governor-in-Council upon the recommendation of the Cayman Monetary Authority. Controllers (the U.S. equivalent of a Receiver) were appointed over the affairs of Euro Bank. All deposit accounts at Euro Bank were ordered frozen for a period of thirty days.

Since my Special Report dated April 29, 1999, my Cayman counsel continued to negotiate with Euro Bank's counsel and Ken Taves' Cayman counsel in an attempt to agree to a stipulated order to be filed with the Grand Court providing for release of approximately \$6.2 million. During the week of June 7th it became clear an agreement could not be reached because Mr. Taves' counsel had not received direction from Mr. Taves regarding the form of the Order. Since then Mr. Taves has signed other directions, which have been made moot by the following described events.

On June 16th, Euro Bank was placed into voluntary liquidation. Mr. Ian Wight and Mr. Michael Pilling of Deloitte and Touche were appointed as the Liquidators. It is not clear at this time if the liquidation is fully solvent and if depositors will receive 100 cents on the dollar. Nevertheless, there is no reason to believe a substantial recovery will not be forthcoming, although the timing of that recovery is uncertain.

Since the bank was placed into liquidation, I have been negotiating with the Liquidators to attempt to access bank account information on behalf of the receivership defendants. The public policy in Grand Cayman, as established by the Courts, has traditionally allowed the local banks to successfully resist efforts by foreign entities in civil actions to access bank records. However, the circumstances surrounding the closure of Euro Bank presented a unique window of opportunity. On July 27th, we executed an agreement with the Liquidators to allow me full access to all of the underlying bank records of the accounts that the Liquidators had linked to Ken Taves (Tab 1). On July 29th, the Chief Justice of the Grand Court approved that agreement. I have since reviewed and preliminarily analyzed all of the records provided by the Liquidators. Additional records will be provided to me over the next few weeks. The comments that follow are, in part, based on the results of that review and interviews with the Euro Bank liquidators.

As detailed below, Ken Taves and other receivership defendants were in possession and control of large amounts of money that were not disclosed to the Court as required by the Temporary Restraining Order and the Preliminary Injunction.

Initial Transfer of \$25.3 Million to Euro Bank

Beginning in mid-1997 and continuing until November 1998 about \$25.3 million was transferred from the receivership defendants to accounts at Euro Bank. (Where practical to do so, the amounts described in this Report are rounded off to the nearest \$100,000.) These funds were sent by four entities: the receivership defendants MJD Service Corp., Discreet Bill, Inc. and JK Publications, Inc., and by Multi Media West. All of the funds sent to Euro Bank by these four entities were deposited in one of two accounts: an account in the name of Media Buying Service or an account in the name of Phaeton Corporation. The funds were then disbursed to other accounts in Euro Bank that were owned or controlled by Ken Taves, or were invested back in the United States or other jurisdictions.

Funds Transferred Through Multi Media West to Euro Bank

As detailed in my First Report to the Court, J.K. Publications issued checks and wire transfers totaling \$12.8 million to Multi Media West between June 1997 and September 1998. In turn, Multi Media West issued checks to Media Buying Service and Phaeton Corporation totaling \$10.9 million, whose accounts were maintained at Euro Bank. Checks from Multi Media West and payable to Media Buying Service and Phaeton Corporation during that time period totaled \$8.6 million and \$2.3 million, respectively. Checks from Multi Media West for other expenses authorized and approved by Ken Taves, including checks to Net Power, attorney Brad Brunon, and a limousine company, totaled \$1.7 million.

The president of Multi Media West is Michael Kenner. During his July 13, 1999 deposition, Mr. Kenner testified that Multi Media West was a brokerage media company, providing promotional advertising services. However, Kenner testified that Ken Taves approached him about providing a service wholly distinct from Kenner's usual business, in an effort to help Kenner recoup losses Kenner suffered on a previous business investment with Taves and a previous loan to Taves.

Mr. Kenner testified that Ken Taves asked him to provide a service whereby Multi Media West would pay invoices owed by J.K. Publications or Netfill and approved for payment by Taves. These invoices would be submitted to Multi Media West directly by Ken Taves or would be received by Multi Media West from third parties, including invoices from Media Buying Service (whose address was the same as Euro Bank in Grand Cayman), Phaeton Corporation, Net Power, Brad Brunon, a limousine company, and others. Multi Media West only would remit payment on these invoices once funds were received from Ken Taves. At Taves' request and instruction, Multi Media West would invoice J.K. Publications for these payments, designating the invoice for "media purchases", even though no such services (or any promotional services) were provided by Multi Media West. Multi Media West was to receive one and one-half percent of the gross amount of the invoices paid by Multi Media West on behalf of J.K. Publications and Netfill, which apparently accounts for the approximate \$200,000 difference between payments from J.K. Publications to Multi Media West and payments from Multi Media West to Media Buying Service, Phaeton Corporation and third parties.

Funds Transferred Directly from the Receivership Defendants to Euro Bank

In addition to \$10.9 million being routed to Euro Bank from Multi Media West, the receivership defendants directly transferred \$14.4 million to Euro Bank: \$10.1 million was transferred by MJD Service Corp., \$4.1 million was transferred by Discreet Bill, Inc. and \$225,000 was transferred by J.K. Publications.

Initial Transferee of \$18.9 Million: Media Buying Service

Of \$25.3 million transferred to Euro Bank, \$18.9 was deposited in the Media Buying Service account and the balance was deposited in the Phaeton Corporation account. Bank records show Ken Taves as the sole director, chairman, and president of Media Buying Service (Tab 2). On September 25, 1997, Ken Taves directed the Bank to transfer all funds coming into Media Buying Service to his personal account (Tab 2).

Media Buying Service transferred \$13 million to Ken Taves' accounts at Euro Bank and Barclays Bank. Media Buying Service also transferred \$4.1 million to investment accounts in Morgan Stanley Dean Witter and Royal Bank of Canada.

Media Buying Service also transferred \$100,000 to European Bank Ltd. in the nation of Vanuatu (previously New Hebrides) for credit to the account of Benford Ltd.

In addition, Media Buying Service transferred about \$500,000 to an account in the name of Global International Media Foundation at Landesbank, in Liechtenstein.

In addition, by memorandum dated February 6, 1999, Ken Taves instructed Ivan Burges, Senior Account Manager at Euro Bank, to appoint Judi Donegan, Trust Officer at Euro Bank, as president of Media Buying Service and to “transfer the share holding” to her. He further wrote: “*This company is being transferred free of charge.*” (Tab 2).

Initial Transferee of \$6.4 Million: Phaeton Corporation

Melvin and Colleen Taves are the signatories on this account, however, the account was effectively owned and operated by Ken Taves. Generally, 1.5% of the incoming funds to Phaeton would be retained in the account and the balance transferred to other accounts. The bank's files contain transfer instructions signed by Melvin Taves that specifically refer to instructions given to him by Ken Taves (Tab 3). Also, under Tab 3 is a letter Melvin Taves wrote to the Euro Bank Liquidators on June 1, 1999, stating “. . . *I was kept in the dark as much as Euro Bank was. I would like very much to separate my assets from Phaeton Corporation . . .*” On October 6, 1997, Ken Taves directed the transfer of \$200,000 from Phaeton to his personal account (Tab 3). Again, on August 27, 1998, Ken Taves sent an e-mail to Euro Bank giving direct instructions over this account (Tab 3).

Other Key Accounts

The following is a brief description of other key accounts controlled by Ken Taves or his nominees at Euro Bank:

Gretchen Buck/Mathew Reid

This account was opened in August 1997. All of the funds deposited into the account originated from accounts owned or controlled by Ken Taves. Ken Taves ordered that \$500.00 be transferred from S. Jared Properties to open the account. The account had no activity until January 1999 when \$10,000 was transferred from Chamonix (see below). On February 15, 1999, Euro Bank officer Ivan Burges wrote to Lee Sacks, enclosing a MasterCard application form to set up this account (Tab 4). A few days later, \$80,000 originating from Ken Taves' account was transferred to the MasterCard account. (It is important to note that deposits secure all Euro Bank MasterCard accounts, therefore, a MasterCard account is more in the nature of a checking account.)

On March 11th, \$2,542,364 was deposited into the account. The source of funds for this transaction was Ken Taves' account at Barclays Bank in Grand Cayman (Tab 4). Media Buying Service also transferred \$430,000 into the account. Additional deposits of \$679,000 were made from Ken Taves' Global Connection account at Cayman National Bank.

On March 15, 1999, Gretchen Buck issued instructions to the bank to transfer the bulk of the funds in the account, \$3.5 million, to an account at European Bank in Vanuatu in the name of Benford Ltd. (Tab 4).

On April 19, 1999, a check for \$10,000 was issued from the MasterCard account to Truman Bodden & Co., the Cayman counsel representing Ken Taves at the time.

Chamonix Investments Ltd.

The legal owner of this account is Raymond Creed. The account was opened in August 1998. While Raymond Creed has no other account at Euro Bank, the “bank references” section of the new company incorporation form in the files states “EB already has references on file”, and that the company’s business is to be “processing fees from internet sales” (Tab 5). All of the funds deposited into the account originated from accounts owned or controlled by Ken Taves and the account was effectively owned and operated by him.

On November 13, 1998, Ken Taves issued instructions directing the Bank to transfer \$2.0 million from Chamonix to his account at Barclays Bank (Tab 5). On January 18, 1999, a file note from Judi Donegan referencing Ken and Teresa Taves’ account and the Chamonix account memorializes a conversation with Ken Taves and Lee Sacks that day directing Euro Bank to begin liquidating investments at Morgan Stanley Dean Witter (Tab 5). In a facsimile transmission that same day, Burges directed Wayne Ribnik at Morgan Stanley Dean Witter to “*liquidate \$500,000 worth of assets from the above account*” (which referenced the Morgan Stanley Dean Witter account number as well as Ken and Teresa Taves’ Euro Bank account number) on a weekly basis, for credit to Chamonix’s account at Euro Bank (Tab 5). In a letter dated March 30, 1999, Raymond Creed issued instructions to Euro Bank to transfer the balance of funds in the account, \$3.8 million, to the Benford Ltd. account at European Bank (Tab 5).

Application for Restraint Order Brought by Royal Cayman Island Police Department

On June 9th, the Royal Cayman Island Police Department filed an Application for Restraint Order against certain accounts at Euro Bank, Cayman National Bank, and Bank of Nova Scotia. The Application deals only with accounts owned controlled, or linked to Ken Taves. The accounts listed in the Application are:

Ken and Teresa Taves	Euro Bank Corp.
Media Buying Service (owned by Ken Taves)	Euro Bank Corp.
Chamonix (controlled by Ken Taves)	Euro Bank Corp.
S. Jared Properties (owned by Ken Taves)	Euro Bank Corp.
S. Gretchen Buck/Mathew Reid (linked to Ken Taves)	Euro Bank Corp.
Barnard Ltd. (linked to Ken Taves)	Euro Bank Corp.
Phaeton Corporation (controlled by Ken Taves)	Euro Bank Corp.
Martin Duggan (linked to Ken Taves)	Euro Bank Corp.
Rob Rappaport (linked to Ken Taves)	Euro Bank Corp.
David Goldfarb & Bill Parodi (linked to Ken Taves)	Euro Bank Corp.
Dr. Melvin Taves	Euro Bank Corp.
Adam Spencer Joffe (linked to Ken Taves)	Euro Bank Corp.
Dr. Melvin Taves & Mrs. Colleen Taves	Cayman National Bank
Raymond Creed (linked to Ken Taves)	Bank of Nova Scotia

Also, real properties located in the Cayman Islands in the names of S. Jared Properties, Phaeton Corporation, Melvin and Colleen Taves, and Raymond Creed, were named in the Application. S. Jared Properties is a corporation in which Ken Taves is a 50% owner.

As to the individuals and entities listed above, Martin Duggan was a vice president of MJD Service Corp. An investigation is underway to determine if Rob Rappaport and Dennis Rappaport are the same individual. Robert Rappaport was the seller of the property at 6837 Zumirez Drive, the subject of the Court’s first contempt order (“Zumirez Property”). David Goldfarb is the Chief Operating Officer of Automated Transaction Services (ATS), the company that processed credit card charges for the receivership defendants. Bill Parodi is the President of ATS. Adam Spencer Joffe performed computer services for the receivership defendants. Raymond Creed, through his company Trans Global Development Ltd. (named as Trans Global Development Corporation on the Quit Claim Deed), obtained title to the

Zumirez Property. I will also be pursuing recovery of the funds that remain in the names of these individuals.

Subsequent to the closure of Euro Bank, the Royal Cayman Island Police Department has arrested two former bank officers on suspicion of aiding in a money-laundering scheme involving Ken Taves and perhaps others.

Ivan Burges and Judi Donegan primarily managed the Euro Bank accounts associated with Ken Taves. Tab 6 contains a memorandum from Ken Taves dated October 10, 1997 that authorizes the use of his beach house by Ms. Donegan. Also at Tab 6 is a check payable to Ms. Donegan's account at the Bank of Butterfield. Documents in the Euro Bank files show that Ken Taves was paying Ms. Donegan \$4,000 per month into her bank account at Bank of Butterfield in Grand Cayman.

Summary of Activity

Tab 7 contains a flow chart summarizing: (a) money originating from the receivership defendants into Euro Bank; (b) money transferred between accounts controlled by Ken Taves; and (c) money transferred out of Euro Bank from accounts controlled by Ken Taves. Tab 7 also contains a compilation of account statements maintained by Euro Bank that details specific amounts transferred to Euro Bank by the receivership defendants (directly and through Multi Media West) and further details the movement of those funds after initial receipt by Euro Bank into the Media Buying Service and Phaeton Corporation accounts.

We are currently initiating actions to freeze and recover funds from the accounts in Vanuatu, Liechtenstein, and other jurisdictions. Concurrently, I have instructed Cayman counsel to initiate actions that will cause the turnover of newly discovered bank account balances and associated bank records.

Ongoing Concealment and Transfer of Assets

As highlighted above, I remain concerned that Mr. Taves consistently and flagrantly continued to conceal his assets and to manipulate his hidden assets well after the date of the asset freeze. For example, in addition to many of the actions taken by Ken Taves after service of the Temporary Restraining Order, as described above, Tab 8 contains a January 26, 1999 facsimile from Judi Donegan to Brad Brunon and Ken Taves responding to a request for the net asset value of the Euro Bank securities account. It is clear that Ken Taves had full knowledge of his investment portfolio and of the accounts he legally or beneficially owned or controlled.

Aside from assets previously unreported which he did not disclose and which are the subject of the Court's prior contempt orders, Mr. Taves did not disclose the additional following assets which are owned by him directly or beneficially:

- The Chamonix account at Euro Bank
- The Gretchen Buck/Mathew Reid account at Euro Bank
- The account at Barclays Bank
- The account at Cayman National Bank
- The investment account at Royal Bank of Canada
- The investment account through Euro Bank at Morgan Stanley Dean Witter
- An investment account through Euro Bank at the Bank of America
- An investment account through Euro Bank for securities located in the Bahamas
- An investment account through Euro Bank for securities located in Germany
- The Global International Media Foundation account in Liechtenstein
- The Benford Ltd. account in Vanuatu

According to Euro Bank records, the account at Cayman National Bank should have a balance of about \$320,000 and the account at Barclays Bank should have a balance of \$2.5 million. However, the Restraint Order obtained by the Royal Cayman Island Police Department did not include accounts at either bank. The Restraint Order did include Raymond

Creed's account at Bank of Nova Scotia and Melvin Taves' account at Cayman National Bank. I am confident that my efforts over the next several weeks will produce documents that will trace the source of funds in these accounts. In addition to undisclosed assets, numerous payments have been made from Ken Taves' accounts subsequent to the asset freeze. A total of about 60 payments have been made from accounts owned or controlled by Ken Taves. These payments include those originating from Ken Taves' MasterCard account. Between September 1997 and March 1999, Ken and Teresa Taves spent about \$300,000 from the MasterCard account.

Of particular concern are those payments made to Ken Taves' domestic counsel, which appear to be contrary to representations made by his prior counsel to this Court. As can be seen from the schedule under Tab 9, the law firm of Sacks & Zweig has received about \$35,000 and the law firm of Fried, Frank has received \$175,000. On February 2, 1999, Ken Taves personally directed that \$75,000 be wired to Fried Frank (Tab 9). We assume these funds were for legal fees and in addition to those authorized by this Court.

Of equal concern is Mr. Sacks' apparent role in the operation of the Ken Taves' accounts after the asset freeze. Documents from the Euro Bank files show Mr. Sacks authorized the transfer of funds to his firm and to the Fried Frank firm (Tab 9), received information from Ivan Burges about establishing an account in Vanuatu (Tab 10), and discussed the liquidation of assets in the United States in the Morgan Stanley Dean Witter account (Tab 5).

Since my appointment as Receiver, we have discovered approximately \$22 million in undisclosed assets owned, beneficially owned, or linked to Ken Taves. Previously we identified and reported the Zumirez Property with a value of at least \$2.4 million and the accounts in Euro Bank then valued at \$6.2 million. With this Report, we have identified additional cash and investments in multiple jurisdictions totaling about \$13.4 million.

As described above, I have initiated actions to effectuate recovery of all funds and property located to date.

The Zumirez Drive Property

Tab 11 contains a wire transfer from Ken Taves' personal account at Euro Bank to Sacks & Zweig in the amount of \$2,500,000 for the purchase of the Zumirez Property (the actual wire transfer was \$2,501,592). This would indicate the purchaser of the property was Ken Taves, not Melvin Taves in the name of his family partnership.

Under Tab 11 is a facsimile cover sheet from Judi Donegan to Brad Brunon referencing an attached Trust Agreement. The first page of that Trust Agreement is also under Tab 11. The Agreement, signed by Ken and Teresa Taves on August 12, 1998, lists the address of 6837 Zumirez Drive. Ken and Teresa Taves were using the Zumirez Property address even before close of escrow.

Also, under Tab 11 is an e-mail from Ken Taves to Judi Donegan at Euro Bank alerting Ms. Donegan to accept his verbal instructions to transfer \$626,653.00 to Rob Rappaport's account at Euro Bank. As noted above, Robert Rappaport was the seller of the Zumirez Property. This e-mail was in response to an e-mail sent to Ken Taves by Judi Donegan referencing a conversation with Lee Sacks about the amount due Mr. Rappaport, at the exact time the escrow on the property was closing. This would indicate that the Zumirez Property sold for about \$3 million, not the reported \$2.4 million, and brings the subsequent quitclaim deed to Trans Global Development, Ltd. (Raymond Creed) into greater question.

Ken Taves' Relationship with Raymond Creed

Ken Taves stated in his declaration dated April 5, 1999 that he never had a business relationship with Mr. Creed or Trans Global Development Corp. and that the transaction between Trans Global and Satmax was arms length and had nothing to do with him. The Euro Bank records clearly show that Mr. Creed and Ken Taves did have an extensive relationship. Additionally, under Tab 12 are photocopies of three checks issued in 1996 to Mr. Creed by Netfill. (Mr. Creed also owns a home adjacent to Ken Taves' home in Grand Cayman.)

Loans to Third Parties

The receivership entities, through Ken Taves, made loans to individuals and corporations. A \$1.0 million loan was made in April 1998 to Paradigm Communications Corporation DBA Global Communications Network. The purpose of this loan was apparently to open a telecommunications operation of some type in Mexico. One of my staff, Kenton Johnson, met with the President of Paradigm who readily acknowledged the loan. The company has since been placed into an involuntary Chapter 11 bankruptcy proceeding which is pending in this District before Bankruptcy Judge Robles. At this time, prospects of collecting this loan are dim but we continue to investigate the circumstances of the loan.

I am continuing to investigate loans to others and will report the results to the Court upon completion of the investigations.

Preliminary Discussions with the Merchant Banks

Negotiations intended to lead to a partial settlement of key issues regarding both Heartland Bank and Charter Pacific Bank have been conducted. A stipulated settlement with Charter Pacific Bank is expected to be filed near the time of the filing of this Report. That filing and the response by me to the Heartland Bank motion will provide additional information for the Court.

Preliminary Accounting of Gross Profit

In my first report to the Court dated February 7, 1999, I reported that a review of the receivership entities' records indicated that as much as \$23 million was withdrawn from the accounts of the receivership entities and was transferred through different entities and several accounts, to accounts of offshore corporations.

In the Defendants' Supplemental Memorandum in Opposition to Application for Preliminary Injunction and Request for an Appointment of a Permanent Receiver, the defendants state the bulk of their business was processing transactions for third parties located outside of the United States and that the defendants paid third parties 78-85% of the gross income from credit card transactions. The defendants further stated that this translates to approximately \$35-40 million. The defendants claimed that this processing was a low profit, low margin business, which resulted in small commission of 15-22%, after deducting reserves and the ATS fees, for a gross profit margin of 2%-9%.

The correct calculation of the margin is gross sales less bank reserves, chargebacks and associated fees, credits, Visa/MasterCard discounts, special charges and ATS fees. The funds or uses of funds by the receivership defendants that I have discovered to date do not appear to support the receivership defendants' stated nature of the business or their stated profit margin. The table below lists assets identified to date:

Corporate Accounts	\$1,500,000
Investment in Malibu property	2,400,000
Ken & Teresa Taves' Euro Bank accounts	8,200,000
Cayman National deposits	300,000
Taves' Morgan Stanley Dean Witter account	2,100,000
Euro Bank Morgan Stanley Dean Witter account	100,000
Vanuatu account	7,500,000
Barclays Bank account	2,500,000
Liechtenstein account	500,000
Paradigm loan	<u>1,000,000</u>
Total	\$26,100,000

The calculation below is derived from the receivership defendants' calculation with adjustments for additional entries to compute a gross profit, before ordinary business expenses:

1998 gross sales	\$49,400,000
Less reserves	4,000,000
Less charge backs and credits	5,600,000
Less charge back associated fees	2,600,000
Less Visa/MasterCard discount	2,500,000
Less special charges	1,600,000
Less payments to ATS	<u>2,500,000</u>
Total	\$30,600,000

A 9% margin on 1998 net sales of \$30.6 million would be \$2.8 million. The funds accounted for so far represent a gross profit margin of 85%. Even including all gross sales of \$4.2 million for the period from June 1997 through December 1997 to the \$30.6 million figure, without any deduction for fees or charges, the funds accounted for so far represent a gross profit margin of 75%.

Respectfully submitted,

/s/

Robb Evans
Receiver

Analysis of offshore activity originating from Receivership Defendants' funds

