

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS**

SECURITIES EXCHANGE COMMISSION)

Plaintiff,)

vs.)

DAVID TANNER, et al.,)

Civil Action No.: 05-4057-RDR

Defendants,)

and)

MARGARET F. SPENCER, et al.,)

Relief Defendants.)

RECEIVER’S TENTH STATUS REPORT TO THE COURT

Receiver, Larry E. Cook, reports to the Court as directed, respectfully stating:

I. Introduction

1. The United States Securities and Exchange Commission (the “Commission”) initiated this securities fraud enforcement action on May 4, 2005. At the request of the Commission and based upon a preliminary showing of securities fraud, the Court issued a Temporary Restraining Order (the “TRO”) and ordered an asset freeze and appointed Larry E. Cook as Receiver.

2. To date, the Receiver has recovered approximately \$9.1 million in investor funds.¹ The Receiver has also identified and obtained orders directing the return of an additional \$7.9 million² in investor funds deposited in US and European Banks. The

¹ The \$9.1 million includes \$1,513,070.70 transferred back to Seaforth Meridian (Case No. 06-4107) pursuant to the Court's February 5, 2007 Order (Doc. # 367).

² The \$7.9 million amount includes a balance of \$6.5 million still owed by Seaforth Meridian. Seaforth Meridian is a defendant in a separate securities fraud receivership (Case No. 06-4107) pending before the Court. Recovery of this \$6.5 million balance will be contingent on recovering assets in the Seaforth case.

Receiver has also recovered two properties in Dayton, Nevada which have been listed for sale with a Nevada real estate agent.

3. As of the Sixth Interim Report, the Commission had obtained judgment against, or entered into settlement agreements with, all Defendants and Relief Defendants.

II. Receiver's Activity Since the Ninth Status Report

4. Intensive efforts have been required to locate and to recover Receivership Assets and Receivership Records, and to independently determine the nature of, and the appropriate course of action to be taken with respect to, Receivership Assets and the location of investor funds. To assist in these efforts, the Receiver has retained the legal services of Lathrop & Gage, L.C. in Kansas City, Missouri, Jones Vargas in Reno, Nevada, Sorainen Law Offices in Riga, Latvia, and Lexwell Attorneys, St. Maarten, N.A.

5. The Receiver has subpoenaed thousands of pages of bank records and other documents related to the e-currency firms in order to trace the flow of investor funds into CEC and back out to various individuals and companies. The Receiver has deposed several e-currency firms and payment processors related to CEC, several of whom have asserted a Fifth Amendment right not to answer any of the Receiver's questions.

6. The Receiver and the Commission have determined that Mr. Tucker's real name is Scott Klion and that he also uses the alias David Tanner (Docket #'s 376-377). Furthermore, on May 22, 2007, the Court entered its amended judgment of Permanent Injunction and Order of Disgorgement against Scott Klion (Doc. # 384). However, as of the date of this Status Report, Mr. Klion has refused to engage in meaningful settlement

discussions or provide the information needed for the Receiver to recover additional investor funds. Moreover, Klion has refused to pay the disgorgement amount of approximately \$22 million.

7. On August 11, 2005, the Court entered a Stipulated Order (Docket # 84) which provided, in part, for the return of approximately \$3 million of investor funds transferred to Cedax Limited's account at VEF Banka. Following nearly two years of litigation in the United States and Latvia and with the cooperation of the Commission, the Commission's Office of International Affairs ("OIA"), and the U.S. Department of Justice, the Receiver received \$3,043,138.12 from VEF Banka on August 6, 2007. Depending on the foreign exchange rates used, the Receiver believes VEF Banka shorted the Receiver between \$114,000 and \$393,000. VEF Banka has inexplicably refused to account for the funds it turned over to the Receiver. Accordingly, the Receiver is pursuing an account action against VEF Banka in Latvia. Depending upon VEF Banka's final accounting, the Receiver may try to recover additional funds from the bank.

8. As detailed in prior status reports, the Receiver has recovered two undeveloped tracts of land in the Reno, Nevada area purchased with investor funds in the name of World Plaza Corporation. The Receiver has had these properties listed with a Nevada real estate agent for almost one year. The Receiver, through his real estate agent, believes the properties are competitively priced. However, to date, the Receiver has been unable to sell either property. Although the Receiver received a contract for one of the properties, the potential purchaser failed to close by the contract expiration. The Receiver retained a \$1,000 down payment and continues to market both properties.

9. On July 9, 2007, the Receiver obtained judgment against iPTS for the return of approximately US\$ 1.4 million in investor funds frozen at VEF Banka. On July 20, 2007, the Receiver obtained a Stipulated Order for the return of approximately US\$ 80,000 in investor funds frozen at Krajbanka in Riga, Latvia. The Receiver is coordinating with the Commission's OIA and the US Departments of Justice and State to obtain an "unfreeze" of these accounts through a Mutual Legal Assistance Treaty between the US and Latvia. Once that is complete, the Receiver will work with Latvian counsel to obtain recognition of the Turnover Orders by the Riga Urban District Court and ultimately, the repatriation of these funds.

A. Recovery of Investor Funds.

10. Despite the lack of cooperation of most of the defendants and relief defendants, through the intensive efforts of the Receiver, his counsel, and the Commission, the Receiver has recovered approximately \$9.1 million in investor funds. A significant portion of this recovery came from a Stipulated Order (Docket # 84) pursuant to which Seaforth Meridian, Limited ("Seaforth") agreed to turnover \$8.9 million to the Receiver on or before October 15, 2005. After paying \$4.1 million, Seaforth defaulted on its payment plan to the Receiver alleging its funds were illiquid. Following discussions with Seaforth's principals, the Receiver filed his Motion for Order to Show Cause as to why Seaforth should not be held in contempt of court for failure to make the remaining payments.

11. The Receiver has devoted significant time and expense working to enforce the terms of the Stipulated Order and recover the \$4.9 million balance Seaforth owes to the Receivership Estate. On September 14, 2006, the Commission commenced a separate

action against Seaforth and its principals in a case number 06-4107 pending before the Court. On January 17, 2007, the Receiver filed a Motion for Instructions Regarding Transfer of Funds from CEC to Seaforth (Doc. # 363) in which the Receiver requested the Court's instructions on whether a one-time transfer of a portion of the funds recovered from Seaforth should be returned to Seaforth. On February 5, 2007, the Court Ordered \$1.5 million be transferred to the Seaforth receivership estate (Doc. # 367).

12. The Receiver has also identified approximately \$9 million of investor funds transferred to forty two individuals and companies. The Receiver has issued demand letters for the return of these funds and is evaluating the recipients' defenses to the Receiver's demands.

B. Claims

13. The Receiver's primary goal in this case is to return the recovered funds to the defrauded investors.

14. In addition to responding to numerous individual investor inquiries, the Receiver has developed and updated the receivership website (www.ceclubreceiver.com) to serve as a reference for investors. The website also provides a central claims registration database where investors may submit a claim for their lost investment in the Capital Enhancement Club scheme.

15. On March 9, 2006, the Receiver filed his Motion for Order: (i) Approving Claims Solicitation Procedure; (ii) Approving Claim Form; and (iii) Establishing Claims Bar Date for Investors and Others. On March 28, 2006, the Court entered its Order granting the Motion and establishing April 28, 2006 as the deadline by which investors and others must file a claim via the Receiver's website.

16. As of the claims bar date, the Receiver had received approximately 1,200 claims totaling over \$18 million. The Receiver spent considerable time reviewing the filed claims, contacting investors for information to support their claim, and verifying filed claims. On November 20, 2006, the Court convened a hearing on the Receiver's Continued Motion to Allow and Disallow Investor Claims. Following the hearing, the Court entered an Order allowing approximately \$19,800,000 in claims (Doc. # 358).

17. On April 13, 2007, the Receiver filed his Motion to Approve Plan of General Distribution to Allowed Claims (Doc. # 372). The Plan provides for distribution of recovered funds, net of expenses, to the holders of allowed claims. On April 30 and May 5, 2007, thirteen individuals filed objections to the Distribution Plan. On May 22, 2007, the Court entered Orders approving the Plan of Distribution (Doc. #s 381-382).

C. Distributions.

18. Following entry of the Plan of Distribution, the Receiver made an initial distribution to holders of allowed claims beginning on May 22, 2007. The initial distribution totaled approximately \$2.6 million, representing a 13 percent distribution of the amount of each allowed claim.

19. Considerable time and effort was required to make the distribution. Many of the holders of allowed claims have foreign addresses and many foreign and domestic holders of allowed claims have moved without advising the Receiver of their current address. Furthermore, many holders of allowed claims have changed telephone numbers and e-mail addresses without updating the Receiver. Accordingly, the Receiver and his staff have spent considerable time working to locate these individuals. As of the date of this status report, all but approximately 70 holders of allowed claims have negotiated

their distribution checks. The Receiver's staff has contacted the remaining individuals by e-mail, telephone, and by posting a notice on the Receiver's website reminding them that August 22, 2007 is the deadline to negotiate the first distribution check.

20. Between August 28, 2007 and August 30, 2007, the Receiver made a second distribution of recovered funds to holders of allowed claims. The second distribution was an additional \$2.6 million, representing a 13 percent distribution of the amount of each allowed claim. As of the date of this Status Report, the holders of allowed claims have received a total of 26% of their allowed claim.

D. Miscellaneous.

21. The Receiver is continuing to work with the Commission, other U.S. law enforcement agencies, and government officials of several foreign jurisdictions in obtaining banking records to trace the source and disposition of CEC funds, as well as to take possession of CEC victim funds identified at the VEF Bank and Krajabank in Latvia, and frozen by the Latvian government.

III. Receiver's Intended Course of Action

22. Because defendant David Tanner/James Tucker/Scott Klion has refused to provide the accounting ordered by the Court, the Receiver must continue the costly and time consuming effort required to locate and subpoena the numerous CEC related bank and electronic currency accounts within and outside the U.S. and reconstruct the source and disposition of funds. Although the Receiver has examined thousands of pages to date, this represents a small portion of the total records the Receiver anticipates reviewing in order to determine the current location of additional CEC investor funds.

Attorneys for Larry E. Cook, Receiver

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of November, 2007 I electronically filed the foregoing, with the Clerk of the Court for the District of Kansas, Topeka Division, by using the CM/ECF system which will send a notice of electronic filing to the following CM/ECF participants:

J. Kevin Edmundson, SEC

/s/ Brian M. Holland

An attorney for Larry E, Cook,
Receiver