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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION**

SECURITIES AND EXCHANGE)	
COMMISSION,)	Case Number: 06-cv-06003-CW (N.D. Cal.)
)	
Plaintiff,)	DISTRIBUTION PLAN
)	
vs.)	
)	
THE CHILDREN'S INTERNET, INC.,)	
NASSER V. HAMEDANI, SOLEH A.)	
HAMEDANI, PETER A. PEREZ, CORT L.)	
POYNER, and TWO DOG NET, INC.,)	
)	
)	
Defendant)	

DISTRIBUTION PLAN

I. OVERVIEW

1. This Distribution Plan (the “Plan”) was developed by the Securities and Exchange Commission (the “Commission”) in accordance with practices and procedures customary in Fair Fund administrations. This Plan provides for the distribution of a Fair Fund (the “Fair Fund”), comprised of disgorgement, prejudgment interest, and civil money penalties paid by The Children's Internet, Inc., Nasser V. Hamedani, Sholeh A. Hamedani, Peter A. Perez, Cort L. Poyner, Two Dog Net, Inc. (collectively, the “Defendants”) in this proceeding.

2. As described more specifically below, the Plan seeks to compensate investors who were harmed, by the Defendants’ conduct alleged in the Complaint, in connection with the fraudulent sales of securities in a company called, The Children’s Internet, Inc. (“TCI”). As calculated using the methodology detailed in the Plan of Allocation (attached as Exhibit A),

investors will be compensated for their losses on TCI shares that were purchased between January 1, 2002 through December 31, 2005, inclusive (the “Relevant Period”). Based on information obtained by the Commission during its investigation and the review and analysis of applicable records, the Commission has reasonably concluded that it has all records necessary to calculate each investor’s harm. As a result, the Fair Fund is not being distributed according to a claims-made process.

3. The Court has custody of the Fair Fund and shall retain jurisdiction over the implementation of this Plan.

II. BACKGROUND

4. On September 27, 2006, the Commission filed a complaint (“Complaint”) against The Children’s Internet, Inc. (“TCI”) and its principals, Nasser Hamedani and Sholeh Hamedani (collectively, the “Hamedanis”) and Two Dog Net, Inc. (“TDN”) and two of its stock promoters, Peter Perez (“Perez”) and Cort Poyner (“Poyner”). In the Complaint, the Commission alleged that, from February 2002 through June 2005, the Hamedanis purportedly on behalf of TCI, fraudulently obtained approximately \$5.5 million from public investors. The Hamedanis diverted a significant amount of the investors’ money to pay personal expenses and hundreds of thousands of dollars in undisclosed commissions to two stock promoters, Perez and Poyner.

5. On March 19, 2008, this Court entered a Final Judgment against Defendant Peter A. Perez, holding him liable for disgorgement of \$538,865 representing profits gained as a result of the conduct alleged in the Complaint, together with prejudgment interest thereon in the amount of \$67,715, with all but \$85,000 waived.

6. On October 23, 2008, this Court entered a Final Judgment against Defendant Cort L. Poyner, holding him liable for disgorgement of \$413,767 representing profits gained as a result of the conduct alleged in the Complaint, together with prejudgment interest thereon in the amount of \$61,118, and a civil penalty in the amount of \$120,000 pursuant to 15 U.S.C. § 78u(d)(3)(A), for a total of \$594,885.

7. On October 30, 2008, the Court entered amended final judgments that ordered the Hamedanis to pay, jointly and severally, a total of \$4,049,470 in disgorgement and prejudgment interest, disgorge all shares of TDN and TCI owned or controlled by either of them, and for each to pay a \$100,000 civil monetary penalty. *See* Nasser Hamedani’s Revised Final Judgment and S. Hamedani’s Revised Final Judgment. On May 22, 2012, in related criminal proceedings, the Court entered a Restitution Order directing the Hamedanis to pay restitution in the amount of \$2,300,000, and that all payments made shall be credited towards the civil judgment entered in this matter. The Hamedanis have made only a few, partial, monthly restitution payments.

8. Perez and Poyner have paid a total of \$692,265.50 as ordered (the “Fair Fund”). Any additional funds received pursuant to any of the outstanding judgments in this matter, will be added to the Fund.

9. The Fair Fund has been deposited in an account at the Court Registry Investment

System (“CRIS”) for investment.

10. On March 9, 2017, the Court entered an Order appointing Computershare/KCC (“KCC”) to serve as Distribution Agent for the Fair Fund. [Dkt. #353]. Consistent with the Distribution Agent’s duties, an escrow account will be established from which the funds will be distributed to eligible investors.

11. As part of the request to approve this Plan, the Commission is requesting this Court: (a) establish a Fair Fund, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, for the funds collected pursuant to the Final Judgments, including any funds collected in the future; and (b) appoint Miller Kaplan Arase LLP, a certified public accounting firm, (“Miller Kaplan”), with one of their offices located in San Francisco, California, as Tax Administrator of the Fair Fund.

III. DEFINITIONS

As used in this Plan, the following definitions will apply:

12. **“Administrative Costs”** shall mean any administrative costs and expenses, including without limitation tax obligations, the fees and expenses of the Tax Administrator and the Distribution Agent, and investment and banking costs.

13. **“Distribution Agent”** refers to KCC (collectively with all employees, agents, consultants, or independent contractors of such firm), which has been appointed by the Court to administer and distribute the Fair Fund in accordance with the terms of this Distribution Plan and the Court’s orders.

14. **“Tax Administrator”** means Miller Kaplan and Arase LLP, formerly known as Damasco & Associates LLP, a motion seeking the firm’s appointment by the Court as the Tax Administrator was filed along with this Distribution Plan.

15. **“Hemming Morse, Inc.”** (“HMI”) is the third-party accounting firm engaged by the Commission during its investigation and litigation that conducted an analysis regarding investments solicited for TCI.

16. **“Certification Form”** means the form that will be emailed or mailed to each Preliminary Claimant confirming his, her, or it’s calculated Recognized Loss, as based on HMI’s analysis and other records made available to the Distribution Agent, and the name and mailing address of the payee to which a Distribution Payment should be issued, if applicable. The Certification Form may be accompanied by tax forms, as required, relating to the tax treatment of any distribution.

17. **“Distribution Payment”** means a payment from the Fair Fund to a Payee in accordance with the terms of this Plan.

18. **“Eligible Claimant”** means a Preliminary Claimant, who is determined to have suffered a Recognized Loss, pursuant to the Plan of Allocation, and who is not an Excluded

Party or an Unresponsive Preliminary Claimant.

19. **“Excluded Party”** shall mean: (a) the Defendants, and Defendants’ advisers, agents, nominees, assigns, creditors, heirs, distributees, spouses, parents, children, or controlled entities; (b) the Distribution Agent, its employees, and those Persons assisting the Distribution Agent in its role as the Distribution Agent; and (c) any purchaser or assignee of another Person’s right to obtain a recovery from the Fair Fund for value; provided, however, that this provision shall not be construed to exclude those Persons who obtained such a right by gift, inheritance or devise.

20. **“Fair Fund”** means the fund created by the Court pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, for the benefit of investors harmed by Defendants’ violations alleged in the Complaint. Any additional funds collected from the Defendants, pursuant to the Final Judgment(s) will be added to the Fair Fund.

21. **“Final Determination Notice”** means written notice sent by the Distribution Agent to (a) any Preliminary Claimant who timely submitted a written dispute of his, her, or its calculated Recognized Loss notifying the Preliminary Claimant of the resolution of the dispute; and (2) those Preliminary Claimants who have not responded to the Plan Notice by returning the Certification Form and/or any other requested information, as described in paragraph 48, notifying the Preliminary Claimant that he, she, or it has been deemed an Unresponsive Preliminary Claimant. The Distribution Agent will not send a Final Determination Notice to a Preliminary Claimant, if his, hers, or its Plan Notice was returned as “undeliverable.” The Final Determination Notice will constitute the Distribution Agent’s final ruling regarding the status of the claim.

22. **“Net Available Fair Fund”** means the Fair Fund, plus any interest or earnings, less Administrative Costs.

23. **“Payee”** means an Eligible Claimant whose distribution amount is equal to or greater than \$10.00, as calculated in accordance with the Plan of Allocation, who is determined to receive a Distribution Payment.

24. **“Person”** means natural individuals as well as legal entities such as corporations, partnerships, or limited liability companies.

25. **“Plan Notice”** means a written notice from the Distribution Agent to each Preliminary Claimant regarding the Court’s approval of the Plan, including, as appropriate: a statement characterizing the distribution; a link to the approved Plan posted on the Distribution Agent’s website and instructions for requesting a copy of the Plan; a Certification Form, along with specification of any information needed from the Preliminary Claimant to prevent him, her, or it from being deemed an Unresponsive Preliminary Claimant; his, her, or its preliminary Recognized Loss; a description of the tax information reporting and other related tax matters; the procedure for the distribution as set forth in the Plan; and the name and contact information for the Distribution Agent as a resource for additional information or to contact with questions regarding the distribution.

26. “**Plan of Allocation**” means the methodology by which a Preliminary Claimant’s Recognized Loss is calculated. The Plan of Allocation is attached as Exhibit A.

27. “**Preliminary Claimant**” means a Person, or their lawful successors, identified by the Distribution Agent based on its review and analysis of applicable records obtained by the Commission during its investigation, who may have suffered a loss as a result of transactions in the Securities during the Relevant Period.

28. “**Recognized Loss**” means the amount of loss calculated for a Preliminary Claimant in accordance with the Plan of Allocation.

29. “**Relevant Period**” is between January 1, 2002 and December 31, 2005, inclusive.

30. “**Securities**” means shares of The Children's Internet (“TCI”) or, in some instances, shares of Two Dog Net (“TDN”) received in place of shares of TCI, purchased from the Defendants during the Relevant Period.

31. “**Unresponsive Preliminary Claimant**” means a Preliminary Claimant whose address the Distribution Agent has not been able to verify and/or who does not timely respond to the Distribution Agent’s attempts to obtain information, including any information sought in the Plan Notice and Certification Form. Unresponsive Preliminary Claimants will not be eligible for a distribution under the Plan.

IV. TAX COMPLIANCE

32. The Tax Administrator shall handle the tax obligations of the Fair Fund. The Tax Administrator will be compensated for reasonable fees and expenses from the Fair Fund

33. The Fair Fund constitutes a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code of 1986, as amended, 26 U.S.C. § 468B(g), and related regulations, 26 C.F.R. §§ 1.468B-1 through 1.468B-5. The Tax Administrator is the administrator of such QSF for purposes of Treas. Reg. § 1.468B-2(k)(3)(I) and shall satisfy the tax-related administrative requirements imposed by Treas. Reg. § 1.468B-2, including, but not limited to:

- (a) Obtaining a taxpayer identification number;
- (b) Requesting funds necessary for the timely payment of all applicable taxes, the payment of taxes for which the Tax Administrator has received funds, and the filing of applicable returns; and
- (c) Fulfilling any information reporting or withholding requirements imposed on distributions from the Fair Fund.

V. DISTRIBUTION AGENT

34. The Distribution Agent will be responsible for administering the Fair Fund in accordance with the Plan. This will include, among other things, taking reasonable steps to obtain accurate mailing information for Preliminary Claimants; establishing a website and staffing a call center to address inquiries regarding the Plan; disseminating the Plan Notice; preparing accountings; cooperating with the Tax Administrator appointed by the Commission to satisfy any tax liabilities and to ensure compliance with income tax reporting requirements, including but not limited to Foreign Account Tax Compliance Act (FATCA); disbursing the Fair Fund in accordance with this Plan, as ordered by the Court; and researching and reconciling errors and reissuing payments, when possible.

35. To carry out the purposes of this Plan, the Distribution Agent is authorized to make and implement immaterial changes to the Plan upon agreement of the Commission staff. If a change is deemed to be material by the Commission staff, Court approval is required prior to implementation by amending the Plan.

36. The Distribution Agent may extend any procedural deadline contained in the Plan for good cause shown, if agreed upon by the Commission staff.

37. The Distribution Agent is entitled to rely on all outstanding rules of law and Court orders. The Distribution Agent will not be liable to anyone, except the Commission on behalf of the Fair Fund for a pecuniary loss to the Fair Fund, for any action taken or omitted by the Distribution Agent in connection with the Plan and all Preliminary Claimants will have no claims against the Distribution Agent, its employees, agents, and attorneys in connection with the Plan and the administration of the Fair Fund, and will be deemed enjoined from prosecuting or asserting any such claims, except upon a finding by this Court of gross negligence or reckless disregard of duty under this Plan.

38. The Distribution Agent is authorized to enter into agreements with third-parties as may be appropriate or necessary in the administration of the Fair Fund, provided such third-parties are not excluded pursuant to other provisions of this Plan. In connection with such agreements, the third-parties shall be deemed to be agents of the Distribution Agent under this Plan.

39. The Distribution Agent may be removed at any time by the Court, and replaced with a successor. In the event the Distribution Agent decides to resign, it will first give written notice to the Commission staff and the Court of such intention, and such resignation will not be effective until the Court has appointed a successor. The Distribution Agent will then follow such instructions as such successor or the Court provides in turning over management of the Fair Fund.

40. The Distribution Agent will be entitled to payment from the Fair Fund of reasonable fees and expenses incurred in the performance of its duties (including any such fees and expenses incurred by agents, consultants or third-parties retained by the Distribution Agent in furtherance of its duties).

VI. PLAN PROCEDURES

Specification of Preliminary Claimants

41. Using information obtained during its investigation, the Commission has identified the Preliminary Claimants. Preliminary Claimants are limited to only those Persons who may have suffered a loss as a result of their investment in the Securities during the Relevant Period.

Procedures for Locating and Notifying Preliminary Claimants

42. Within sixty (60) days of Court approval of the Plan, the Distribution Agent will:

- (a) Establish and maintain a website devoted solely to the Fair Fund. The Fair Fund's website will make available a copy of the approved Plan, include a copy of the Plan Notice, the Certification Form, and related materials in downloadable form, and such other information that the Distribution Agent believes will be beneficial to Preliminary Claimants.
- (b) Establish and maintain a toll-free telephone number for Preliminary Claimants to call and speak to a live representative of the Distribution Agent during its regular business hours or, outside of such hours, to hear pre-recorded information about the Fair Fund.
- (c) Establish and maintain a traditional mailing address and an email address which will be listed on all correspondence from the Distribution Agent to Preliminary Claimants as well as on the Fair Fund's website.
- (d) Establish and maintain a case specific database of all Preliminary Claimants based upon information provided to and obtained by the Distribution Agent, including the last known physical and email addresses.
- (e) Run a National Change of Address search to retrieve updated addresses for all records in the database, thereby ensuring the mailing information for Preliminary Claimants is up-to-date; and
- (f) Send a Plan Notice and Certification Form to each Preliminary Claimant's last known email address (if known) and/or mailing address.

43. The Commission staff retains the right to review and approve any material posted on the Fair Fund's website, any communication with investors, and any scripts used in connection with communications with investors.

Undeliverable Mail

44. The Distribution Agent will attempt to locate any Preliminary Claimant whose mailing is returned as undeliverable by the U.S. Postal Service or otherwise, including an advanced address search using commercially available resources, if feasible, and will document all such efforts. If another address is obtained, the Distribution Agent will then resend it the Preliminary Claimant's new address within thirty (30) days of receipt of the returned mail. If the mailing is returned again, and the Distribution Agent, despite best practicable efforts, is unable to find a Preliminary Claimant's correct address, the Distribution Agent, in its discretion, may deem such Preliminary Claimant an Unresponsive Preliminary Claimant.

45. The Distribution Agent, with Commission staff approval, may engage a third-party search firm to conduct more rigorous searches for Persons whose mailings are returned as undeliverable.

46. Any Preliminary Claimant who relocates or otherwise changes contact information after receipt of the Plan Notice must promptly communicate any change in address or contact information to the Distribution Agent.

Procedures to Request Plan Notice

47. Any Person who does not receive a Plan Notice and Certification Form, but who is aware of this Plan (e.g., through other Preliminary Claimants or on www.sec.gov) and believes they should be included as a Preliminary Claimant should contact the Distribution Agent within sixty (60) days from the approval of the Plan to establish that they should be considered a Preliminary Claimant. The Distribution Agent will send the Person a Plan Notice within thirty (30) days of receiving the Person's documentation, if the Distribution Agent determines, in consultation with the Commission, that the Person should have received a Plan Notice.

Certification Requirement and Failure to Respond to Plan Notice

48. In order to maintain classification as a Preliminary Claimant, the Certification Form must be signed by the Preliminary Claimant under penalty of perjury under the laws of the United States and returned to the Distribution Agent by the deadline stated in the Plan Notice. The Certification Form must be executed by the Preliminary Claimant, unless the Distribution Agent accepts such Certification Form from a successor, heir, administrator, or other Person authorized to act on the Preliminary Claimant's behalf. Those authorized to act on behalf of the Preliminary Claimants will be eligible to participate in the distribution to the same extent the original investor would have been eligible under the terms of the Plan.

49. The Distribution Agent will review all Certification Forms. Each Preliminary Claimant will have the burden of proof to establish their identity as a Preliminary Claimant, or his, her, or its successor. The Distribution Agent will have the right to request, and the Preliminary Claimant will have the burden of providing to the Distribution Agent, any additional information and/or documentation deemed relevant by the Distribution Agent.

50. If a Preliminary Claimant is requested to respond and/or return the Certification Form and fails to do so within sixty (60) days from the initial mailing of the Plan Notice, the

Distribution Agent will make no fewer than two (2) attempts to contact the Preliminary Claimant by telephone or email. The second attempt will in no event take place more than ninety (90) days from the initial mailing of the Plan Notice. If a Preliminary Claimant fails to respond to the Distribution Agent's contact attempts as described in this paragraph, the Distribution Agent, in its discretion, may deem such Preliminary Claimant an Unresponsive Preliminary Claimant.

Dispute Process

51. Within seventy-five (75) days of the initial mailing Plan Notice and Certification Form, the Distribution Agent must receive a written communication detailing any dispute along with any supporting documentation. The Distribution Agent will investigate the dispute, and such investigation will include a review of the written dispute as well as any supporting documentation.

Final Determination Notices

52. Within ninety (120) days of the initial mailing of the Plan Notice and Certification, the Distribution Agent will send a Final Determination Notice to (a) any Preliminary Claimant who timely submitted a written dispute as described in paragraph 51 above, notifying the Preliminary Claimant of its resolution of the dispute; and (b) those Preliminary Claimants who have not responded to the Plan Notice, as described in paragraph 50 above, except for those whose Plan Notice were returned as undeliverable, notifying the Preliminary Claimant that he, she, or it has been deemed an Unresponsive Preliminary Claimant.

Distribution Methodology

53. The Distribution Agent will calculate each Preliminary Claimant's Recognized Loss in accordance with the Plan of Allocation. All Preliminary Claimants who are determined to have a Recognized Loss, and who are not deemed an Excluded Party or an Unresponsive Preliminary Claimant will be deemed an Eligible Claimant. All Eligible Claimants who are determined to receive a Distribution Payment will be deemed a Payee.

Establishment of a Reserve

54. Before determining the amount of funds available for distribution and calculating each Payee's Distribution Payment, the Distribution Agent, in conjunction with the Tax Administrator, will establish a reserve to pay Administrative Costs and to accommodate any unexpected expenditures (the "Reserve").

55. After all Distribution Payments are made and Administrative Costs paid, any remaining amounts in the Reserve will become part of the Residual described in paragraph 73 below.

Preparation of the Payment File

56. Within one hundred sixty (180) days of Court approval of the Plan, the Distribution Agent will compile and send to the Commission staff the Payee information, including the name, address, calculated Recognized Loss, and the amount of the Distribution Payment for all Payees (the "Payee List"). The Distribution Agent will also provide a Declaration to the Commission staff, representing that the Payee List: (a) was compiled in accordance with the approved Plan; (b) is accurate as to Payees' names, addresses, Recognized Losses and amounts of their Distribution Payment; (c) includes the number of Payees compensated; (d) the *pro-rata* applied, if any; (e) the percentage of Recognized Loss being compensated by the Fair Fund; (f) the total amount being distributed; and (g) provides all information necessary to make a payment to each Payee.

The Escrow Account

57. Prior to the disbursement of funds from the Net Available Fair Fund, the Distribution Agent will establish an escrow account (the "Escrow Account") with a United States commercial bank that is a well-capitalized financial institution as defined by the Federal Reserve Act, Subpart D, 12 C.F.R. 208.43 and that is not unacceptable to the Commission (the "Bank"), pursuant to an escrow agreement (the "Escrow Agreement") to be provided by Commission staff.

58. The Distribution Agent, pursuant to the Escrow Agreement, shall also establish with the Bank a separate deposit account (*e.g.* controlled distribution account, managed distribution account, linked checking and investment account) (the "Distribution Account"), insured by the Federal Deposit Insurance Corporation ("FDIC") up to the guaranteed FDIC pass through limit. The Distribution Account shall be linked with the Escrow Account and shall be named, and records maintained, in accordance with the Escrow Agreement.

59. During the term of the Escrow Agreement, the portions of the Fair Fund transferred to the Escrow Account (the "Escrow Property") shall be invested and reinvested in short-term U.S. Treasury securities backed by the full faith and credit of the United States Government or an agency thereof. The investment shall be, of a type and term necessary to meet the cash liquidity requirements for payments to Payees and Administrative Costs, including investment or reinvestment in a bank account insured by the FDIC up to the guaranteed FDIC limit, or in money market mutual funds registered under the Investment Company Act of 1940 that invest 100% of their assets in direct obligations of the United States Government.

60. The Distribution Agent shall provide duplicate original bank and/or investment statements on any accounts established by the Distribution Agent to the Tax Administrator on a monthly basis and shall assist the Tax Administrator in obtaining mid-cycle statements, as necessary.

61. The Distribution Agent, in consultation with the Commission staff, shall work with the Bank on an ongoing basis to deposit or invest funds in the Escrow and Distribution Accounts so as to result in the maximum reasonable net return, taking into account the safety of such deposits or investments and tax implications; and to determine an allocation of funds between the Escrow and Distribution Account.

62. All interest, dividends, and/or income earned by the Escrow Property will accrue for the benefit of the Escrow Property. All Administrative Costs associated with the Escrow and Distribution Accounts will be the responsibility of the Distribution Agent, who may be reimbursed for said costs as provided in this Plan. No such Administrative Costs may be paid to the Bank, its agents, and/or its affiliates from the Escrow Property.

Distribution of the Fair Fund

63. Upon the Commission's staff's receipt, review, and acceptance of the Payee List and Declaration from the Distribution Agent, the Commission will petition the Court for authority to disburse funds from the Net Available Fair Fund to the Bank in accordance with the Payee List for distribution by the Distribution Agent in accordance with the Plan. The Payee List shall, upon request, be made available to the Court under seal. All disbursements will be made pursuant to a Court Order.

64. Upon issuance of an order to disburse by this Court, the Commission staff will direct the transfer of funds in accordance with the Payee List to the Bank. The Distribution Agent will then use its best efforts to commence mailing Distribution Payment checks and/or effect electronic payments within twenty (20) business days of the release of the funds into the Escrow Account. All efforts will be coordinated to limit the time between the Escrow Account's receipt of the funds and the issuance of Distribution Payments.

65. All checks will be issued by the Distribution Agent from the Distribution Account. All checks will bear a stale date of ninety (90) days from the date of issuance. Checks that are not negotiated by the stale date will be voided, and the Bank will be instructed to stop payment on those checks. A Payee's claim will be extinguished if he, she, or it fails to negotiate his, her or its check by the stale date, and the funds will remain in the Fair Fund, except as provided in paragraph 67.

66. All Distribution Payments will be preceded or accompanied by a communication that includes, as appropriate: (a) a statement characterizing the distribution; (b) a statement that the tax treatment of the distribution is the responsibility of each Payee and that the Payee should consult his, her or its tax advisor for advice regarding the tax treatment of the distribution; (c) a statement that checks will be void and cannot be reissued after ninety (90) days from the date the original check was issued; and (d) contact information for the Distribution Agent for questions regarding the Distribution Payment. The letter or other mailings to Payees characterizing a Distribution Payment will be submitted to the Tax Administrator and Commission staff for review and approval.

67. All Distribution Payments, either on their face or in the accompanying mailing, will clearly indicate that the money is being distributed from the Fair Fund established by the Court to compensate investors for harm as a result of securities law violations.

Post Distribution; Handing of Returned or Uncashed Checks; and Reissues

68. The Distribution Agent shall use its best efforts to make use of commercially available resources and other reasonably appropriate means to locate all Payees whose checks are returned to the Distribution Agent as “undeliverable.” If new address information becomes available, the Distribution Agent will repackage the distribution check and send it to the new address. If new address information is not available after a diligent search (and in no event no later than ninety (90) days after the initial mailing of the original check) or if the distribution check is returned again, the check shall be voided and the Distribution Agent shall instruct the issuing financial institution to stop payment on such check. If the Distribution Agent is unable to find a Payee’s correct address, the Distribution Agent, in its discretion, may remove such Payee from the distribution and the allocated Distribution Payment will remain in the Fair Fund for distribution, if feasible, to the remaining Payees.

69. The Distribution Agent will reissue checks or electronic payments to Payees upon the receipt of a valid, written request from the Payee if prior to the initial stale date. In cases where a Payee is unable to endorse a Distribution Payment check as written (*e.g.*, name changes, IRA custodian changes, or recipient is deceased) and the Payee or a lawful representative requests the reissuance of a Distribution Payment check in a different name, the Distribution Agent will request, and must receive, documentation to support the requested change. The Distribution Agent will review the documentation to determine the authenticity and propriety of the change request. If, in the discretion of the Distribution Agent, such change request is properly documented, the Distribution Agent will issue an appropriately redrawn Distribution Payment to the requesting party. Reissued checks will be void at the later of sixty (60) days from issuance of the original check or ninety (90) days from the reissuance, and in no event will a check be reissued after ninety (90) days from the date of the original issuance without the approval of Commission staff.

70. The Distribution Agent will work with issuing financial institution and maintain information about uncashed checks and any returned items due to non-delivery, insufficient addresses, and/or other deficiencies. The Distribution Agent is responsible for researching and reconciling errors and reissuing payments when possible. The Distribution Agent is also responsible for accounting for all payments. The amount of all uncashed and undelivered payments will continue to be held in the Fair Fund.

71. The Distribution Agent will make and document its best efforts to contact Payees to follow-up on the status of uncashed distribution checks over \$100 (other than those returned as “undeliverable”) and take appropriate action to follow-up on the status of uncashed checks at the request of Commission staff. The Distribution Agent may reissue such checks, subject to the time limits detailed herein.

72. At the discretion of the Distribution Agent, certain costs that were not factored into the Reserve, such as bank fees for the return of a payment, may reduce the Payee’s Distribution Payment. In such situations, the Distribution Agent will immediately notify the Tax Administrator of the reduction in the Distribution Payment.

Receipt of Additional Funds

73. Should any additional funds be received pursuant to Commission or Court order, agreement, or otherwise, prior to the Court's termination of the Fair Fund, such funds will be added to the Fair Fund and distributed, if feasible, in accordance with the Plan.

Disposition of Undistributed Funds

74. If funds remain following the initial distribution and payment of all Administrative Costs, the Distribution Agent, in consultation with the Commission staff, may seek subsequent distribution(s) of any available remaining funds. All subsequent distributions shall be made in a manner that is consistent with this Plan and pursuant to a Court Order.

75. A residual within the Fair Fund will be established for any amounts remaining after the final disbursement to Payees from the Fair Fund and the payment of all Administrative Costs (the "Residual"). The Residual may include funds from, among other things, amounts remaining in the Reserve, distribution checks that have not been cashed, checks or electronic payments that were not delivered or were returned to the Commission, and tax refunds for overpayment of taxes or for waiver of IRS penalties.

76. All funds remaining in the Residual that are infeasible to distribute to investors will be returned to the Commission and held pending a final accounting.

Administrative Costs

77. All Administrative Costs will be paid by the Fair Fund and reported to the Court in the final accounting of the Fair Fund referenced below.

Filing of Reports and Accountings

78. The Distribution Agent shall provide to Commission staff, a progress report, pursuant to and in a format to be provided by Commission staff, within forty-five (45) days of Court approval of this Plan, and shall provide additional progress reports within twenty (20) days after the end of every quarter thereafter, and a final report when its duties are completed. The Commission shall provide these reports to the Court upon request.

79. The progress reports shall inform the Court and the Commission staff of the activities and status of Fair Fund during the relevant reporting period, and once funds are transferred to the Bank it will specify, at a minimum: (a) the location of the account(s) comprising the Fair Fund; and (b) an interim accounting of all monies in the Fair Fund as of the most recent month-end, including the value of the account(s), all monies earned or received into the account(s), funds distributed to Payees, and any monies expended from the Fair Fund to satisfy any fees, costs, taxes and other expenses incurred in the implementation of this Plan.

80. Upon completion of all distributions to Payees and payment of all Administrative Costs, pursuant to the procedures described above, the Distribution Agent will submit to the Commission staff a final accounting, on a standardized form provided by the Commission staff.

The Distribution Agent will also submit a report to the Commission staff containing the final distribution statistics regarding distributions to individuals and entities, and such other information requested by the Commission staff. The final accounting report will include a recommendation as to the disposition of the Residual. If distribution of the Residual to investors is infeasible, the Commission may recommend the transfer of the Residual to the general fund of the U.S. Treasury subject to Section 21F(g)(3) of the Exchange Act.¹

Wind-down and Document Retention

81. The Distribution Agent will shut down the website, P.O. Box and customer service telephone line(s) established specifically for the administration of the Fair Fund six (6) months after the transfer of any remaining funds to the Commission, or at such earlier time as the Distribution Agent determines with the concurrence of the Commission staff.

82. The Distribution Agent will retain all materials submitted by Preliminary Claimants in either paper or electronic form for a period of six (6) years from the date of approval of a final accounting. Materials maintained in electronic form must be accessible and readable for the duration of retention. Pursuant to the Commission staff's direction, the Distribution Agent will either turn over to the Commission or destroy all materials, including documents in any media, upon expiration of this period.

Termination of the Fair Fund

83. The Fair Fund will be eligible for termination and the Distribution Agent will be eligible for discharge after all of the following have occurred (a) a final accounting, in a standard accounting format provided by the Commission staff, has been submitted by the Distribution Agent and approved by the Court; (b) all Administrative Costs have been paid; and (c) the Court has approved the Commission's recommendation as to the final disposition of the Residual.

84. Once the Commission staff has reviewed and accepted the final accounting, the Commission will petition the Court for an order, as appropriate, approving the final accounting, discharging the Distribution Agent, disposing of the Residual, and terminating the Fair Fund.

85. Once the Fair Fund has been terminated, no additional payments will be made whatsoever.

¹ Section 21F(g)(3) of the Exchange Act, 15 U.S.C. §78u-6(g)(3), provides, in relevant part, that any monetary sanction of \$200 million or less collected by the SEC in any judicial action brought by the SEC under the securities laws that is not added to a disgorgement fund or Fair Fund or otherwise distributed to victims, plus investment income, shall be deposited or credited into the SEC Investor Protection Fund.

Exhibit A

PLAN OF ALLOCATION

This Plan of Allocation is designed to compensate investors based on their losses on shares of The Children's Internet ("TCI") or, in some instances, shares of Two Dog Net ("TDN") received in place of shares of TCI (the "Securities"), purchased from the Defendants during January 1, 2002 and December 31, 2005, inclusive (the "Relevant Period").

Based upon records obtained by the Commission during its investigation, the Distribution Agent in consultation with Commission staff has identified those investors, or their lawful successors, who may have suffered harm from their purchases of the Securities from the Defendants during the Relevant Period (the "Preliminary Claimants"). Other investors in TCI or TDN are ineligible to recover under this plan.

The Distribution Agent will calculate each Preliminary Claimant's loss ("Recognized Loss") as the sum of the Preliminary Claimant's investments in the Securities, as reported in the records obtained by the Commission and analyzed by a third-party accounting firm engaged for the purpose, along with other documents and records.

Any Preliminary Claimant who suffered a Recognized Loss pursuant to this Plan of Allocation, and who is not an Excluded Party or an Unresponsive Preliminary Claimant, as defined in the Plan, will be deemed an Eligible Claimant.

Additional Provisions

Allocation of Funds: As the Net Available Fair Fund is less than the sum of the Recognized Losses of all Eligible Claimants, each Eligible Claimant's distribution amount will equal his, her or its "*Pro Rata Share*" of the Net Available Fair Fund, subject to the "Minimum Distribution Amount."

Pro Rata Share: A *Pro Rata Share* computation is intended to measure Eligible Claimants' Recognized Losses against one another. The Distribution Agent shall determine each Eligible Claimant's *Pro Rata Share* as the ratio of his, her, or its Recognized Loss to the sum of Recognized Losses of all Eligible Claimants.

Minimum Distribution Amount: The Minimum Distribution Amount will be \$10.00. If an Eligible Claimant's distribution amount is less than the Minimum Distribution Amount, that Eligible Claimant will be deemed ineligible to receive a Distribution Payment and his, her, or its distribution amount will be reallocated on a *pro-rata* basis to Eligible Claimants whose distribution amounts are greater than or equal to the Minimum Distribution Amount.

Payee: An Eligible Claimant whose distribution amount equals or exceeds the Minimum Distribution Amount will be deemed a Payee and receive a Distribution Payment equal to his, her, or its distribution amount. In no event will a Payee receive from the Fair Fund more than his, her, or its Recognized Loss.