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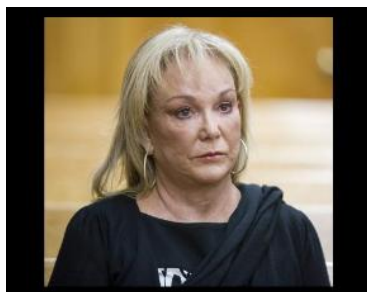
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Yellowstone Club Divorcee Entangled in Terrorist Software Suits

By Anthony Effinger - August 29, 2008 00:14 EDT



Edra Blixseth

Aug. 29 (Bloomberg) -- Edra Blixseth has come a long way since she and her husband, Tim, declared bankruptcy in rain-soaked Roseburg, Oregon, in 1986. He traded timberland. She had owned a chain of four restaurants called Choo-Choo Willy's.

Neither business could support their debts.

Today, Edra lives in a 30,000-square-foot (2,800-square-meter) mansion on an estate near Palm Springs, California, called Porcupine Creek. The house, complete with servants, is surrounded by a private golf course.

Porcupine Creek, a Gulfstream II, a 2004 [Rolls-Royce Phantom](#) and a [BMW 760](#) are some of the spoils of Edra's July divorce from Tim. After a 19-month long fight, she also got control of one big source of their wealth: a private Montana ski- and golf resort called the [Yellowstone Club](#), where the likes of Microsoft Corp. founder [Bill Gates](#), News Corp. President [Peter Chernin](#) and hotelier [Barry Sternlicht](#) have erected supersized chalets on lots that until the real estate crash sold for \$2 million and more.

The divorce is just one of a long list of legal skirmishes for Blixseth. She's battling to keep the Yellowstone Club afloat, and in August settled a two-year-old claim by club investors that she and Tim failed to fairly distribute the proceeds from a \$375 million business loan to Yellowstone from Zurich-based Credit Suisse Group.

Edra, 54, is also embroiled in a Reno, Nevada, lawsuit that makes the Montana case look like a missed putt on the Yellowstone Club's 7,200-yard (6,600-meter) [golf course](#).

Decoding Terrorists

She's dueling in court with [Warren Trepp](#), once a top trader for [Michael Milken](#), who alleges that Edra and a former partner of Trepp's in a software company stole computer code that purportedly could sift through broadcasts from Qatar-based news network Al-Jazeera and find embedded messages from terrorists. Edra tried to use connections to the Republican party to sell the software to the government for \$100 million, according to Michael Flynn, a lawyer who was once on Edra's payroll.

Flynn, 64, who spent much of the 1980s fighting the [Church of Scientology](#) on behalf of former members and journalists, says in court filings that he quit her employ after learning that the software was a sham.

The Trepp case is all cloak-and-dagger. The Federal Bureau of Investigation had a team of investigators working on it. Judges have sealed documents at the behest of U.S. intelligence agencies. Trepp says an e-mail was faked to make it appear that a U.S. congressman was bribed. A business associate of Edra's says he warned the U.S. government about an August 2006 plot to blow up jetliners over the Atlantic Ocean.

'Distraction'

Blixseth declined to discuss any of the legal squabbles in detail. In an e-mail to Bloomberg News, she said she's unfazed by the software controversy, calling it a "distraction." She appears in public now and again with new boyfriend [Jack Scalia](#), 56, a one-time professional baseball player and Jordache jeans model who starred on the soap opera All My Children.

Blixseth's focus these days, she says, is the Yellowstone Club. "I am excited about the future of the Club, and working toward restoring it is my No. 1 business priority," she said in the e-mail.

Blixseth spent the summer trying to calm members who were irked that she and Tim, 58, had fought so publicly over the club and had drawn out the legal fight with investors. "I have always felt that the Yellowstone Club is 'my baby,'" Edra wrote to members in a July 6 letter announcing that she had vanquished Tim and taken control. "I make a personal pledge to never let us waver again."

Fishing the Gallatin

The Blixseths started the Yellowstone Club in 2000 on 13,400 acres (5,400 hectares) of old logging land in the Madison Range north of Yellowstone National Park.

It's tucked into a valley adjacent to two other, less-exclusive ski resorts, [Big Sky](#) and [Moonlight Basin](#). Yellowstone members -- most of whom remain anonymous -- play golf and fish in the Gallatin, a river featured in the [Robert Redford](#) film "A River Runs Through It."

The Blixseths have lived large off the Yellowstone Club. The rich thronged to the resort, paying out \$205 million for 72 properties in 2005 alone -- most of them empty lots spread across wooded slopes.

That year, when high-end real estate looked like a sure thing, Credit Suisse gave the club a \$375 million loan to repay old debt and "fund a return of capital to the company's owners," according to a document describing the loan obtained by Bloomberg News.

LeMond Irked

Champion cyclist [Greg LeMond](#), an early investor in the club, says the Blixseths took \$209 million of the money as their return of capital and that other investors should have gotten a return, too. He filed suit in Montana state court in nearby Virginia City in May 2006.

During the Blixseths' divorce fight last year, Tim settled with LeMond, 47, and three other investors. He paid \$18 million, then missed a Jan. 31 deadline for a second and final \$20 million payment. The sides returned to court. After taking over the club, Edra settled the matter anew in August, paying another \$8 million and pledging \$13.5 million more by Nov. 15, according to settlement documents obtained by Bloomberg News.

Edra neither admitted nor denied wrongdoing.

LeMond and the three other investors have done well. They put up a \$750,000 down payment each in 2000 for an empty lot, a family membership and a 1 percent equity stake in the club itself.

In his complaint against the Blixseths, LeMond says he believes part of the Credit Suisse money went to help [Tim Blixseth](#) buy a 16-bedroom chateau in France for \$28 million, a golf resort on the Pacific coast of Mexico for \$40 million and property in St. Andrews, Scotland, for \$12 million.

High-End Network

They were to be part of a network of high-end time-share resorts called Yellowstone Club World. Members would pay \$3 million plus annual dues of \$37,500 to use them.

Yellowstone Club World is dead. The French chateau was listed for sale by [Mint Real Estate](#) in Los Angeles for \$60 million earlier this month, until Edra won it in the divorce and took it off the market for the time being, says Tracey Broadman, a broker at Mint. Another Yellowstone Club World property, a 30,000-square-foot mansion on a private island in the Turks and Caicos Islands, is still listed for \$55 million.

Tim declined to comment on the properties. Credit Suisse spokesman [Duncan King](#) said the firm had no comment on the loan.

Edra Crocker Blixseth says she's accustomed to conflict. Her first husband beat her, she says in a 1987 book called "Uncharged Battery" (Portland Entertainment Publishing), which was billed as a self-help guide for battered women. She describes how he pulled her around the house by the hair and, literally, walked on her.

Meeting Tim

Blixseth doesn't name her first husband and says she didn't press charges. Instead, she left him and met Tim Blixseth, who grew up poor in Roseburg. He worked in lumber mills during high school, developed a keen eye for timberland and made his first fortune buying and selling the wooded slopes of the Cascades. They married on May 21, 1983.

In her book, Blixseth describes another life trauma. She was in a hotel in Palm Springs shortly after marrying Tim. "I was laying on my bed watching TV, drinking a Coke and eating sunflower seeds (three of my favorite things to do)," she wrote.

A man knocked on the door, she opened it and he grabbed her by the neck. She fought her way outside and then punched, scratched and screamed as he tried to drag her back into the room. He ran off.

She and Tim prospered in the early 1980s. Then interest rates soared, and lumber prices tumbled. Continental Foodservice Co. sued Edra and Choo-Choo Willy's for an unpaid food bill of \$27,219.82. The Blixseths declared bankruptcy in 1986.

Threatened Bears

Tim then began accumulating land in southwestern Montana, just north of [Yellowstone National Park](#), intending to develop it. The U.S. Forest Service, eager to protect the elk and bears, offered to swap Blixseth's land for property it owned farther north. That land became the Yellowstone Club.

People who know Edra say she's decisive and analytical. Tim had the vision for the Yellowstone Club, and Edra made it a reality, the people say. She can be charming, though she swears like a Wall Street trader.

"F@*#N A!!!!!!!!!!!!!!!!!!!!!!," she wrote to Flynn after a victory in the software case.

Blixseth also has a crude sense of humor, the people say. She once gave vibrators to the wives of male business partners as Christmas presents, a person whose wife got one says. Edra declined to comment on the matter.

Code Warrior

Now that Tim and Edra have stopped tussling over the Yellowstone Club, life there may return to normal. The software fight, though, is still raging.

The computer code in question compresses digital video so it can be transmitted more efficiently. It also purportedly picks out patterns, such as targets for missiles or secret messages embedded in broadcasts. Its inventor, Dennis Montgomery, 55, says in court filings that the U.S. Air Force used the software on the [Predator](#), a drone aircraft used to track terrorists in Afghanistan and Iraq and sometimes fire missiles at them.

The two original actors in the drama were Trepp, the former trader at Drexel Burnham Lambert Inc., and Montgomery, a software designer and avid science-fiction-movie fan. Before meeting

Trepp, Montgomery had worked at 3Net Systems Inc., a Sacramento, California-based firm that made software to help hospitals run their laboratories.

In 1997, a casino host at the Eldorado hotel in Reno introduced the two men. Montgomery told Trepp he had software that could compress video images and search them and that he wanted to form a company. They planned to sell the software to casinos for video surveillance. Trepp and Montgomery formed a company in 1998 that later became [eTreppid Technologies LLC](#), headquartered in Reno.

Right Hand of Milken

Both men had tangled with the law in the past. Trepp went to work for Milken as a trader in 1979. A year later, he became head of high-yield-bond trading and sat at Milken's right hand at his X-shaped trading desk in Beverly Hills.

Drexel paid a \$650 million penalty for securities law violations and went bankrupt in 1990, and Trepp left for Lake Tahoe. The Securities and Exchange Commission in 1995 accused him of executing fraudulent bond trades back in 1986.

``Trepp's violations were egregious, recurring and intentional," Administrative Law Judge Carol Fox Foelak [wrote](#) in 1997. Even so, she dismissed the case, saying the SEC had waited too long to file it and that Trepp had done nothing else wrong in the interim.

Montgomery ran into trouble while working at 3Net, where a woman he supervised named Penne Page alleged in a suit against the company that Montgomery twice masturbated in front of her and asked if it ``turned her on" to watch him, according to a summary of her complaint in California Superior Court in Sacramento. The case was resolved without any admission of wrongdoing, according to Page's attorney, Chris Whelan.

No Comment

Montgomery declined to comment for this article. ``Talk to my attorneys," he said in a telephone call, then hung up.

Four years after it was incorporated, eTreppid got traction. In 2002, General Electric Co. licensed eTreppid's videotape search software to use in a product to be sold to casinos.

Two years later, the U.S. government awarded eTreppid a \$30 million, five-year contract to develop the code for what they termed ``automatic target recognition."

To demonstrate his product, Montgomery would set up a video camera in a field behind the eTreppid office in Reno. Then he'd hold up a replica of a bazooka. A computer running his code would pick out the weapon and highlight it on a monitor showing the feed from the camera.

Big Fan

One of eTreppid's biggest fans was U.S. Representative [Jim Gibbons](#), a one-time airline pilot who's now [governor](#) of Nevada. In September 2003, Gibbons was shown a demonstration of

eTreppid's technology at the Lake Tahoe home of a member of the Yellowstone Club, according to Flynn.

The following June, Gibbons, 63, put out a press release saying that he had voted for a defense appropriations bill that, he noted, included \$3 million for eTreppid.

In September 2005, Trepp told Montgomery that the U.S. government was ready to spend \$100 million on the video technology, according to a statement Montgomery filed in federal court in Reno in October 2006. Montgomery doesn't say which branch of the government was interested.

Edra Blixseth had no connection to eTreppid. She only got involved after 2005, when Trepp and Montgomery had a falling-out. According to a transcript of an FBI interview with Trepp in February 2006, one cause of the split was that Trepp had begun to question the extent of Montgomery's computer programming skills.

'Big Money'

Montgomery in December 2005 took disk drives containing eTreppid source code from the office and deleted copies of the code from all of the company's servers and workstations, according to eTreppid. To get it back, Trepp ``needs to give me big money," Montgomery told another eTreppid employee, the company claims.

Montgomery left eTreppid for good that January. ETreppid filed a report with the FBI and sued Montgomery in state court, winning a preliminary injunction preventing Montgomery from altering or transferring the code. That injunction was still in effect in late August. Blixseth and Montgomery are violating it, eTreppid says, by trying to sell the code.

In March 2006, then-U.S. Attorney [Daniel Bogden](#) became concerned that Montgomery might have taken classified data provided to eTreppid by the [Department of Defense](#). FBI agents raided Montgomery's house. Two days later, they searched his lockers at a local storage unit, carting off two dozen computer hard drives and almost 100 compact discs.

Countersuit

In January 2006, Montgomery hired Flynn, who countersued eTreppid, saying Trepp had infringed copyrights that Montgomery had on the code and that he had obtained them long before joining eTreppid. Flynn also went to federal court to claim the FBI raids violated Montgomery's Fourth Amendment right against unreasonable search and seizure. Federal Judge [Valerie Cooke](#) agreed and, on Nov. 28, 2006, overturned the search. Montgomery got his hard drives and CDs back.

Blixseth met Montgomery as a result of an investment she made in early 2006. A friend had introduced her to former Microsoft executive Michael Sandoval, who had just started a company called AziMyth LLC in Bellevue, Washington. AziMyth, now called [Atigeo](#), planned to build software to deliver targeted advertising and link users in social networks.

“I told Edra what we were doing, and Edra said, 'Hey, let's do a deal,'" Sandoval, 44, says. Blixseth invested \$10 million in an AziMyth subsidiary called xPatterns LLC, Blixseth says in court documents.

Microsoft Connection

Sandoval knew Montgomery from his Microsoft days. In 2004, he had traveled to Reno to talk to Trepp about a partnership. Trepp called in Montgomery to explain the technology, Sandoval says. Sandoval says the next time he heard from Montgomery was in early 2006, when he called Sandoval looking for work.

Sandoval introduced him to Blixseth, and the three of them decided to start another AziMyth subsidiary called Opspring LLC. Blixseth and her family members, excluding Tim, were the sole investors, contributing \$8 million.

She has since taken control of the company after a falling-out with Sandoval, whom she sued in Washington state court for allegedly misappropriating the money she invested in xPatterns. Sandoval denies any wrongdoing. Judge Joan DuBuque dismissed Edra's complaint on Aug. 22, saying it failed “to state claims upon which relief can be granted.”

Two days after the FBI searches, Montgomery asked Flynn to come to a meeting at Blixseth's Porcupine Creek estate. Sandoval says the meeting was to finalize Montgomery's employment contract.

Flynn says in court documents there was more involved. He was introduced to Blixseth and Sandoval at the meeting for the first time, and Montgomery told them about the \$100 million contract that was in the offing for eTreppid, Flynn says in an April 24 court filing that has since been sealed. Blixseth said she would use her Republican contacts to sell Montgomery's software to the government.

Donors

Since 2000, Edra Blixseth has given more than \$30,000 to Republican candidates, according to the Federal Election Commission. Tim has given about \$120,000. They've given through the club, too. In 2003, Yellowstone Development LLC, one of the two Blixseth-controlled partnerships that own the club, gave \$100,000 to a group called “[Arnold Schwarzenegger's Total Recall Committee](#), Vote Yes to Recall [Gray Davis](#).”

Blixseth pushed hard in Washington. Flynn says she told him she talked to Vice President [Dick Cheney](#), then-Defense Secretary [Donald Rumsfeld](#), then-Montana Senator [Conrad Burns](#) and Indiana Representative [Dan Burton](#) about the software.

James Hennigan, a spokesman for Cheney, says, “We do not comment on pending legislation.”

Rumsfeld and Burns didn't return phone calls. Burton says he knows the Blixseths, but that Edra never asked him for help selling software.

Terrorist Warning

In the middle of 2006, Montgomery says he used his software to uncover a plot by terrorists to use liquid explosives to blow up jetliners leaving London. He says he warned Cheney's office before British authorities thwarted the attack that August.

Montgomery made his claims in court declarations dated Oct. 30, 2006, and Feb. 23, 2007. Cheney's office declined to comment.

Even so, efforts to sell the software in Washington went nowhere, in part because the U.S. Air Force preferred to work with eTreppid. So Blixseth and Montgomery set out to discredit Trepp in the press, Flynn says.

Their method: an allegation by Montgomery that Trepp had bought support for eTreppid from Gibbons through bribery.

``Blixseth designed, engineered and implemented the media plan using Montgomery and the documents he took from eTreppid," Flynn says in a June 18 court filing.

The allegation was first reported by the Wall Street Journal on Nov. 1, 2006 -- just a week before the gubernatorial election in which Gibbons was the Republican candidate. The newspaper said that Trepp had given Gibbons unreported gifts and casino chips.

`Intoxicated'

The source, the newspaper said, was testimony in the civil lawsuit brought against eTreppid by Montgomery.

That testimony was unsealed by the federal court in Reno in late 2007. In a statement dated Oct. 30, 2006, Montgomery says, ``I have observed Trepp, once heavily intoxicated on a cruise, give Gibbons very large amounts of casino chips and cash."

The allegations, which Trepp and Gibbons deny, were heavily covered by the Nevada media. Gibbons won anyway.

The Wall Street Journal ran another story on Feb. 15, saying that federal prosecutors were investigating Gibbons. It cited an e-mail from eTreppid executive Len Glogauer to Trepp after then Representative Gibbons had helped with a contract.

Glogauer, the paper said, wrote: ``Jim really hit the ground running on that one. We need to take care of him like we discussed." Three months later, NBC News aired an [interview](#) with Montgomery on Today. NBC highlighted the same e-mail in its coverage.

Doctored E-mail

Trepp and Gibbons deny there was any bribery. In June 2007, after Montgomery submitted the Glogauer e-mail to the Nevada court as evidence, eTreppid filed an affidavit from a computer security expert named Jonathan Karchmer, who said he had examined traffic in eTreppid's e-mail system and that the sentence ``We need to take care of him like we discussed" wasn't in the original record and had been added.

``Those are dummied-up, fake e-mails," says Gibbons's lawyer, [Abbe Lowell](#) of McDermott Will & Emery in Washington. No criminal charges have been filed against Gibbons or Montgomery.

[Natalie Collins](#), a spokeswoman for the U.S. Attorney's Office in Nevada, says she can't comment on whether Gibbons is or isn't the target of an investigation.

Flynn says in pleadings that he stuck by Montgomery and Blixseth because he believed Montgomery's contention that Trepp was out to get his code.

Unsealed

Then, on April 9, 2007, U.S. District Judge [Philip Pro](#) in Reno unsealed all of the records in the case to the attorneys involved. Before doing so, Pro ordered the Department of Defense to redact items it wanted kept secret.

If Montgomery's software was valuable for tracking terrorists, the government wouldn't disclose it, Flynn says. In September, the judge opened the records to the public, and the world got its first look at evidence the FBI had gathered before searching Montgomery's house. It paints an unflattering picture.

One document is a report from an Air Force investigator on his interview with eTreppid employee Jesse Anderson on Jan. 24 and 25, 2006. Anderson says Montgomery asked him on about 40 occasions to help with the demonstrations of the company's software in which it identified the bazooka. Each time, Montgomery told Anderson to watch a video on his computer screen and when he saw a bazooka, to hit the A key. Another employee, James Bauder, described the same process, except he was instructed to hit the space bar.

Bazooka Fakery

Flynn's conclusion: The demonstration was faked, and his clients had been lying to him. Montgomery's software couldn't pick out the bazooka, or anything else, in a stream of video.

Flynn says in pleadings that his doubts about Montgomery were bolstered further by the fact that the FBI allowed documents to be released describing Montgomery's assertion that his software could detect ``noise" in Al-Jazeera broadcasts indicating terrorist attacks were imminent -- suggesting they didn't believe it.

On July 9, 2007, after 17 months, Flynn filed a motion with the court to withdraw as Montgomery's attorney. He also sued for unpaid fees. The judge ruled that Montgomery -- whose legal costs, according to Flynn, have been paid by Blixseth -- owed him \$629,000. He is seeking another \$380,000 in sanctions.

Blixseth declined to comment on the software's usefulness or on Flynn's accusations.

``Because litigation is pending, I cannot respond to these spurious and inflammatory allegations," she wrote in an e-mail. ``I also will not speculate on the motivations of those who may be furthering these inaccurate and counterproductive rumors. What I can tell you is that I

and my business associates have and always will operate with the highest legal and ethical standards as our priority."

Violated Order

The legal merry-go-round keeps spinning. ETreppid is pressing its case that Blixseth, Montgomery and Sandoval violated the Nevada court's preliminary injunction by trying to sell the software. Montgomery maintains through his lawyers that the software is his alone and very valuable. Few people know for sure because Montgomery has refused to produce the code in court.

Montgomery's lawyers at [Liner Yankelevitz Sunshine & Regenstreif LLP](#) in Los Angeles say the computer code can't be made part of any court record. ``The source code to be produced is among the very most sensitive of such material -- worth millions or tens of millions of dollars and easily copied if not protected," they wrote to the court on Aug. 4.

Judge Pro on Aug. 18 ordered Montgomery to pay \$2,500 a day in sanctions until he produces the code in court.

In her book for battered women, Blixseth paraphrases U.S. President [Calvin Coolidge](#): ``Nothing in the world can take the place of persistence. Talent will not, genius will not and education will not."

Blixseth fought for control of the Yellowstone Club and won. Now, she's fighting to protect Montgomery's software, even as he faces contempt charges. That may not be the kind of persistence that Coolidge had in mind, yet it may get her where she wants to go. It has so far.

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