

**Robb Evans, Receiver of
Equinox International Corp.,
Advanced Marketing Seminars, Inc.,
BG Enterprises, Inc.,
Related Corporations or Business Entities
and Certain Other Assets**

**REPORT OF RECEIVER'S ACTIVITIES
SEPTEMBER 1, 2000 THROUGH FEBRUARY 28, 2001**

This report covers the activities of the Permanent Receiver since his third report to the Court. This is the fourth report to the Court on the progress of the Receivership. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing the progress of the Receivership.

Business Operations

As previously reported, by September 30th, I had estimated that about 16 employees would remain working for the Estate. Eight of the remaining 16 employees were working on maintaining current distributor data. Now that the distributor's Claim Data has mostly been gathered, scanned and reviewed, the remaining work force has been reduced to 10 persons. Major tasks that remain include liquidating three major assets, completing the Claim Administration review process, resolving over \$12 million in claims filed by the Internal Revenue Service (IRS), and resolving or settling other remaining claims and pending legal actions. Another significant task is proposing and implementing a redress plan for aggrieved consumers and other Estate creditors, which will be the subject of a future noticed motion. Further details and comments follow.

Asset Evaluation and Sales

I previously completed an inventory of the Estate's assets as of April 20, 2000, when the Settlement Agreement was entered. Under Tab 1 is a non-cash asset inventory as of February 28, 2001 listing items sold since April 20, 2000 and items remaining in the Estate.

During this reporting period, many significant assets were sold or contracts for sale were completed. Sales included residences, ranch property, the Falcon jet aircraft, a large fishing vessel, injection molding machines, and other assets related to the International Purity (IP) manufacturing plant in Texas. I was also able to locate a buyer who paid \$1.375 million for the patent and remaining assets related to the Ultra-Violet water filter product, which was manufactured at the IP plant. I also completed liquidating the Section 419A Welfare Benefit Plan (419A Plan) for \$11.9 million. From the proceeds Bill Gould was paid \$6.316 million, the balance of the \$8.0 million due him under the April 20, 2000 settlement, except for \$84,500 withheld pursuant to the Stipulated Order Regarding Distribution of Funds.

All assets were sold in accordance with this Court's order of July 10, 2000 and subsequent orders approving the sale of the Falcon jet aircraft and the water filter patent. The selling prices for the La Jolla residence and ranch property were 117% and 114% of appraisal. Two smaller homes sold for 154% and 138% of appraisal. The Falcon jet aircraft and the large fishing vessel sold for 91% and 100% of appraisal, well above the Court required minimum. The major remaining assets being liquidated are the 17,500 SF residence in Boca Raton, Florida, the 116 foot Norship yacht, the 89,000 SF IP manufacturing facility in Texas, art, jewelry, and four non-liquid investments. Further details on the net value of the Estate follow.

I am proceeding with the liquidation of the Equinox-owned business in Mexico and Taiwan. These two countries require special and specific liquidation procedures, which are being completed for Equinox by local accountants and lawyers. These liquidations do not produce any revenue and have created considerable legal and accounting expenses. However, the level of expense is significantly decreasing, and the liquidation process should be complete for both countries during the summer months.

Consumer Redress

As previously reported, I entered into an arrangement with The Garden City Group, Inc. (Garden City) to perform the printing, mailing, and data entry and document control functions of the Consumer Redress process. Garden City has just finished scanning and entering data for the last of the 65,000 claims from former distributors. The total number of claims at 65,000 is about 14% of the 481,000 claim information packs mailed, compared to the 15% to 20% projected response. The total dollar value of the 65,000 claims, before further analysis and approval of the claim amounts over \$13,000, is \$346 million.

While Garden City was completing its tasks, my staff concurrently reviewed and verified, or requested additional data or support for, all claims with Revised Net Purchases 20% greater than the amount of Net Purchases furnished from the company records. Soon I will request that the Court approve the claim administration completed to date, set a Claims Bar Date for other creditors, and approve a claims objection procedure. I also will request approval of procedures related to claims for Net Business Expenses or Net Purchases over \$13,000. I will also recommend an increased payment for distributors who returned products but did not receive an Equinox refund.

The Consumer Redress program cannot be completed, however, until the remaining claims and legal actions, and over \$12 million in claims filed by the IRS, are resolved. Furthermore, the fee claims for Class Counsel and others are not resolved.

Remaining Claims and Pending Litigation

Much of the litigation detailed in my last report either has been settled, is inactive and expected to be dismissed, or is covered by insurance with an affordable deductible. Estimated liability for litigation under these circumstances should not exceed \$250,000 to \$300,000.

However, three claims, one with an action filed, are for substantial amounts and are not covered by insurance. An action filed claiming breach of contract may result in a claim for as much as a million dollars, although I strongly dispute the validity of the action. Discovery is proceeding and resolution is several months away or longer. Another claim, without an action filed, is also for breach of contract. It was originally stated to be for \$1.2 million. However there has been no contact or other activity from the claimant in several months. The last claim, without an action filed, is also for breach of contract. No amount has been stated but my associates believe the claimed amount could be several hundred thousand dollars. I believe these two claims will be resolved during the claims process.

Internal Revenue Service Issues and Other Tax Claims

The IRS has filed claims for approximately \$12 million, disallowing substantially all the deductions taken by BG Management to fund the 419A Plan. The IRS is claiming \$3,821,745 from BG Management and \$8,105,213 from Bill Gould. Mr. Gould asserts the Settlement Agreement provides him indemnity from any such tax claims. I have not agreed to any such indemnity.

My attorneys, with participation from the Federal Trade Commission (FTC) and Bill Gould's attorneys, have been discussing the claims with revenue agents and attorneys from the IRS. The Estate, IRS, the FTC, and Bill Gould have discussed seeking a resolution of the amount claimed in the Justice Department because of the competing nature of claims from two agencies of the U.S. government. If no resolution is reached, the Estate intends to vigorously oppose the claim in this Court.

Before the liquidation process of the 419A Plan was completed, the parties and I successfully reached an agreement to cancel about \$1.8 million in additional termination and death benefits. I believed and had claimed that these benefits

were put in place without authorization. I am still reviewing other financial elements and expenses of the 419A Plan to be certain they were proper and authorized, and analyzing whether any third party liability may exist as a result of the potential tax claim.

As a result of a net operating loss carry back claim of \$8,570,362 from the tax year ending February 28, 1999 to the tax year ending February 28, 1997, which resulted in an income tax refund of \$2,892,784, Equinox became subject to an automatic Joint Committee on Taxation (JCT) audit. With respect to this audit, Equinox was notified of the commencement of administrative proceedings on November 29, 2000. Based upon the facts and circumstances of the company's closure, liquidation proceedings, and Consumer Redress program in conjunction with detailed narrative and financial data provided to the IRS, the examining agent has elected to forego the field audit and has recommended the tax return be accepted as filed.

As of February 27, 2001, the case was being reviewed by the Joint Committee Coordinator in San Francisco and will be forwarded to the Joint Committee in Washington, D.C. upon completion. It is unknown when this audit will be concluded. I am unable to determine at this time whether the Joint Committee will accept the recommendation or make an additional assessment.

As a result of a net operating loss carry back claim of \$4,296,967 from the tax year ending December 31, 1997 to the tax year ending December 31, 1995, which resulted in an income tax refund of \$1,223,567, Advanced Marketing Seminars, Inc. was subject to an automatic JCT audit. The audit resulted in deductions of \$300,000 disallowed and an additional tax liability of \$105,010 plus interest. The JCT concluded the audit in February 2000. I submitted an Offer in Compromise for \$12,000 to the Service on July 12, 2000. On December 11, 2000, the IRS, for the following reasons, rejected the Offer in Compromise:

1. The IRS asserts that it could collect a larger amount than I offered.
2. The IRS does not consider it in the government's best interest to accept the Offer.
3. The IRS asserts that its claims are not subordinate to the Consumer Redress claimants.

I have not agreed with the IRS position, and the claim remains pending.

The IRS recently filed an additional claim against Equinox International, Inc. for about \$28,000, and the claim remains pending.

As a result of a field audit, Equinox was assessed an additional sales tax liability of \$109,490 on June 27, 2000 by the City and County of Denver, Colorado. This was adjusted downward to \$74,329 on July 26, 2000. On September 1, 2000, the case was referred to the City Attorney's office for review and assignment. On October 19, 2000, the assessment of \$75,426, which includes penalty and interest through October 20, 2000, became final. The City Attorney is aware of the Receivership and, as of this writing, has not contacted the Receiver to pursue payment of the assessment. It is unknown whether I will be able to settle this matter for less than the assessment. The claim remains pending.

Net Asset Value of the Estate

In my third report through August 31, 2000 I projected a range of remaining funds for the Consumer Redress program of \$23.7 million to \$30.8 million, not including expenditures made after August 31, 2000. After expenses and loan payoffs through February 28, 2001, but before future expenses, I now believe the range of remaining funds will be \$26 million to \$32.2 million, an improvement over the previous estimates.

The range represents the sum of cash on hand plus the estimated net proceeds from the sale of the three remaining major assets, art, jewelry, and four non-liquid investments. These high and low figures continue to represent our updated estimate of the "most likely best case" and "most likely worst case". Variables on either side of the range are possible, but not expected.

However, previously described uncertainties remain about resolving over \$12 million in claims by the IRS, other potential tax liabilities, remaining claims and pending litigation, the future administrative expenses, and the sales

amounts for the remaining assets. Furthermore, the fee claim for Class Counsel and others is not resolved. Consequently, it is not now possible to accurately predict the net asset value of the Estate and the ultimate funds available for Consumer Redress.

Sources and Uses of Funds: March 1, 2000 through February 28, 2001

Under Tab 2 is a statement of cash inflow and outflow for the period after February 28, 2000, the date used to estimate the value of assets turned over to the Receivership Estate. As the statement shows, net cash receipts of \$35 million were evenly divided during the two six-month periods. However, of the total expenditures made from March 1, 2000 through February 28, 2001, 72% were made in the first six-month period and only 28% were made in the second six-month period. Cash payments for expenses and loan payoffs were \$7.1 million in this second six-month period, compared to \$18.2 million in the previously reported first six months.

By vacating the corporate premises and distribution center, and reducing staff, corporate expenses reduced dramatically in the second period. Because of the early payoff of \$4.3 million of loans against unsold partnership assets (the 116 foot Norship yacht and the 89,000 SF IP manufacturing facility) partnership expenses appeared to increase during the second six-month period. Under Generally Accepted Accounting Principles, which are not appropriate for this schedule, partnership expenses would have decreased by about \$750,000. The early payoff of the two loans reduced potential interest expense by \$81,000 per quarter.

Receivership Expenses paid increased by \$126,000 over the first six-month period. The increase was caused by legal expenses that were \$200,000 greater than those incurred in the first six months. These legal expenses were incurred in, among other things, successfully recovering \$1.8 million of unauthorized 419A Plan benefits, closing the airplane and water filter patent sales, challenging Class Counsel's fee claim, and analyzing and negotiating the IRS tax claims.

Financial Report

Under Tab 3 is the Receiver's Financial Report of Administration Expenses for the period beginning April 20, 2000 and ending February 28, 2001.

Conclusion

I request that:

- This Report be approved.
- I be authorized to pay the indicated accrued fees and expenses owing myself.
- My actions in making other payments and taking such other actions described in this Report be confirmed.

Respectfully submitted,

<SIGNED>
Robb Evans
Receiver
