

**ROBB EVANS**  
**Temporary Receiver of Equinox International Corp.,**  
**Advanced Marketing Seminars, Inc.**  
**and BG Enterprises, Inc.**

**REPORT OF RECEIVER'S ACTIVITIES**  
**AUGUST 6, 1999 THROUGH AUGUST 12, 1999**

This report covers the activities of Robb Evans, the Temporary Receiver, since the Temporary Receiver's appointment and includes the description of Equinox's business activities as set forth in the Court's Order.

**Custody, Control, and Possession**

On August 6<sup>th</sup>, at approximately 4:00 p.m., I entered the Equinox headquarters facility and served the Order on the companies' senior management. Mr. Gould was not present. I enlisted the cooperation of senior management to facilitate an orderly transition of control of the business to the control of the receivership. The companies' senior management agreed to cooperate and assemble the staff to announce my appointment as the Temporary Receiver. Management publicly pledged cooperation with me and asked all employees to show the same level of cooperation. At approximately 4:30 p.m., my staff entered and took control of the companies' separate warehouse facility. The warehouse staff members participated in a telephone conference with my staff and the companies' senior management with the same message that was delivered at headquarters.

At both locations, my staff took custody of master keys and full access security cards. A pre-arranged security service then assumed twenty-four hour control of exterior doors at both locations. My staff members then conferred with the company's head of security and participated in deactivating the swipe card access system. Later, my staff arranged for a locksmith experienced with the company's premises to change all external locks. Only my staff members and my retained security service have exterior access.

Company management provided my staff with information on company bank accounts and my staff served the Temporary Restraining Order on the banks. In order to facilitate continuance of certain operations to preserve the value of the company, my staff instructed the banks to acknowledge the Temporary Receiver's ownership and control, but also instructed the banks to honor certain outstanding checks. Later, I established separate operating and money market accounts and transferred funds not required for daily operations to those accounts.

After reviewing records and interviewing key personnel on Saturday, August 7<sup>th</sup> and Sunday, August 8<sup>th</sup>, I issued instructions to be put in place beginning Monday, August 9<sup>th</sup>.

All employees were notified that, pending further instructions from the Court, the company was not able to:

- Accept orders for, or ship products
- Confirm the status of future seminars and other training events
- Process requests for product refunds or returns

### **Assets and Resources**

The three Receivership Defendant companies employ approximately 168 persons located in a 74.5 thousand square foot three story headquarter building and a 109.5 thousand square foot single story warehouse.

As previously described, I took control of the bank accounts. Under Tab 1 is a schedule of those accounts, including the new accounts I established.

Under Tab 2 are August 11, 1999 financial statements for the three Receivership Defendant companies based on the companies' books. Below is a summary of the financial information in thousands of dollars (\$000's)

|                               | <u>Equinox Int'l</u> | <u>AMS, Inc.</u> | <u>BG Mgt.</u> |
|-------------------------------|----------------------|------------------|----------------|
| Total Assets                  | \$26,522             | \$5,341          | \$1,028        |
| Total Liabilities             | \$6,870              | \$782            | (\$1)          |
| Net Worth                     | \$19,653             | \$4,559          | \$1,029        |
| <br>                          |                      |                  |                |
| Total Revenue                 | \$28,127             | \$5,555          | \$4,594        |
| (5 months except BG 7 months) |                      |                  |                |
| Net Income                    | \$3,137              | (\$371)          | \$2,604        |

Upon taking control of the premises, my staff met with company's management information systems manager. Because computer equipment totals more than \$10 million on the balance sheet and the software includes complex programs to manage the business, all remote access to the system was disabled. Under Tab 3 is a description of the computer systems, which was prepared by the management information systems manager.

Inventory is carried on company balance sheets at 3.7 million. After learning that there has not been an inventory count since February 1999 I directed that a complete inventory be conducted. That process began on August 10<sup>th</sup> and the count was completed on August 12<sup>th</sup>. Company officers project that all adjustments to the inventory accounting system will be completed by August 13<sup>th</sup>.

## **Business Activities**

### Consumers Participating in Equinox's Marketing Program as of August 6, 1999

Data prepared from the company's Active 20/21 network marketing software system (Tab 4) shows there are 147,209 distributors, of which 44,978 or 31% are considered active. Active distributors are those who have orders exceeding \$100.00 within the last six months. Following is a breakdown by category of active participants:

|                                  | <b><u>Total<br/>Active</u></b> | <b><u>Percent of<br/>Category Active</u></b> |
|----------------------------------|--------------------------------|--|
| Representatives                  | 25,921                         | 28%  |
| Manager                          | 9,708                          | 32%  |
| Supervisor                       | 6,123                          | 33%  |
| Director                         | 3,162                          | 51%  |
| Executive Marketing Director     | 52                             | 43%  |
| International Marketing Director | 12                             | 31%  |
| Total                            | 44,978                         | 31%  |

### Money Received from and Distributed to Program Participants

The company's Active 20/21 network marketing software system reportedly is not capable of providing total orders placed by program participants. The program does provide information about participant earnings detailed below. The company's general ledger shows that for year ending February 28, 1999 and for the four-month period ending June 30, 1999, sales totaled \$48.1 million and \$28.1 respectively. For the same periods, participant rebates and bonuses totaled \$23.9 million and \$9.1 million respectively.

The company's Active 20/21 network marketing software system was able to provide total earnings, the number and percent of earners, and average earnings from July 1997 through June 1999 (Tab 5). The information indicates that while the number and percent of earners has declined, average earnings have increased from \$268.06 in 1997 to \$529.99 in 1999.

Also under Tab 5 is a twelve-month summary of distributors by title and the percentage of those distributors earning the full bonuses eligible for that title. The data shows the following:

- Less than 1.75 percent of managers and supervisors are earning the full bonuses for which they are eligible.
- For directors, between 2 and 4 percent earn all eligible bonuses.
- Executive directors have between 60 and 90 percent of their category earning all eligible bonuses.
- International marketing directors have between 30 and 50 percent of their category earning all eligible bonuses.

#### Role of William Gould and Other Officers and Directors

We have not had sufficient time to determine the role of Mr. Gould. It has been reported to me by other company officers that his activities for the past year have focused on recruiting, live and video training, and conducting seminars. It has also been reported to me that Mr. Gould does not maintain a regular schedule at the headquarters. Based on our initial observations and discussions, the other corporate officers hold and carry out traditional corporate duties.

#### **Agreement to Resume Some Business Operations**

Under Tab 6 is an agreement reached between the parties on August 11<sup>th</sup> to resume some business operations. Also under Tab 6 are directions I issued to all staff to implement the agreement between the parties.

Unfortunately, there was some confusion among company officers about having the authority to place a press release with a quotation on the company website. On August 12<sup>th</sup>, I directed the press release be removed from the website and company officers complied with my directive.

#### **Temporary Receivership Staffing**

On August 6<sup>th</sup>, I took control of the companies with the assistance of twelve of my staff. Two of my staff were Las Vegas based and remainder were based in California. As of August 11<sup>th</sup>, my onsite presence was reduced to my two Las Vegas based staff and one California based staff.

Respectfully submitted,

Robb Evans  
Temporary Receiver