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Re: SEC v. Global Online Direct, Inc. et al

PRELIMINARY REPORT OF THE CORPORATE MONITOR

BACKGROUND

The attached Preliminary Corporate Monitor's Report (the "Report") details the findings of Michael A. Grassmueck, Corporate Monitor, in regards to the following case citation:

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff

v.

GLOBAL ONLINE DIRECT, INC., BRYANT E. BEHRMANN and LARRY "BUCK"
E. HUNTER

Defendants.

Case No. 1:07-CV-0767

On April 5, 2007, Michael A. Grassmueck was appointed Corporate Monitor for Global Online Direct, Inc. ("Global"), a Nevada corporation. This is the Preliminary Report of the Corporate Monitor for this matter.

The Court entered an order enjoining Global, and all persons in participation with them, from: (1) Selling securities by any means or under any circumstance including, but not limited to, the use of a prospectus; (2) Carrying securities or causing securities to be carried for the purpose of sale or for delivery after sale; (3) Using any means or form of interstate commerce, the mails, or any form of communication to offer to sell or offer to buy securities, by prospectus or otherwise, without having such securities registered with the Commission; (4) Destroying, transferring or otherwise rendering illegible all books, records and other documents employed in any of the Defendants' business, which reflect any of the Defendants' business activities or which reflect the transactions described in the Commission's Complaint.

The Court further ordered the Corporate Monitor to: (1) Monitor the sales or disposition of inventory, merchandise, products, assets or things of value in the possession, custody, or control of Global; (2) Monitor and review all bills or invoices sent to Global; (3) Determine names, addresses and contact information for all Investors, all persons and/or entities utilized by Global to generate funds and/or receive revenue for the disposition of previously held inventory, and all entities from which Global purchased or otherwise obtained inventory; (4) Determine the principle amount invested with and/or loaned to Global by all Investors, and any amounts paid by Global to any Investors; (5) Determine the amount of funds used by Global to purchase or otherwise obtain Inventory, and the current location of such Inventory.

Within three days of the entry of the Order, the Defendants were to provide the Monitor and Commission counsel a sworn statement identifying all accounts at any financial institution that are either (a) in any of the Defendant's name; (b) that any of the Defendants controls; or (c) in which any Defendant has an interest. The Monitor has yet to receive this sworn statement from Defendants.

In accordance with the Order, Global was also to immediately arrange, through the relevant financial institutions, for the Monitor to be designated as a party entitled to receive, upon request, past and present periodic and interim statements for all bank, depository and brokerage accounts in which Global has or had any beneficial interest. This task has yet to be completed as of the date of this report.

Finally, within three days of the entry of the Order, Global was to establish an escrow account, and fund that account with \$50,000, to be used to pay the fees and expenses of the Monitor and of the advisers and experts hired or retained by the Monitor. Global provided evidence that a new bank account was set up for this purpose on April 12, 2007. Hunter, Berhmann and Shale Witt are all signatories on this account. It is the Monitor's opinion that this is not the equivalent of an escrow account as the Defendants would have unfettered access to the funds. Furthermore, the Monitor has not received any notice that this account has been funded with the initial deposit of \$50,000.

SCOPE OF THIS REPORT

This Report is based upon the Monitor's investigation and analysis performed to date. The Monitor has completed a multitude of tasks including, but not limited to; tour of Global's facilities and operations as located in La Grande/Union area, requests for and review of operational and financial documents for Global, research regarding Global's

operations, meetings and interviews with selected Global employees, and interviews of numerous third parties associated with the operations of Global.

The Global principals and employees have been cooperative and cordial with the Monitor Team and attempted to meet the Monitor Team's request as feasible.

At this time, the Monitor is still in the process of assimilating the various financial and operational documents provided. *Additionally, the Monitor has requested certain items that have not been provided as of the date of this report.*

In accordance with the Order, the Monitor will issue supplemental reports to apprise the parties of the Monitor's duties completed and ongoing investigation.

GLOBAL ONLINE DIRECT, INC. OPERATIONS AND FINANCIAL

GLOBAL'S OPERATIONS

History

Global began operations in approximately October 2005. Hunter and Behrmann, shareholders of Global, assert they intended to make a profit from the purchase and resale of retail surplus inventory as well as items acquired through garage sales and similar means. The basic business model is a cross between that of Big Lots¹ (albeit not on the same scale) and a flea market-type operation.

Some of the inventory purchased for resale by Global approximates the quality of items sold by Big Lots. However, much of the Inventory is of a quality inferior to that of surplus retailers. In fact, in Global's early existence, inventory was predominately acquired through garage sales and similar outlets. The Company's inventory consists of an indiscriminate assortment of lower quality new items, used and returned retail items and garage sale items. Some of the inventory viewed by the Monitor and his team was of such poor quality that it required extensive repair before it could be resold. Finally, certain portions of the inventory acquired by Global are not fit for resale and are either donated or thrown away.

To date, Global has sold inventory on consignment through a handful of retail outlets. These business relationships have been conducted on atypical terms. For example, Global set up a retail operation in Pendleton, Oregon where Global is responsible for all operating costs excluding labor. In exchange Global theoretically receives the profits less a sizeable commission for the store operator.

Additionally, Global has run some online auctions on eBay and similar sites to resell its inventory. The Monitor reviewed limited transactions from this business element. At this time, Global has suspended all online auctions.

¹ Retailer with over 1,400 stores in 47 states focused on selling closeout and overstock merchandise.

“Business in a Box”

Global’s principals, Hunter and Behrmann, have attempted to launch a new business concept they named “Business in a Box.” The premise behind Business in a Box is that Global would provide, *on consignment*, a box of disparate merchandise to an individual or entity in the United States and Canada. The suggested retail value of the merchandise in the box is intended to exceed the cost of the box, thereby allowing the purchaser to make a profit on eventual resale. Global would theoretically profit from pricing the cost of the box of goods much higher than the price Global actually paid to obtain the merchandise. Global’s profit, however, is dependant upon the payment by the individual or entity in accordance with the “honor system.” Examples of “Business in a Box” manifests are attached as Exhibit F to this report.

The Business in a Box program is also intended to operate a referral system, i.e. multi-level-marketing² system. Referrals are paid for up to 10 generations. Referral fees are paid on the wholesale cost (amount due to Global) of each purchase when the purchasers pay their invoices. Referral fees range from 5% (first level) to 0.25% (tenth level) of the wholesale cost, potential aggregate fees of 13.5%.

Global’s new program, Business in a Box represents Behrmann and Hunter’s proposed method of using the inventory on hand to generate enough revenue to repay at least the principle amount deposited by all Investors. However, as discussed below, there is no indication of even rudimentary cash flow projections or business plans indicating that this is a viable business opportunity.

OTHER

Global has also invested funds in other claimed business opportunities for the resale of its inventory. For example, it has been purported that Global intends on commencing a QVC-type or auction operation promoting specific products via television and/or webcast. The Company has expended significant funds in the development of a studio and related equipment. Additionally, the Company has contracted with a third party for the production of such pieces. Yet, at this time this venue is only in the “proof of concept” stage and the studios are largely a work-in-process. Furthermore, the Monitor has not seen any evidence that Global purchased any television spots.

Financing

Hunter and Berhmann did not have adequate capital to fund Global’s initial operations or inventory purchases, so they fashioned the Secured Profit Inventory Program to raise the necessary capital. The Secured Profit Inventory Program is discussed in detail later in this report. With a portion of the money obtained from lenders, Global began purchasing inventory for sale through the aforementioned retail outlets, and later, for the Business in a Box program.

² A sales system under which the salesperson received a commission on his or her own sales and a smaller commission on the sales from each person he or she convinces to become a salesperson. www.investorwords.com, April 15, 2007.

Personnel

Global leases all employees from SMW Enterprises, Inc. (“SMW”), an Idaho corporation formed August 17, 2006. SMW is wholly owned by Shale and Mark Witt, the daughter and son-in-law of Hunter. SMW covers all payroll and associated costs and is reimbursed by Global. The Monitor has requested, and not yet received, a copy of the contract between SMW and Global. For report purposes, these will be referred to as Global employees.

Most of the Global employees claim that they began working for the Company in January 2007. A large percentage of the administrative personnel is comprised of family and friends of Hunter and/or Berhmann. During the Monitor’s interviews with the employees, several of them reported having left well paying jobs and relocating to the La Grande/Union area to help operate Global’s expanding business. Because nearly all of the administrative staff has only been on the job for approximately three months, there is a high level of claimed uncertainty amongst the employees about Global’s day to day operations prior to January 2007. Of the managerial and operational personnel, relatively few have a background in business or experience in operations of this nature and magnitude.

FINANCIAL HIGHLIGHTS

Generally, Global’s finances dating from October 2005 to date can be “roughly” summarized as follows.

Total Owed to “Lenders” Under SPIP	\$264,746,797
Total Cash Inflows from “Lenders”	\$45,666,766
Total Cash Disbursements to “Lenders”	\$14,366,736 ³
Total Due-Upon-Demand Available to “Lenders”	\$17,354,265
Total “Draws Pending” Due to “Lenders”	\$30,340,423
Total Amount of Inventory Purchased	\$2,000,000
Total Inflows from Sales	unknown; immaterial
Total Gross Profit from Sales	unknown; immaterial
Total Pre-Tax Profit	unknown; immaterial
Total Cash Outflows for Real and Personal Property	unknown; material
Total Cash Outflows for Operations	unknown; material
Total Cash Outflows to Shareholders	unknown

³ Not all paid out in cash. Some of these amounts were rolled over in SPIP accounts.

Assets

During the course of its operations, Global has accumulated various assets as described in the following section.

Cash

As of April 6, 2007, Global Online had just over \$800,000 in its bank accounts. A preliminary review of the limited accounting and bank records indicates that approximately \$50 million has passed in and out of Global accounts.

Accounts Receivable

Global does not have a sufficient mechanism in place to track accounts receivable or funds due to the Company for consignment sales. As such, Global often relies upon the purchaser to report actual sales and remit the proper amount to the Company. The Company believes that certain retailers have inaccurately reported gross sales and/or remitted the improper amount of funds for goods shipped. Global has ceased shipping of inventory to certain retailers due to these problems.

Global also provided Global Online Direct of Canada (“Global-Canada”) start up capital, in the amount of \$150,000, and inventory on consignment. It is my understanding that Global-Canada is a Canadian corporation wholly owned by Shawn Zurback and Sean Haynes. To date, Global-Canada has not remitted any funds to Global for repayment of the working capital advance or inventory provided on consignment.

Inventory

Global has provided the Monitor with a list of all inventory purchases made by Dr. Lawrence Madoff, an independent contractor handling Global’s purchasing function. According to this list, inventory purchases totaled approximately \$1.8 million. Additionally, Hunter claims that Global has purchased an additional \$150,000 to \$200,000 of inventory from garage sales and other sources. As such, the estimated total for inventory purchases is \$2 million.

Global has provided the Monitor with some invoices supporting inventory purchases. The Monitor has not had time to review these invoices and validate against the list of purchases provided.

Global does not have an appropriate inventory tracking or management system at this time. The Company has attempted to prepare manifests for new inventory pallets received but the process does not appear to be complete. Given the lack of a genuine inventory management system, it is difficult, if not impossible, to assess what inventory the Company still possess in its warehouses and the value of the inventory.

Fixed Assets

Over that past year and half, Global has acquired a potpourri of fixed assets. These assets include fixtures and equipment for the office and warehouse operations,

numerous trailers, a tractor-trailer; vehicles, and numerous parcels of real property in the cities of La Grande and Union.

Vehicle titles have not yet been provided to the Monitor. However, it has been represented that most vehicles acquired are titled in Global's name.

Global has also acquired at least 10 parcels of land located predominately in La Grande and Union, Oregon. Total funds expended on these properties aggregates to \$2 million to \$3 million. This does not include construction and development costs for the properties. Also, the Company has deposited \$50,000 on a planned warehouse in Nevada.

Liabilities

Global's primary liability is the amount due to lenders and other participants under the Secured Profit Inventory Program. Refer to subsequent report section "Investors/Lenders" for a detailed discussion of the Secured Profit Inventory Program and the amounts due to third parties.

The Monitor has not been presented with evidence of any other significant debts or liabilities. Global has operated on primarily a cash basis and, as such, there is no procedural accrual for operating accounts payable.

Income and Expenditures

At this time, Global does not have a complete accounting system in place. Employees are currently in the process of compiling the historical accounting records, thus attempting to get the records current. While the Monitor has reviewed the records currently available, it would require significant resources to determine the actual revenues and expenditures from Global's operations.

Attached as Exhibit D to this report is a list of all payments from Global's bank accounts equal to or greater than \$10,000. The Monitor Team has merely compiled this list from the incomplete accounting data provided by Global personnel. Therefore, this list is not complete and will require revision as additional data becomes available.

INVESTORS/LENDERS

SPIP PROGRAM

In October 2005 or earlier, Global launched the Secured Profit Inventory Program (or "SPIP").⁴ In short, the Company was accepting loans from individuals, predominately in Canada and the United States, to raise working capital. Global stated that these loans were secured by inventory and that the inventory would be liquidated in order to retire the related debt when it matured. The loans had a term of 365 days.

⁴ The Monitor has also seen this referred to as the Secured Profit Interest Program.

Throughout the life of this program, Global has utilized a customized database to track account balances, commissions, interest earned, withdrawals, and other data pertinent to the SPIP. The Corporate Monitor Team has discussed the database at length with the third party contractor, Glenn Haecker, responsible for its customization and upkeep. The lender data provided within this report was predominately derived from the database.

The SPIP database was linked to Global's website and recorded entries from various forms on the website. The database is currently hosted on a server in Hong Kong but is backed up four times a day to a server within the United States.

INTEREST RATES

Throughout the life of the SPIP, lenders were offered a myriad of interest rates dependent upon the amount and timing of their investment. The following table illustrates the varying interest rates offered to prospective lenders.

loan_type	Name	Plan	Loan Amount		Daily Rate
			Minimum	Maximum	
4	GLOBAL DIRECT STARTER PROGRAMS	COPPER Start-up	\$10.00	\$99.99	0.20%
4	GLOBAL DIRECT STARTER PROGRAMS	BRONZE CLUB	\$100.00	\$199.99	0.25%
4	GLOBAL DIRECT STARTER PROGRAMS	SILVER CLUB	\$200.00	\$299.99	0.35%
4	GLOBAL DIRECT STARTER PROGRAMS	GOLD CLUB	\$300.00	\$499.99	0.50%
5	THE PRESIDENT	PRESIDENT CLUB	\$500.00	\$4,999.99	0.75%
6	THE DIAMOND LOAN PROGRAM	TOP KATT	\$5,000.00	\$9,999.99	0.85%
7	THE PLATINUM LOAN PROGRAM	THE BIG DAWGS CLUB	\$10,000.00	unlimited	1.00%
14	SPIP Loan Program	President	\$500.00	\$4,999.99	0.13%
14	SPIP Loan Program	Diamond	\$5,000.00	\$9,999.99	0.25%
14	SPIP Loan Program	Platinum	\$10,000.00	unlimited	0.50%

Interest rates for loan types 4 - 7 were available from the SPIP inception through October 21, 2006. From October 21, 2006 through March 2007 loan type 14 interest rates were in place.

Interest was calculated on a **daily** rate, as presented above, and only calculated for work days, approximately 260 days per year. Lenders had the option of choosing simple interest or compound interest. If lenders chose the compound interest option, then neither the loan principle or loan interest would be available for withdrawal until the end of the loan term, 365 days. Conversely, under the simple interest option, the interest earned could be withdrawn before the end of the loan term.

BONUSES

In addition to the extraordinary interest rates, Global also offered bonuses to lenders for most of the SPIP duration. In the first few months of the program, lenders were offered a bonus of 50-100%. From February of 2006 through October 21, 2006, lenders were offered a 25% bonus on their loans.

In essence, lenders were provided an incremental bonus to their loan principle during this time period. For example, if a lender provided a \$10,000 loan during the 25% bonus period, the principle amount of said loan was automatically increased to \$12,500. All future interest would be calculated on the principle balance of \$12,500.

REFERRAL COMMISSIONS

The SPIP was also a form of multi-level marketing. As such, there was a detailed referral program comprised of four tiers:

Tier One – 25% Commission
Tier Two – 5% Commission
Tier Three – 3% Commission
Tier Four – 2% Commission

As such, any loan that was generated via referral resulted in a minimum commission of at least 25%. The referrer would receive a credit to their SPIP account for 25% of the referred loan principle. Given the combination of tiers, a loan could result in commissions payable in the amount of 35% of the referred loan principle.

The “invite only” promotion of the SPIP program generated an extensive referral network. Exhibit E to this report indicates the Top 100 referrers for the U.S. and Canada per the SPIP database.

EXTERNAL V. INTERNAL MONEY

The complexity of the various intricacies incorporated into the SPIP program requires a definition of “external” and “internal” monies.

External Money

External money is defined as any money actually provided to Global. The receipt of external money would result in actual deposit of cash for the Company.

Internal Money

Internal money is defined as SPIP funds generated from the various program aspects. For example, the 25% bonus added to a program participant’s account would be deemed internal money. Or, a referral commission credited to an account would be deemed internal money.

Program participants had the ability to rollover their loans or other account balances. For example, if a participant received referral commissions, they were provided the option of rolling these commissions over into a new loan (in lieu of commission payments).

In summary, internal monies are monies that increased account values through means other than actual deposits into Global bank accounts.

CURRENT SPIP ACCOUNTS

SPIP Account Details

Exhibit A to this report presents various data regarding the current SPIP accounts. The data reported in Exhibit A was extracted from a current backup (04/12/07) of the SPIP database. The following is a summary of the salient facts from Exhibit A:

- The SPIP database currently contains 9,834 accounts; accounts may reflect individuals and/or "pooled" groups of individuals.
- **9,403 accounts have "active loan values". There are 11,694 active loans in the SPIP database. The aggregate of these "active loan values" is \$264,746,797. According to the database, this is the value of loans currently due to all participants if the SPIP paid out as promoted.**
- **8,122 accounts have a "raw principle" balance. The aggregate of the "raw principle" balances is \$45,666,766. This implies that Global received actual investments/loans totaling \$45,666,766.**
- 3,677 accounts have an "account balance" aggregating to \$17,354,265. The "account balances" are amounts available for distribution (not on hold or subject to loan term restrictions).
- **3,342 accounts received "commissions" aggregating to \$27,701,519.** These are commissions earned per the referral commission program described above. Not all commissions have been paid out. Some participants have elected to rollover their commissions into new loans or just maintain an account balance.
- 2,860 accounts have "draws pending" aggregating to \$30,340,423. These are withdrawals that have been requested but not processed.
- **1,370 accounts have "draws complete" aggregating to \$14,366,736. This is the reported amount of payout from the SPIP. The draws include repayment of loan principle, interest earned, commissions, bonuses, and other monies earned by SPIP participants.**

Note that the SPIP database contains accounts for all participants including those who do not have loans. For example, some participants may have accounts containing commissions but do not have any active loans.

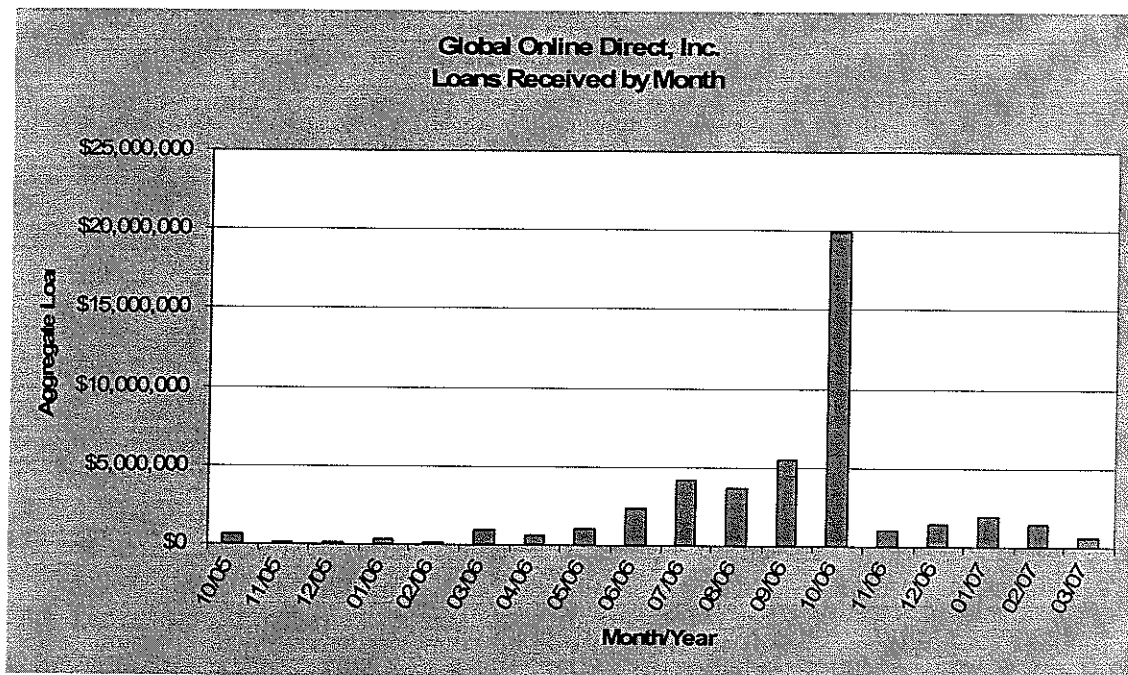
Investor/Lender Contact Information

Exhibit B to this report contains contact information for all participants of the SPIP program as reported in the database. This data was typically collected via input by the SPIP participant on the Company's website. Note that the account numbers on Exhibit B directly correlate to those account numbers on Exhibit A. Furthermore, Exhibit B contains contact information for all SPIP participants, lenders, referrers and other.

Telephone numbers were not originally requested as part of the SPIP member sign-up process. Some participants have provided telephone numbers but this number is embedded in other database fields. However, during the course of the member audit, additional participants have provided telephone numbers.

Timing of Deposits

Exhibit C to this report details the date and amount of “raw principle” deposits (approximating \$45,666,766) for the loans listed on Exhibit A. The following chart summarizes the principle deposits by month as reported in the SPIP database.



RECONCILIATION OF LOAN AMOUNTS

Preceding and during the Corporate Monitor's investigation, it was represented numerous times that the actual loan dollars received by Global approximated only \$16 million. The Corporate Monitor has collected data from multiple sources in an attempt to authenticate this amount.

As mentioned above, the SPIP database indicates that approximately \$45.6 million was received from lenders. This amount was calculated by Glenn Haecker as the original database did not track principle loan amounts and was only designed to track the current loan values. As such, Mr. Haecker performed various queries and calculations to estimate the “raw principle” amount based upon the various aspects of the loan program. Mr. Haecker's calculations accounted for numerous variables including, but not limited to, the effective interest rate at loan origination, the effective bonus at loan origination, rollovers, and commissions. Mr. Haecker has stated that there is an 8-10% margin for error due to various factors.

Pursuant to the SEC investigation, Global has undertaken a member “audit” (Company’s terminology) in order to verify the actual amount of loans received. At this point, the audit is approximately 70% complete. Participants have verified approximately \$33.9 million in “raw principle” to date. Mr. Haecker has extrapolated this amount to arrive at an estimated total “raw principle” of \$48.5 million. Once again, Mr. Haecker projects approximately a (+/-) 10% margin for error considering numerous factors. This was an electronic survey and participants have not been asked to provide supporting documentation for their loans.

The Corporate Monitor was not provided with a complete set of accounting and/or bank records for Global. However, the Corporate Monitor Team reviewed the bank records provided in attempt to determine the total amounts for bank deposits and withdrawals. A review of the accounting and bank records provided indicates that Global received total deposits in excess of \$50 million from January 2006 through March 2007. The Monitor acknowledges that various inter-account transfers may inflate this number⁵, and concurrently, the records are incomplete thereby understating total deposits. Regardless, of these ancillary issues, it is apparent that the activity as reported on **the available financial records tends to corroborate the notion that total investor/lender deposits approximate \$45 million to \$50 million.**

SAMPLE LOAN CALCULATIONS

Given the aforementioned terms of the SPIP program, I have prepared a brief table summarizing the expected return to lender utilizing different loan assumptions. The following table summarizes the various assumptions employed and the resultant values.⁶

Loan Type	Principal Loaned	Bonus	Interest Rate	Account Value at End of 365 Day Term	Implied Rate of Return
100% Bonus, Compounded at 1% Daily	\$100,000	\$100,000	1.00%	\$2,658,197	2558.20%
25% Bonus, Compounded at 1% Daily	\$100,000	\$25,000	1.00%	\$1,661,373	1561.37%
100% Bonus, Simple Interest at 1% Daily	\$100,000	\$100,000	1.00%	\$720,000	620.00%
25% Bonus, Simple Interest at 1% Daily	\$100,000	\$25,000	1.00%	\$450,000	350.00%

As evidenced by the calculations above, the loan terms provided were extraordinarily lucrative. Given the excessive rates of return, it is difficult to comprehend how Global would have ever repaid its loan commitments under the terms promised.

Note that the above calculations do not take into to account the additional monies due to SPIP participants for referral commissions. These monies could exponentially increase Global’s liabilities under the SPIP.

⁵ Throughout the duration of Global’s operations, certain financial institutions elected to close Company accounts due to the atypical transaction history. As such, Global had transferred the remaining balances into new accounts.

⁶ An interest rate of 1% was selected for this example as that was the program rate offered until October 2006. Most monies were received under this rate.

PRELIMINARY FINDINGS

EXPERIENTIAL RESULTS

The following Findings and Observations are derived from empirical analysis that provided objective conclusions. They do not necessarily comprise the universe of findings, but are sufficiently illustrative for the reader's consideration in order to reach conclusions consistent with my observations.

Further, the experiential results reflect the conclusions that parties with similar skill, knowledge, experience, education and training would reach upon their review of Global Online Direct's operations.

- **Lack of Internal Financial Controls-** Defendants failed to implement even basic internal financial controls appropriate for Global's business and financial characteristics. Examples of such failures include:
 - Lack of Basic Financial Record Keeping – Incomplete books and records were provided to the Monitor. It is my understanding the preparation of these books was recently undertaken. As such, the following information was not available:
 - Complete accounting system to account for funds received and expended.
 - Tracking and reconciliation of inter-account transfers.
 - Routine bank reconciliations for the numerous bank accounts.
 - Sufficient detail on numerous checks, wire transfers and cash deposits received by the Company.
 - Sufficient detail on numerous withdrawals and use of Company funds.
 - Asset List
 - Incomplete Bank Records – Global does not have a complete set of bank records at this time. It is evident that not all bank statements are present. Additionally, the Company does not currently possess copies of cancelled checks, wire transfer confirmations, deposit details, and other necessary bank data. Until all of this data is obtained, compilation of a complete set of accounting records will be virtually impossible.
 - Failure to Track Individual Deposits – Although limited information is available for the 9,403 accounts with “active loan values”, the information does not achieve the minimum level of fiduciary accountability or reporting expected for consumer “lenders.”

- **Failure to File Income Tax Returns** – No tax returns have been filed for the calendar years ended December 31, 2005 or 2006. This is understandable (although unacceptable) given the lack of reliable accounting records. Additionally, it is evident that Global paid many individuals as independent contractors. There is no evidence that Federal Form 1099s have been filed as appropriate for these payments.

- **Lack of Basic Cash Management System** – It is evident that Global has not implemented even a basic cash management system. Global is unable to provide the Monitor with any past or future cash flow projections and states that none have been prepared. Furthermore, given the lack of formal accounting records, it is apparent that Global was managed on a “balance in bank” basis.

Without a formal cash management system, it is difficult to assess the burn rate⁷ for the start-up phase of this business. A start-up business must constantly monitor its burn rate and cash flow to insure that sufficient working capital levels are maintained.

- **Lack of a Formal Business Plan** – The Monitor has been presented with various verbal renditions of Global’s business plan and profit projections. However, it is clear that even a basic business plan has not been drafted, including any form of meaningful financial projections.

- **Lack of Proper Personnel in Place** – Global has consistently filled key managerial and operational positions with family members and friends rather than employing qualified personnel. Additionally, many of these employees appear to be overcompensated given their qualifications, level of experience and the actual services provided.

VIABILITY OF GLOBAL AS A GOING CONCERN

Based upon the evidence reviewed to date, the Monitor has serious reservations regarding Global’s ability to continue as a going concern. The key findings resulting in this conclusion include, but are not limited to, the following:

- **Lack of Infrastructure** – As discussed above, Global lacks the financial controls, inventory management system, key personnel and operational structure to successfully operate as purported. Putting these items in place would require the expenditure of significant additional resources (time and money). Although Global has been in operation since late 2005, it is apparent that the process of creating this infrastructure was just recently undertaken. As Global has apparently already expended most of its capital raised, it is doubtful that the Company has the necessary resources to correct these flaws.

- **Lack of Adequate Working Capital** – Global purports to have approximately \$800,000 left in its bank accounts.⁸ Global has approximately \$800,000 left in its

⁷ The rate at which a new company uses up its venture capital to finance overhead before generating positive cash flow from operations. In other words, it’s a measure of negative cash flow. www.investopedia.com

bank accounts. The prospects of Global obtaining any third party financing are extremely remote given the Company's current financial structure and operations. Furthermore, Global's principals, Hunter and Behrmann, have represented that they do not significant capital to infuse in the Company. Therefore, Global's total available working capital is approximately \$800,000.

For the past three months, January through March 2007, Global's cash outflows averaged nearly \$2,000,000 (excluding the repayments to SPIP participants). At this rate, Global has less than one month of cash reserves remaining.

Even with significant reductions in the cash outflow, it does not appear that Global has enough working capital to successfully launch its Business in a Box program as planned. As with any start up business, success is not obtained overnight. As such, the Monitor expects that it would take multiple months to actually liquidate or turnover the saleable inventory, **assuming** that the Business in a Box is a feasible business model. Furthermore, the consignment sale aspect of the Business in a Box model would further delay any expected cash flows by at least a month.

- **“Business in a Box” And Other Distribution Channels** – It has been represented to the Monitor that the Business in a Box model is the future of Global. The Company has also discussed other distribution channels for its inventory but has provided negligible evidence of any prior financial success. In fact, many of Global's prior business ventures appear to have been terminated as the Company has experienced difficulty collecting its receivables.

As previously discussed, the Business in a Box program is primarily the wholesale distribution of inventory to various third parties for resale. The inventory is typically sold on consignment, i.e. the buyer does not remit payment to Global until the product is resold. Additionally, the program is to implement a multi-level marketing referral system resulting in potential aggregate referral fees of 13.5% off the wholesale price (Global's revenues).

Global currently has a limited production facility in place where employees unpack pallets, sort saleable inventory, price inventory and then repack said inventory into boxes for wholesale distribution, hence the term “Business in a Box”. There are minimal, if any, guidelines as to how inventory is priced or boxes put together. Attached as Exhibit F to this report are some sample manifests for boxes prepared in the Business in a Box program. As evidenced by Exhibit F, boxes often contain a potpourri of inventory items ranging in price from under a dollar to hundreds of dollars. The intent is for the aggregate box price to range from \$200 to \$1,000 dollars, which would be sold to the purchaser on consignment. There appears to be minimal logic as to why certain items are selected for inclusion in a box.

⁸ The Corporate Monitor has not been provided sufficient data to document and/or analysis the “source and use” of Global's funds or to determine whether all funds received are properly accounted for.

The Monitor has three primary concerns regarding the Business in a Box model:

1. Global is overly optimistic regarding the attainable profit margin for each box. The Company is unable to determine how much was paid for most of the inventory it has on hand and, due to inadequate financial controls, the Company has demonstrated a nominal understanding of its variable and fixed costs. As such, any estimate of profit on inventory sold is nothing more than mere speculation.
2. Although Global represents an extremely high demand for its inventory, the Monitor has reservations regarding such claims. The boxes appear to be a potpourri of products and the price points for said products appears to be high for the proposed distribution channels.

Global intends on posting box manifests on its website and letting the buyer decide which boxes he or she will purchase. This appears to be an extremely time-consuming process for the buyer considering the sheer volume of manifests to peruse (potentially thousands). The selection of the proper manifest, coupled with ultimate promotion and resale of the inventory purchased would require significant resources from the buyer without equivalent prospects for a return on investment (Global has stated that wholesale prices will be anywhere from 10-20% less the suggested retail price, the reseller's profit).

3. The "sale on consignment" aspect of this program deeply concerns the Monitor. The Company has presented evidence of prior consignment sale arrangements that have gone awry. Global provided data regarding transactions with Taylor Auctions (Tacoma, WA) and Global-Canada. It appears that in both instances, Global shipped inventory to these entities with little, or no, control over the inventories shipped, value of said inventory, and the amount of payments received. The Company has subsequently ceased shipments to these entities, but poor inventory management and financial controls from the onset have left Global with nothing more than highly suspect accounts receivable.

These prior arrangements were on a larger scale, and as such, the Monitor fails to understand how mass reproduction of this business model on a smaller scale will achieve more desirable results. Global's plan is to gradually increase credit lines for good customers and discontinue sales to non-paying customers. Additionally, the Company plans to run credit checks on all potential buyers. However, the Monitor believes that this will only result in additional upfront costs for the program. Ultimately, the Business in a Box model will have to rely upon "the honor system" as the Company will have little recourse against the buyer for non-payment. The costs of pursuing these bad debts across North America would likely exceed any potential for recovery.

The presence of any single abovementioned factor could be detrimental to the success of a business. Consequently, the collective presence of all factors causes the Monitor to seriously question Global's ability to continue as a going concern. The Monitor doubts that the Company has adequate working capital to complete one cycle or turn of its inventory, not to mention perpetual cycles into the future.

SOLVENCY ANALYSIS

Based upon my findings and observations to date the Company appears to be insolvent.

Solvency is nearly universally defined as, "...a company's ability to meet the interest costs and repayment schedules associated with its long-term debt obligations."⁹ Specifically, the State of Oregon states, "A debtor is insolvent if, at a fair valuation, the sum of the debtor's debts is greater than all of the debtor's assets."¹⁰

Solvency analysis is applied by testing the three following categories:¹¹

- **Balance Sheet Test** – Used to determine whether, at the time of the transaction, a company's asset value (valued as a going concern) was greater than its liability value.
- **Cash Flow Test** – Used to determine whether a business entity incurred debts that would be beyond the debtor's ability to pay as such debts matured.
- **Adequate (Reasonable) Capital Test** – Used to determine if an entity was engaged in a business or a transaction for which it had unreasonably small capital.¹²

Balance Sheet Test

The Balance Sheet Test is used to determine whether, at the time of the investigation, a company's asset value (valued as a going concern) was greater than its liability value.

As previously discussed in this report, Global's primary *known* liability is the amount due to lenders under the SPIP. According to the SPIP database, the current value of active loans is approximately \$264.7 million and the principle received on these loans is approximately \$45.6 million. Regardless of which amount (account value or principle received) is utilized for the Balance Sheet Test, the estimated fair market of value of all *known* Company assets is a fraction of the liabilities due. As such, Global fails the Balance Sheet Test.

Cash Flow Test

The Cash Flow Test is used to determine whether a business entity incurred debts that would be beyond the debtor's ability to pay as such debts matured.

As discussed above and based upon on the evidence provided, it appears that Global is unable to generate sufficient cash flow to continue as a going concern, and

⁹ Anthony, Robert N., Management Accounting: Text and Cases, (Richard D. Irwin, Homewood, IL – 1964), page 301.

¹⁰ Oregon Revised Statutes, 95.210.

¹¹ Reilly, Robert F., and Schweih, Robert P., The Handbook of Advanced Business Valuation, (McGraw-Hill Irwin, New York 2000), page 340-342.

¹² Dorrell, Darrell D. and Gadawski, Gregory A. "Valuation In Solvency Analysis," National Litigation Consultants' Review, (Litigation Consultants, LLC – Vol. 3 Issue 2, July 2003).

consequently, unable to repay its debt requirements as they mature. Compounding the issue, if the SPIP participants were to continue accruing interest under the program terms, the value of active loan accounts would increase exponentially prior to their maturity dates. As such, Global fails the Cash Flow Test.

Adequate (Reasonable) Capital Test

The Adequate Capital Test is used to determine if an entity was engaged in a business for which it had unreasonably small capital. The Adequate Capital Test is related to the Cash Flow Test in that if a company has adequate capital, it will be able to pay its debts as they come due and will have the capital to run its business under a wide range of financial circumstances and economic conditions. The Adequate Capital Test is intended to determine whether a company is *likely* to survive, assuming reasonable business fluctuations in the future, again based upon a substantive business plan.

As previously discussed in this report, it is apparent that Global does not possess adequate capital to survive the near term, moreover, continue as a going concern. As such, Global fails the Adequate Capital Test.

PONZI SCHEME INDICIA

During the Monitor's investigation and fulfillment of duties as set forth in the Order, the Monitor Team has encountered indicia of a Ponzi Scheme defined as follows:

- **Ponzi Scheme** – Generally defined as an illegal business practice in which new investors' money is used to make payments to earlier investors. A simple investment scam rakes in as much money as possible and then disappears. A Ponzi stays in business by turning some of the money back into the game. A few conspicuous rewards early on will whip up interest, the business will grow, and then, if they're smart and lucky, the operators will split.

Everyone involved pretends to mount a legitimate organization, but little or no commercial activity takes place. Payoffs are made from the pool of investor funds; the rest is siphoned into operators' pockets. Schemes may run for at least a year. Some Ponzis have flourished for a decade or more.

In accounting terms, money paid to Ponzi investors, described as income, is actually distribution of capital. It's like giving away the store. Instead of sharing profits, you're sharing cash reserves.¹³

- **Ponzi Schemes** – A type of illegal pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. Ponzi thought he could take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons. Ponzi told investors that he could provide a 40% return in just 90 days compared with 5% for bank savings accounts. Ponzi was deluged with funds from investors, taking in \$1 million during one three-hour period—and this was 1921!

¹³ Fraud Examiners Manual. (Association of Certified Fraud Examiners – 1998). P. 1.1740.

Though a few early investors were paid off to make the scheme look legitimate, an investigation found that Ponzi had only purchased about \$30 worth of the international mail coupons.

Decades later, the Ponzi scheme continues to work on the "rob-Peter-to-pay-Paul" principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses.¹⁴

- **Ponzi Scheme** – A fraudulent investment operation that involves paying abnormally high returns ("profits") to investors out of the money paid in by subsequent investors, rather than from net revenues generated by any real business, named after Charles Ponzi.¹⁵

The various Ponzi Scheme indicia encountered during the fulfillment of Monitor's duties include, but are not limited to:

- **Initial investors are paid with subsequent investors' money** – Global has represented that all draws paid to SPIP participants are paid upon the liquidation or sale of inventory. However, the lack of formal accounting records makes it impossible to distinguish between deposits from loan proceeds versus sales. It appears that these amounts have been indiscriminately commingled.

A review of the incomplete accounting records reveals that almost \$6 million has been paid to SPIP participants. The Monitor Team has not been provided any data indicating that Global has generated sales close to this amount.

- **Masquerading as some type of investment** – The SPIP has been advertised a loan program "secured and backed by actual product inventories".
- **Abnormally high returns** – As illustrated above, loan return rates ranged from hundreds to thousands percent.
- **Payoffs made from the pool of investor funds while the remainder is siphoned into operators' pockets** – Due to the general lack of accounting and bank records, it is difficult to determine the ultimate use of most Company funds withdrawn. Nonetheless, there is evidence that Global's principals and other key personnel received significant funds from Company accounts. At this time, no evidence has been provided to illustrate the business purpose of these withdrawals.

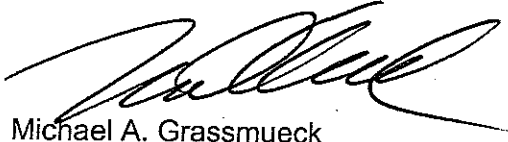
CLOSING

The Corporate Monitor appreciates the opportunity to submit this Preliminary Report, and will keep the parties apprised of progress on the subsequent actions as detailed within the Order.

¹⁴ <http://www.sec.gov/answers/ponzi.htm>

¹⁵ <http://en.wikipedia.org>

With professional regards,

A handwritten signature in black ink, appearing to read 'Michael A. Grassmueck', written in a cursive style.

Michael A. Grassmueck