

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

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

Defendants.

Civil Action No. 1:07-CV-0767-WSD

**FIRST APPLICATION OF FINANCIAL FORENSICS FOR PAYMENT OF
FEES AND EXPENSES AS ACCOUNTANTS TO RECEIVER**

Financial Forensics, forensic accountants to Michael A. Grassmueck ("Receiver") brings this first fee application ("First Application") for professional fees and costs incurred between June 4, 2007 and April 30, 2008 ("First Application Period"). Detailed billing statements of the fees and expenses requested by Financial Forensics are attached hereto as Exhibit A.

I. BRIEF INTRODUCTION

By order dated June 4, 2007 (the "Order"), Michael A. Grassmueck was appointed Permanent Receiver of Defendant Global Online Direct, Inc. and its subsidiaries and affiliates ("Receivership Estate"). The Receiver was charged with

taking possession of and maintaining the assets and records for Global Online Direct, Inc. (or “Global Online”) for the benefit of investors.

The Receiver’s and the professionals’ activities during the First Application Period have been focused on locating and obtaining assets and records for the Receivership Estate, and administering the estate assets, which include accounts, vehicles, inventory, personal property, real property, and third party claims. The Receiver and his professionals inspected and took control of real property and offices, reviewed records, interviewed and/or deposed numerous individuals to locate assets and records, reconstructed accounts, traced transactions and funds, issued multiple subpoenas to collect financial and other data in order to locate assets and reconstruct financial records, obtained authority from the court and sold the inventory at auction, obtained authority to sell selected parcels of real property, completed and accounting of Global Online, and evaluated and pursued third party claims.

In the Receiver’s Reports issued during July 2007 and January 2008, the Receiver provided the Court with detailed information concerning his activities and the progress of the receivership. Additionally, the Forensic Accountants’ Report as of March 31, 2008 detailed the historical transactions for Global Online and forensic analysis of the same. Financial Forensics was involved in much of the activity reflected in these reports. As such, the description of much of Financial Forensics’ work is reflected in those reports and not repeated here.

II. EMPLOYMENT OF PROFESSIONALS

In accordance with the Order, the Receiver engaged certain professionals to assist in operation of the receivership in connection with the Companies and

Individual Defendants and in otherwise implementing the provisions of the Order, including:

- Allen Matkins Leck Gamble Mallory & Natsis LLP (“Allen Matkins”):
general receivership counsel for Receiver; and
- Financial Forensics: forensic accountants to the Receiver

III. SUMMARY OF WORK

Given the complexity of this receivership, Financial Forensics’ work has been segregated into the following categories:

- a) General Receivership Matters
- b) Reconstruction of Records
- c) Preparation of Information for Reports
- d) Analysis of Companies’ Financial Position and Results
- e) Transaction and Asset Tracing
- f) Interviews and Depositions
- g) Data Collection and Review
- h) Claims Against Third Parties
- i) Services/Information Sharing with Government Agencies

As detailed below, the Receiver’s, Financial Forensics’, and Allen Matkins’ services involved ongoing extensive investigation and analysis of many issues, review of tens of thousands of documents including electronic media, securing of assets and development of processes for sale of assets and realization of proceeds

therefrom. Set forth below is a description by general matter of Financial Forensics' activities through April 30, 2008.

a) General Receivership Matters

As detailed in the attached invoice, Financial Forensics has been assisting Michael A. Grassmueck since the date of his appointment as Receiver to the Companies. As such, this engagement has included many tasks that can only be classified as General Receivership Matters.

After the Receiver's appointment, Financial Forensics was onsite at the Global Online offices to assist the Receiver in securing the premises. The initial objective was to secure all computers, insure that key documents remained on site, and review source documents.

While the documents onsite were not voluminous, they did include some accounting records, corporate records, investor records, legal documents, communications and other documents pertaining to operations. The review of these documents assisted the Receiver in determining the status of the corporate records, location of possible corporate assets, and what items need to be addressed during the course of the receivership.

Immediately upon appointment of the Receiver, Financial Forensics assisted the Receiver in contacting all financial institutions that the Companies and Defendants were known to have dealt with during their duration. The financial institutions were asked to search for all accounts in the name of Companies or Defendants and provide the Receiver with the status of each account. If there were open accounts in any of the Defendants' names, then a freeze was requested on the account in accordance with the Order. If balances remained in corporate accounts, Financial Forensics worked with the financial institution and Receiver's office to

coordinate the transfer of these balances to the Receiver. This process insured that the Receiver had exercised due diligence in attempting to identify all possible bank accounts and obtained control over corporate funds.

b) Reconstruction of Records

As discussed in our Forensics Accountants' Report dated March 31, 2008, sparse financial records were available to the Receiver upon appointment. The records that were available at Global Online's offices were grossly inadequate thereby requiring the Receiver's team to obtain the necessary records to complete the accounting from other sources.

Financial Forensics worked closely with Allen Matkins in order to obtain the necessary financial records from various financial institutions to produce meaningful financial reports. This involved perpetual communications with the financial institutions as well as multiple rounds of subpoenas.

After obtaining a significant amount of these records, Financial Forensics entered all transactions into a software tool in order to produce meaningful accounting records (i.e. general ledgers, balance sheets, income statements) for the Companies and comprehensive database of transactions. This process entailed the following activities: (1) manual entry and review of over 20,000 transactions; (2) conversion of data and import into accounting software; (3) reconciliation of intercompany and interaccount transactions due to immense commingling of funds; (4) and, an overall review of the data files for completeness and reconciliation of material accounts. Additionally, Financial Forensics incorporated data from other third parties (investors, vendors, etc.) to assist in the identification and classification of transactions.

It should be noted that Global Online had over 20,000 financial transactions in approximately one year and a half. This is an inordinately large number of transactions for such a short time period. The majority of these transactions pertained to the operation of the Secured Profit Inventory Program (or "SPIP"). In fact, over half of these transactions were investor deposits. As such, the collection and reconstruction of accounting records was a resource intensive task. Financial Forensics expended approximately 554 hours (\$84,000 in fees) on this task alone. These are costs that would have been avoided had the Defendants maintained and produced the appropriate financial and accounting records.

c) Preparation of Information for Reports

Financial Forensics assembled key financial data for inclusion in the Receiver's Interim Reports and Forensic Accountants' Report. The type of financial data assembled varied depending on the purpose of each report.

Receiver's Interim Report and Accounting. The Receiver filed his Interim Reports in July 2007 and January 2008. Financial Forensics, along with Allen Matkins, assisted the Receiver with the assembly and summarization of the facts and circumstances conveyed within these reports.

Forensic Accountants' Report. Financial Forensics prepared the Forensic Accountants' Report filed March 31, 2008. This report detailed our findings resulting from our engagement as forensic accountants for Michael A. Grassmueck.

As part of this report, Financial Forensics prepared consolidated financial statements for Global Online from 2005 through date of the receivership. Preparation of these financial statements was possible through the extensive collection and reconstruction of accounting records as detailed above.

Additionally, key findings from forensic accounting analysis were presented within the Forensic Accountants' Report including Investor Funds Flow, transaction analysis and other investigative techniques.

Finally, Financial Forensics worked with the Receiver to prepare schedules detailing the current financial position of the receivership. This included beginning (as appointment date of the Receiver) and current (as of the report date) Statements of Financial Position and a summary of all cash receipts and cash disbursements throughout the course of the receivership.

d) Analysis of Companies' Financial Position and Results

Immediately after appointment of the Receiver, Financial Forensics assisted the Receiver in ascertaining the viability of Global Online. Upon completion of the accounting, Financial Forensics performed an overall review of the data and, utilizing various forensic accounting investigative techniques, derived key findings to assist the Receiver with reporting requirements and administration of the estate. Additionally, these findings were shared with the government agencies to assist them with various investigations into the Companies and Defendant.

e) Transaction and Asset Tracing

As detailed in the attached bills, Financial Forensics has continuously provided the Receiver and his counsel with requested support in asset tracing and transaction flows. During the short course of their existence, Defendants had utilized approximately 16 bank and investment accounts located at 13 different financial institutions. The duration of these accounts typically spanned a few months. The vast number of bank accounts and financial institutions created a convoluted transaction flow and made it difficult to trace cash receipts and disbursements for the entities.

Financial Forensics prepared a database to assist in management of the transactions. The database facilitated searches, extractions and other analysis critical to clarification of the transaction flow and process of asset tracing. Additionally, countless documents were reviewed and assimilated in order to obtain a coherent understanding of the flow of transactions.

f) Interviews and Depositions

Financial Forensics participated in numerous interviews and depositions of Defendants and other witnesses. Financial Forensics performed background research and analysis to assist counsel with questioning and Financial Forensics often participated in the questioning process.

g) Data Collection and Review

Financial Forensics assisted the Receiver and counsel with the collection and review of third party data in addition to the financial institution documents. This includes the review of all records maintained at the Global Online, documents produced by Defendants, documents obtained from other third parties, and data obtained via research. In total, Financial Forensics has reviewed tens of thousands of documents pertinent to the receivership and activities of Defendants.

h) Claims Against Third Parties

Throughout the receivership, Financial Forensics has assisted the Receiver and Receiver's counsel with development and pursuit of third party actions as well as recovery of assets. Financial Forensics has provided financial and transactional analysis as appropriate in support of these actions.

i) Services/Information Sharing with Government Agencies

Throughout the duration of the receivership, Financial Forensics has continued to share information and documents with the Commission, the United States Attorney, and agencies assisting the United States Attorney. The sharing of information between parties has permitted Financial Forensics to assist the Receiver in the most efficient matter.

IV. SUMMARY OF FEES REQUESTED

A. Fees and Expenses

From June 4, 2007 through April 30, 2008 Financial Forensics' fees were \$161,244.45. The daily time records reflecting these services are detailed in Exhibit A attached hereto and incorporated herein by this reference. \$2,611.50 of the entries were recorded as "NO CHARGE" as it was deemed that they did not add value to the services provided. Therefore, the net fees invoiced total \$158,632.95.

Exhibit B, attached hereto, is a summary of professional services, billing rates, total hours, and total fees.

Financial Forensics seeks reimbursement of expenses advanced on behalf of the receivership in the sum of \$2,501.82, which is included in Exhibit A.

B. The Requested Compensation is Reasonable and Should be Allowed

In determining the reasonableness of the fees and expenses requested, the District Court should consider the complexity of the problems faced, the benefit of the services to the Receivership Estate, the quality of the work performed, and the time records presented. *SEC v. Fifth Avenue Coach Lines, Inc.*, 364 F. Supp. 1220, 1222 (S.D.N.Y. 1973).

The challenges faced by the Receiver and his professionals in this case were many, including but not limited to, the need to take over and assess the viability of business operations after the entry of the Order, the lack financial records and other documents available for Global Online, the commingling of accounts, the lack of a reliable investor database, the possession of property and documents by third parties and the issues involved in having to the inventory and real property located in a remote geographic region. Given these challenges, the Receiver and his professionals had to spend resources addressing those issues, while balancing the need for efficient administration of the receivership estate.

Financial Forensics believes its request for compensation is fair and reasonable given the challenges and complexity of this matter. The request for compensation is based on the customary hourly rates, which represent an average billing rate of \$164 per hour. There exists no agreement or understanding for sharing of compensation hereunder.

C. Source Available for Payment of Fees and Expenses

The Receiver holds approximately \$1,520,000 in cash. The Receiver expects to receive approximately \$1,200,000 from additional auction and sale proceeds. The Receiver believes that more funds may be received in the future based upon efforts to sell real property assets as well as recovery from third party actions.

WHEREFORE, Financial Forensics requests the Court to enter an order as follows:

1. Approving payment of professional fees to Financial Forensics for the period of June 4, 2007 through April 30, 2008 in the amount of \$158,632.95.

2. Approving reimbursement of expenses to Financial Forensics in the amount of \$2,501.82.

3. Authorizing and directing the Receiver to pay Financial Forensics with funds out of the assets of the Companies pursuant to the Order.

4. Granting such further and other relief as the Court deems just and proper.

Dated: July th18, 2008

Respectfully submitted,

By: 

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(Admitted Pro Hac Vice)
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