

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE)
COMMISSION,)

Plaintiff,)

v.)

ARCHIE PAUL REYNOLDS a/k/a)
DR. A. PAUL REYNOLDS, and)
SUCCESS TRUST AND HOLDING)
LLC,)

Defendants.)

CIVIL ACTION FILE
NO.: 1:06CV1801-RWS

JUDGE RICHARD W. STORY

RECEIVER'S PRELIMINARY REPORT

Pat Huddleston, II, the Receiver appointed by this Court by Order dated January 5, 2007 (the "*Order*"), files this Preliminary Report in compliance with paragraph eleven of the *Order*, "setting out the identity, location and value of the Receivership Assets, and any liabilities pertaining thereto," and showing the Court as follows:

Background

1. On August 2, 2006, the U.S. Securities and Exchange Commission (“SEC”) filed an application for a temporary restraining order and other equitable relief, alleging that what defendant Archie Paul Reynolds (“Reynolds”) marketed as a legitimate investment in private placement programs was actually a type of Ponzi scheme known as a “prime bank scam.”
2. On the same day, this Court granted that application and entered an order freezing assets and prohibiting the destruction of documents.
3. On August 23, 2006, this Court granted a preliminary injunction against the defendants, continuing the asset freeze with the exception of certain allowances for attorney’s fees and personal expenses.
4. Thereafter, the defendants consented to the appointment of the Receiver, without admitting or denying the facts in the SEC’s complaint (except as to jurisdiction). The defendants waived their right to appeal from that *Order*.
5. Reynolds has asserted his Fifth Amendment right against self-incrimination and refused to be interviewed by the Receiver.

6. Since his appointment, the Receiver and the professionals working with him have taken control of the Receivership Estate and made substantial progress in the investigation and accounting ordered by the Court, despite the challenge presented by Mr. Reynolds's refusal to cooperate.

7. At paragraph eleven of the January 5, 2007 *Order*, the Court directed the Receiver to file with the Court and serve upon the parties, within 45 days of the entry of the *Order*, a preliminary report setting out the identity, location and value of the Receivership Assets and any liabilities pertaining thereto.

Assets

8. To date, the Receiver has identified the following assets:

a. Checking account in the name of Success Trust and Holding, LLC.

When the Receiver was appointed, this account was held at Bank of America in Simpsonville, South Carolina. On January 23, 2007, the Receiver had the balance of that account, totaling \$161,776.24, transferred to BB&T Bank in Marietta, Georgia. The balance of that account as of the filing of this Preliminary Report is \$162,052.57.

b. Checking account in the name of Giving Hands, LLC. When the Receiver was appointed, this account was held at Bank of America in

Simpsonville, South Carolina. On January 23, 2007, the Receiver had the balance of that account, totaling \$1,008,195.25, transferred to BB&T Bank in Marietta, Georgia. The balance of that account as of the filing of this Preliminary Report is \$1,010,060.50.

c. Checking account in the name of Success Holdings, LLC. When the Receiver was appointed, this account was held at Bank of America in Simpsonville, South Carolina. On January 23, 2007, the Receiver had the balance of that account, totaling \$488,580.60, transferred to BB&T Bank in Marietta, Georgia. The balance of that account as of the filing of this Preliminary Report is \$489,415.16.

d. The total value of those three checking accounts is \$1,661,528.10.

e. The Bank of America records of those three accounts reflect payments to a Mercedes Benz dealership. The Receiver has made demand for the title and keys to that car, and any others subject to the freeze. The Receiver does not yet know the value of that car, but bank records suggest that the purchase price less than eighteen months ago was more than \$50,000.

f. The Receiver has retrieved four computers used by the defendants.

Beyond the information contained on the computers, the value of the machines is negligible.

g. The bank records retrieved to date reflect purchases at art galleries and furniture stores. While Reynolds's failure to cooperate has made identification of those items of personal property difficult, the Receiver expects to be able to identify many of them. He will report the value of all such identified items in his next report.

h. The Receiver is investigating whether there are assets of the Receivership Estate held by third parties. He will identify those assets in his next report.

Liabilities

9. To date, the Receiver has identified the following liabilities:

a. The preliminary investigation has uncovered no mortgages or notes payable. If the ongoing investigation reveals any such liabilities, the Receiver will identify them in his next report.

b. The mail for Success Trust and the related entities was delivered to The UPS Store in Simpsonville, South Carolina. Reynolds stopped paying the bills for the mailbox, and The UPS Store closed the box on or about September 6, 2007, and threw away any mail coming to the box thereafter. The Receiver has sent The UPS Store a copy of the *Order* and is now receiving the mail in weekly shipments. The cost of receiving the mail will be limited to the weekly postage necessary to mail it from Simpsonville to the Receiver's office. Retrieving that mail may be important to the Receiver's investigation as it may reveal other assets and/or liabilities of the Receivership Estate.

c. The Receiver is working as quickly as possible to complete the assignments given him by the Court, as set forth in more detail below. He has hired Jason L. Nohr of Cauthorn & Nohr as legal counsel, secured the services of an information technology consultant, and is interviewing candidates to do the necessary forensic accounting work. The Receiver anticipates submitting a detailed breakdown of his time and that of his professional team every sixty days, along with an application for payment of those fees and expenses, and a proposed order granting the application. The

Receiver will operate the Receivership Estate to maximize the recovery of all qualified claimants, but the Receiver cannot yet anticipate the total cost of completing the assignments given by the Court.

d. The Receiver needs more information to be able to quantify any tax liabilities.

e. The Receiver has seen no evidence that there are valid employee claims outstanding.

f. This Court ordered on August 26, 2006 that Mr. Reynolds receive \$5,000 per month in living expenses. The Receiver is complying with that Order, but expects to petition the Court to discontinue those payments at some point.

Company Records

10. The Receiver has traveled to Simpsonville, South Carolina to interview witnesses and take custody of documents and other property at Mr. Reynolds's home. The Receiver returned to his office with a cargo van loaded with more than 700 investor packets, each averaging $\frac{3}{4}$ of an inch thick and 110 pages, for a total of approximately 77,000 pages of information.

11. Managing those records efficiently requires a computer program. The Receiver has therefore created a database to hold and sort all information pulled from the documents collected.

12. Other than the investor packets and documents pulled from the computers he surrendered, Mr. Reynolds has produced no other company records, neither accounting records, nor an organized list of investors. This poor recordkeeping has complicated the Receiver's task. One part of the solution has been to simplify the process by which investors communicate their experiences to the Receiver.

Investor Communications

13. The Receiver has set up numerous avenues for investor communication.

- a. The Receiver has created a dedicated secure link from his website at which investors can e-mail the Receiver their contact information. Several hundred investors have done so already, which should help in the claims process. The address for that link is www.huddlestonfirm.com/successtrust. The Receiver has posted this Preliminary Report on that site and will post all subsequent reports on that site, as well.

- b. The Receiver has created a blog which allows him to add news of significant developments to the website faster and to post answers to frequently asked questions as they arise.
- c. The Receiver has created a separate voice mailbox on his law firm's phone system, and several investors have left helpful information in that box already.
- d. As more investors notify the Receiver of their contact information, the Receiver will create an e-mail distribution list as a further avenue for investor communication.

Additional Progress

- 14. In addition to the valuable information received from investors thus far, the Receiver has requested and, in some cases already received, information from Bank of America, ADP, Paychex, Verizon, Cingular, American Express, and other likely sources of information that could fill the holes created by Reynolds's failure to preserve business records and his assertion of his Fifth Amendment rights.
- 15. The Receiver has had his forensic team copy the hard drives of the computers retrieved from Reynolds and pulled many thousands of pages of information from them.

16. The Receiver has searched publicly available dockets and records to identify and locate potential assets of the defendants and is following up on information learned thus far.

Current Status

17. Although the Receiver has made substantial progress on many of the tasks assigned by the Court, the investigation is only beginning and substantial work remains to be done. The Receiver will propose a claims process and ask the Court to set a bar date for claims. He will continue the search for assets he can bring into the Receivership Estate to increase the funds available for ultimate distribution to defrauded investors, and he will continue to make progress on the accounting ordered by the Court. While the Receiver is making progress daily on all of these fronts, the volume of investor records, the nonexistence of accounting data, the refusal of Mr. Reynolds to cooperate, and the apparent absence of any meaningful organization in the operation of the Receivership entities will necessitate work consuming many months. The Receiver intends to propose a claims process no later than April 20, 2007. The Receiver will file interim reports to keep the Court, the other parties, and prospective claimants apprised of his progress in completing the duties assigned by the Court.

Respectfully submitted this 20th day of February, 2007.

THE HUDDLESTON LAW FIRM

/s/ Pat Huddleston, II
Pat Huddleston, II
Receiver

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CERTIFICATE OF SERVICE

This certifies that I have this day served a copy of the foregoing *Receiver's Preliminary Report* via the CM/ECF electronic filing system and First Class

United States mail upon the following:

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This 20th day of February, 2007.

s/ Pat Huddleston, II
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Receiver

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