

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE)
COMMISSION,)

Plaintiff,)

v.)

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

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

JUDGE RICHARD W. STORY

Defendants.)

RECEIVER’S SECOND INTERIM REPORT

Pat Huddleston II, the Receiver appointed by this Court by Order dated January 5, 2007 (the “*Order*”), files this Second Interim Report 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.

8. The Receiver filed that report on February 20, 2007, and files this report to bring the Court up to date on the Receiver's progress toward completing the accounting ordered by the Court and his efforts to bring additional assets into the Receivership Estate.

9. The Receiver has acted through his law firm, The Huddleston Law Firm, in pursuing the investigation and the accounting ordered by the Court. All references to the Receiver therefore include The Huddleston Law Firm.

10. The Receiver has hired Cauthorn & Nohr ("C&N") to act as counsel for the Receiver.

11. The Receiver has hired Investor's Watchdog, LLC ("IW"), an investor protection company owned by the Receiver, to handle the substantial bookkeeping accounting, financial, investigative and administrative services necessary to completing the tasks ordered by the Court.

12. On May 11, 2007, the Court approved a claim form which the Receiver has sent to 958 prospective claimants.

13. In the same order the Court set a bar date of July 6, 2007 after which any claims received may be disallowed as untimely.
14. The Receiver has also posted the claim form to the Success Trust dedicated portion of his website (www.huddlestonfirm.com/huddleston/success/index.cfm).
15. On March 15, 2007, the Receiver filed a motion asking the Court to discontinue periodic support payments to Mr. Reynolds as those payments were further depleting the Receivership Estate.
16. In open court on May 22, 2007, the Court granted that motion. The written order to that effect is dated June 12, 2007.
17. On March 16, 2007, the SEC filed a motion asking that Defendant Reynolds be held in civil contempt for violating the Court's asset freeze of August 2006 by selling a Mercedes automobile that he had bought with \$57,000 in investor funds.
18. In open court on May 22, 2007 the Court granted the SEC's motion, finding that Reynolds was guilty of civil contempt.
19. The Receiver's investigation revealed that Reynolds had used investor funds to purchase a 2005 Toyota Sequoia SUV and several other items of valuable personal property.

20. At the May 22, 2007 hearing, the Court ordered that Reynolds turn over that car and several other of the more valuable items of personal property to the Receiver. The Receiver will sell them and deposit the proceeds in the Receivership Estate bank accounts.

21. Early in his investigation, the Receiver discovered that Reynolds owns a single family home in Webster, New York and that he had used at least \$66,040.55 in investor funds to make mortgage payments and pay the property taxes on that home.

22. On March 12, 2007, upon learning of the existence of the property, the Receiver filed a *lis pendens* in Monroe County, New York, thus restricting Reynolds's ability to sell that asset without the Receiver's consent.

23. At the May 22, 2007 hearing the Court ordered that, upon the Receiver's demand, that Reynolds deed to the Receiver all of his interest in that home.

24. The Receiver has obtained an appraisal on the property and information about the mortgage balance, and will demand that Reynolds surrender his interest in the property if and when it becomes advantageous to the Receivership Estate.

The Investigation Thus Far

25. The defendants maintained no meaningful accounting system, thus requiring the Receiver and his professionals to gather evidence from third parties in order to reconstruct the defendants' transactions with investors and its IRs.

26. The Receiver has interviewed and/or deposed members of the STH staff who have reported the facts contained herein. In addition, the Receiver and his staff have reviewed hundreds of emails retrieved from STH computers, subpoenaed and reviewed documents from third parties, including financial institutions, spoken to investors and vendors of STH, and the Federal Bureau of Investigation.

27. In 2005, Defendant Reynolds was involved in a mortgage elimination scheme called "Success is Training."

28. That scheme originated with two men named Kurt Johnson and Scott Heineman, both of whom were indicted by a federal grand jury on fraud charges in the Northern District of California in September 2005 and again in February 2006.

29. The two men are incarcerated awaiting trial.

30. The central misrepresentation of the Success is Training scheme was that the program could eliminate any mortgage through a series of property transfers and submission of paperwork to mortgage companies. The victims of this scheme

agreed that once their mortgages were eliminated, they would take out a new, smaller loan secured by the property and pay some portion of that new loan to Johnson and Heineman.

31. Of course, the entire business was a scam. The Receiver's investigation reveals that Reynolds was involved in it to some degree and that he helped recruit victims into the scheme.

32. With the arrests of Johnson and Heineman, though, Success is Training died a quick death.

33. Reynolds next created the business called Success Trust and Holding ("STH"), which is his co-defendant in this action.

34. STH differed from Success is Training in that it did not promise to eliminate mortgages, but rather to pay them off at an accelerated rate.

35. Reynolds controlled STH. He opened the banks accounts, received the bank statements, and was the sole signatory on the accounts.

36. The central misrepresentation of STH was that the "program" would allow those who signed up to pay their mortgages off in as little as three years and receive an additional cash payment equal to the full appraised value of their home.

37. How the program could generate the vast amounts of money required to fulfill that promise was something that Reynolds kept to himself.
38. Reynolds hired a staff to “process” the paperwork supposedly required to make the investor’s home equity accessible to those who would use it to generate the money that STH would use to fulfill the promises made.
39. That paperwork included a power of attorney giving STH authority to pledge the equity in the investors’ homes as collateral, copies of driver’s licenses and social security cards.
40. The Receiver has taken custody of those records and will dispose of them at the conclusion of this case in a way that guarantees they will not fall into the hands of scam artists who could use them to steal investors’ identities.
41. Reynolds represented that STH had to raise a certain dollar amount in home equity before he could generate the profits necessary to fulfilling the promises that he made.
42. Reynolds therefore recruited many people to become “Independent Representatives” (“IR”) of STH.
43. IRs were sales people. They solicited others to pledge their home equity to STH by repeating the central misrepresentation of the STH scheme.

44. Reynolds motivated the IRs through promises of commissions and by staging sales contests in which the IR bringing in the most new investors received a cash prize.

45. The Receiver has not yet calculated how many investors ultimately came to the program through IRs. It is safe to say, though, that Reynolds would not have been able to raise as much as he did without the help of the IRs.

46. Reynolds also solicited investors by recording a telephone interview describing STH. He encouraged prospective investors to call in and listen to it, and encouraged IRs to use it as a sales tool.

47. In addition, Reynolds held meetings in several cities to describe STH, to solicit investors, and to motivate IRs to solicit additional investments.

48. Each person who agreed to pledge their mortgage to STH had to pay what Reynolds and his staff call an “administrative fee,” for access to the program.

49. For a property encumbered by a single mortgage, STH charged \$3,000. For a property with a second mortgage, STH charged \$4,500. Forensic analysis of bank records shows that there were 675 deposits of \$3,000, and 151 deposits of \$4,500.

50. In addition, Reynolds charged IRs for the privilege of soliciting additional investors.

51. IRs could join the STH sales force at various levels. A \$2,500 payment entitled the IR to commissions at a certain level. Analysis of bank records reveals 112 deposits of \$2,500. A \$5,000 payment entitled the IR to higher commissions. Analysis of bank records reveals 53 deposits of \$5,000.

52. Occasionally, Reynolds would offer “limited time only” promotions allowing prospective IRs who had signed up at the \$2,500 level to “upgrade” to the \$5,000 level for half price, or an additional payment of only \$1,250.

53. The vast majority of the money raised, therefore, came from those investing in the mortgage program and from IRs paying for the privilege of repeating STH’s misrepresentations to others.

54. Reynolds’s apparent plan was to raise as much money as possible from mortgage program investors and IRs, and to “invest” that money in an unrelated Ponzi scheme. When the scheme paid off its outrageous profits, Reynolds would have the money to fulfill the promises he had made to STH investors.

55. According to former STH staff, Reynolds pursued three different paths to try to fulfill the promises he made to investors.

56. Each of those paths led to a promoter of a separate and distinct “program.”

57. The Receiver’s investigation leads him to the conclusion that each of those programs was a Ponzi scheme.

The First Ponzi Scheme

58. The first scheme was Magnolia Bank, run by a man named Rodney Sampson.

59. The Receiver has very little information about the details of Reynolds involvement in Sampson’s Ponzi scheme, except the testimony of former STH personnel who have testified that it was the first vehicle by which Reynolds attempted to generate the money needed to fulfill the promises he had made to STH investors.

60. Sampson was indicted on mail and wire fraud charges on March 16, 2006 by a federal grand jury in the Eastern District of New York.

The Second Ponzi Scheme

61. Not chastened by his experience with Magnolia Bank, Reynolds looked for and found another Ponzi scheme in which to invest STH funds.

62. This second Ponzi scheme went by the name WF USA LLC (“WF”), and was run by a woman named Amy Emeliana Allen (“Allen”). The Receiver is in

possession of email correspondence and promotional materials that prove Allen's participation in this fraud.

63. Reynolds told his administrative personnel that, in light of his bad experience with Magnolia Bank, he was going to test out Allen's program by investing "some of his own money" to see if her program really worked.

64. Unbeknownst to STH investors or, apparently, anyone on the STH staff, Reynolds did not use his own money, but instead wired \$500,000 of STH money to Allen's company, WF USA LLC.

65. Knowing that Reynolds was testing her program to gauge whether he would invest more STH money, Allen sent Reynolds supposed profits on the \$500,000 "investment."

66. Rather than deposit those proceeds in the STH account from which the \$500,000 investment had come, however, Reynolds opened a separate bank account in the name of a separate business he created called Giving Hands, LLC.

67. Allen sent Reynolds a total of \$419,945, which Reynolds deposited into the Giving Hands account.

68. Subpoenaed bank records show that STH was not the only depositor into the WF USA LLC account, but reveals no profits from any legitimate business enterprise.

69. On the strength of the returns Allen was supposedly delivering on his \$500,000 investment, Reynolds wired WF USA LLC another \$1.7 million from the STH account on February 28, 2006.

70. As is typical in Ponzi scheme cases, Allen continually made excuses for why profits from the \$1.7 million were not forthcoming. Sometimes she blamed Reynolds for not delivering the proper paperwork. Sometimes she said that they had “just missed” the deadline for depositing money into the supposed banking process that would generate the enormous returns.

71. In March 2006, Reynolds hired a securities attorney to advise him on the validity of Allen’s business.

72. As a former member of the Enforcement Division of the U.S. Securities & Exchange Commission, that attorney knew that Allen was running a Ponzi scheme and advised Reynolds of the fact.

The Third Ponzi Scheme

73. Shortly before the SEC shut down his operation, Reynolds found yet another supposed profit generating business. This one was run by two men who call themselves, The Honorable Ah Bey, and King Solomon II.

74. The Receiver has very few details about this scheme.

The Other Programs

75. In addition to STH's mortgage program, Reynolds created, promoted and operated a number of separate and distinct scams.

The Credit Card, Student Loan, and Car Loan Program

76. One of those programs was what STH call the Credit Card, Student Loan, and Car Loan program ("Credit Card Program").

77. Pursuant to that program investors sent STH 25.5% of the current outstanding balance on their credit cards, student loans, or car loans, and STH promised to pay off the entire remaining balance on the card within a few months.

78. That program was just another scam. The money raised from it was commingled with the money from the mortgage program.

79. The Receiver, therefore, is awaiting return of claim forms to determine how many people invested in the Credit Card Program and how much they invested.

The 480% Best Efforts Cash Program

80. Another of Reynolds's programs was called the 480% Best Efforts Cash Program ("480% Program").

81. Allen's influence was apparent in this program, as she had sold Reynolds on her own program called the 960% Best Efforts Cash Program. Reynolds apparently saw an opportunity to pay whatever he received from Allen's program and keep an equal amount for himself.

82. Reynolds commingled the money from the 480% Program with the funds from the Credit Card Program and the Mortgage Program.

83. The Receiver, therefore, is awaiting the return of claim forms to learn how many investors invested in the 480% Program.

The Success Holdings Account

84. Near the end of his scheme, Reynolds opened another bank account, this one in the name of a business he created called Success Holdings.

85. That account received \$491,500 from the final investors in Reynolds's schemes.

Other Accounts Discovered

86. In addition to the proceeds of the three frozen bank accounts, which now total \$1,467,871.08, the assets for the Receivership Estate include the Toyota Sequoia and other personal property that Reynolds is under an order to deliver to the Receiver.

87. The Receiver located a bank account in New Mexico in the name of Success Trading Ventures. Analysis of that account revealed that deposits into the account came from STH investors.

88. Pursuant to the Court's Order Appointing a Receiver, Bank of America forwarded the balance of that account, totaling \$5,471.66 to the Receiver who deposited it into the STH account.

89. The Receiver is following up on evidence that suggests STH funds might have been transferred to bank accounts outside the United States.

90. The *lis pendens* the Receiver filed on the house in Webster, New York will preserve that asset to allow the Receiver to sell it for the benefit of investors if the work involved when compared to the expected return, warrants it.

Assets

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

a. Money market account in the name of Success Trust and Holding, LLC. The balance of that account as of the filing of this Report is \$163,507.02.

b. Money market account in the name of Giving Hands, LLC. The balance of that account as of the filing of this Report is \$810,556.34.

c. Money market account in the name of Success Holdings, LLC. The balance of that account as of the filing of this Report is \$493,807.72.

d. The total value of those three checking accounts is \$1,467,871.08.

e. The Receiver has retrieved nine computers used by the defendants. Beyond the information contained on the computers, the value of the machines is negligible.

f. The Receiver uncovered several items of personal property bought with STH investor funds. The Court has ordered them surrendered to the Receiver who will sell them and deposit the proceeds in one of the money market accounts.

g. The Receiver uncovered the purchase of a 2005 Toyota Sequoia with STH investor assets. The Court has ordered it surrendered to the Receiver who will sell it, pay off the loan secured by the vehicle, and deposit the remainder in one of the money market accounts.

h. The Receiver and his team have investigated potential third party claims and built solid cases against two such parties. The Receiver expects to commence those actions shortly with the hope of bringing substantial amounts into the Receivership Estate.

Liabilities

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

a. While the Receiver has filed a *lis pendens* on the Webster, New York property, and the Court has ordered Reynolds to surrender his interest in the property on the demand of the Receiver, the mortgage balance and the cost of sale make it unlikely that a sale would result in a substantial return of assets to the Receivership Estates. Having said that, if Reynolds does not comply with the Court's order to surrender the Sequoia and other personal property, the Receiver will demand an interest in the Webster, New York property and sell it for the benefit of investors.

b. The Sequoia that Reynolds will deliver to the Receiver pursuant to the Court's order is pledged as security for a loan. The Receiver will pay off that loan with the proceeds of the sale of the Sequoia and deposit the balance in one of the money market accounts.

c. The Receiver has uncovered no other mortgages or notes payable secured by any of the assets of the Receivership Estate.

d. 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.

e. 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. The Receiver has retained Investor's Watchdog, LLC, an investor protection company, to do the substantial forensic accounting work required to complete the accounting ordered by the Court. The Receiver is the sole owner of Investor's Watchdog and can therefore keep a tight

rein on work done, ensuring that it is all necessary and completed in the most efficient manner possible. The Receiver has submitted two fee applications thus far, and 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.

f. The Receiver has not yet quantified any tax liabilities but expects there to be none.

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

Company Records

93. The Receiver has traveled to Simpsonville, South Carolina twice to interview witnesses, take custody of documents and other property at Mr. Reynolds's home, and performed further investigation which revealed the existence of other assets not disclosed by Reynolds.

94. Managing the many thousands of pages of records seized requires a computer program. The Receiver has therefore created databases to hold and sort all information pulled from the documents collected.

95. 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

96. 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. The address for that link is www.huddlestonfirm.com/successtrust. The Receiver posted his Preliminary Report, his motions, and this 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.

Additional Progress

97. 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.

98. 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.

99. The Receiver continues to investigate leads suggesting bank accounts overseas.

Third Party Litigation

100. Pursuant to its investigation, the Receiver has determined that additional individuals and entities that have unlawfully received substantial investor funds from Success Trust. However, many of those individuals and entities are located in other districts, including the Northern and Western Districts of Texas. While the Receiver is authorized to file independent actions to retrieve those investor funds, the applicable statute (28 U.S.C. § 754) requires him to file copies of this Court's Order of Appointment in each district where the investor property is located within ten days of appointment. Accordingly, because the Receiver was unaware of the location of investor funds in other districts at the time of his original appointment, reappointment is necessary in order for the Receiver to pursue related actions to recover investor funds, pursuant to 28 U.S.C. § 754 and 28 U.S.C. § 1692.

101. Following the filing of this report, counsel for the Receiver will file a motion seeking reappointment of the Receiver by this Court under the same terms and granting the same authority as the original Order of Appointment.

102. Once reappointed, the Receiver will file the requisite statutory notice of appointment in each and every district that is known to contain investor funds or individuals and/or entities that received investor funds. Through this litigation the

Receiver will be seeking to bring more than \$2 million back into the Receivership Estate. The best evidence available to date suggests that these actions will more than justify the cost involved.

Current Status

103. The Receiver has made substantial progress on many of the tasks assigned by the Court. Claim forms are arriving daily and the Receiver's staff is processing them efficiently, verifying the amounts claimed so that the Receiver can complete the accounting ordered by the Court and prepare a proposed plan of distribution. Substantial work remains to be done, however. The third party actions are likely to consume many months, at a minimum, and the Receiver continues to run down leads suggesting that investor funds have been transferred overseas.

104. The Receiver expects to file another interim report once the claims process has been completed and the third party actions have been filed.

Respectfully submitted this 3rd day of July, 2007.

THE HUDDLESTON LAW FIRM

/s/ Pat Huddleston, II
Pat Huddleston, II
Georgia Bar No. 373984
Receiver

707 Whitlock Avenue, Suite B-21
Marietta, GA 30064
770-919-8003
770-874-0888 (fax)
ph2@huddlestonfirm.com

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Defendants.)

CERTIFICATE OF SERVICE

This certifies that I have this day served a copy of the foregoing *Receiver's*
Second Interim Report via the CM/ECF electronic filing system upon the
following:

Alana R. Black, Esq.
U.S. Securities and Exchange
Commission
3475 Lenox Road, NE
Suite 1000
Atlanta, GA 30326

Michael F. Bachner, Esq.
Bachner & Associates, P.C.
26 Broadway, Suite 2310
New York, NY 10004

Louis R. Cohan
Weinstock & Scavo, P.C.
Lincoln-Piedmont Bldg.
3405 Piedmont Road, Suite 300
Atlanta, GA 30305

Jason L. Nohr, Esq.
Cauthorn & Nohr
201 Cherokee Street
Marietta, GA 30060

This 3rd day of July, 2007.

s/ Pat Huddleston II
Pat Huddleston II
Georgia Bar No. 373984
Receiver

THE HUDDLESTON LAW FIRM
707 Whitlock Avenue, Suite B-21
Marietta, Georgia 30064
(770) 919-8003
(770) 874-0888 – facsimile
ph2@huddlestonfirm.com