

**IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION**

**SECURITIES AND EXCHANGE
COMMISSION,**)
)
)
 Plaintiff,)
)
)
 v.)
)
)
 CEP HOLDINGS, INC., D/B/A)
 COLONENDPARENTHESIS.NET, TREVOR)
 REED, CLAYTON KIMBRELL, and COLON)
 END PARENTHESIS TRUST, LLC)
)
 Defendants.)
)

**Civil Action No.
5:07-cv-00256-BO**

**FIRST INTERIM REPORT OF
RECEIVER, WILLIAM F. PERKINS**

I. INTRODUCTION

William F. Perkins, the duly appointed Receiver (the "Receiver") of Colon End Parenthesis Trust, LLC and CEP Holdings, Inc., d/b/a colonendparenthesis.net submits this Preliminary Report (the "Report") in compliance with paragraph XVIII of the Order Granting Preliminary Injunction, Freezing Assets, Appointing A Receiver And Ordering Other Ancillary Relief entered in *Securities and Exchange Commission v. CEP Holdings, Inc. et al.* in this Court on July 10, 2007 (the "Order"). This Report provides the Court and all interested parties with the status of the Receiver's activities, investigation and findings as of August 13, 2007. However, the Receiver's investigation is still ongoing. This is a preliminary assessment, and is based upon facts currently known to the Receiver Team, which includes attorneys Greenberg Traurig LLP

and the Receiver's forensic accounting firm, W.G. Hays & Associates, LLC. As additional facts are discovered, it is possible that the information provided below will be determined to be incorrect or incomplete. The Receiver and the professionals employed to assist him are working diligently to make certain that the information provided is accurate; however, under the circumstances of this case, it is not possible to have a completely accurate understanding of all of the facts relevant to the Receiver Estate. As the receivership progresses, the Receiver likely will file additional interim reports and provide additional information on his website.

II. BACKGROUND: THE RECEIVERSHIP ENTITIES

CEP Holdings, Inc. is a Belize Corporation owned by Defendants Reed and Kimbrell ("CEP Holdings"). CEP Holdings owns three "investment" websites operated in conjunction with Colon End Parenthesis Trust, LLC ("CEP Trust"), which is a Kentucky LLC operating as an internet payment processor that is also owned by Reed and Kimbrell. While CEP Trust may have made some payments in its roll as a payment processor on behalf of its account holders to unrelated third parties, its primary function was to receive investor funds that were then submitted to the control of one of three investment websites: colonendparenthesis.net ("CEP"), CEPCoast.com ("CEPCoast") and Coastin88.com ("Coastin88"), described later herein (collectively, the "Investment Programs" or the "Programs"). In fact, since it became operational in July 2006, all participants in the Investment Programs had to establish accounts with CEP Trust through which all cash deposits and cash withdrawals were made. Prior to the formation of CEP Trust, when only CEP was operational, all investment funds flowed through third-party payment processors, such as E-Gold, StormPay or Alert Pay.

CEP received its first funding in November 2005. It was a passive investment vehicle

that offered its investors a return of 2% each day with a minimum of \$20.00 initial investment. The earnings of CEP were paid out every 30 days by crediting the account of the investor at CEP Trust, but the original investment principal was never returned. The investor elected either a 180-day or 360-day option, yielding over 600% effective per annum return even after considering the loss of the principal.

CEPCoast and Coastin88 are generally known as investment autosurf websites. They were identical functionally, but had different financial restrictions and payout amounts. Participants purchased advertising packages, or "Ad Packs" at \$5.00 each allowing the advertiser to place his website into a pool of websites that would be viewed and rated on a scale of one to five. Investors who purchased Ad Packs were eligible to recover their costs, or even make a profit, by viewing and rating 15 websites--no more, no less--each day. Ninety percent of CEPCoast's daily Ad Pack revenue [88% for Coastin88] was split pro-ratably among that day's website viewers and investors could receive back as much as 130% of their Ad Pack costs (115% for Coastin88 participants).

III. ACTIVITIES OF THE RECEIVER

A. Marshalling of Assets and Records

- a. On July 10, 2007, the Receiver served the Order on J P Morgan/Chase Bank, National City Bank and Union Bank & Trust to freeze all accounts identified with the Defendants. Further, freeze letters were sent to various internet payment processors identified by the Receiver that are believed to have been used by the Defendants. Funds of the corporate defendants totaling approximately \$77,000 are now in the Receiver's custody.

- b. The Receiver traveled to Bowling Green, Kentucky on July 11, 2007 and met with defendant Clayton Kimbrell at the Bowling Green Municipal Utilities (“BGMU”), where the four computer servers supporting the websites of CEP Trust and the Investment Programs were located. Mr. Kimbrell was interviewed and with the assistance of Mr. Kimbrell and BGMU management, the servers were disconnected from the internet and physical access to the four servers was restricted to the Receiver. These servers have since been relocated to Atlanta and are in the custody of the Receiver.
- c. The Receiver has received records subpoenaed from various banks and is in the process of analyzing these records, discussed further below.
- d. Computer databases comprising the primary records of CEP Trust, CEP, CEPCoast, and Coastin88 were copied from the servers with the assistance of Mr. Kimbrell and are preserved by the Receiver. Analysis of those records is also discussed below.
- e. Hard copy records of CEP Trust and the Investment Programs are minimal. Documents verifying investor identification and bank authorization records in the custody of defendant Reed are being packaged and shipped with the supervision of Reed’s attorney. Mr. Kimbrell turned over to the Receiver a minor amount of records in his possession on July 11.
- f. No real estate, automobiles, or other significant personal assets of the receivership estate have been identified beyond the cash and computer equipment discussed above. Mr. Kimbrell had established a small office in Indianapolis, Indiana during June 2007 containing four desks and chairs, but the office had

never been used. Contact with the landlord has confirmed the small amount of contents and the lack of business records within that space. The value of the furniture is believed negligible. The preliminary review of banking records thus far has not identified other hard assets to be pursued.

g. On July 12, 2007, the Receiver established a website at www.wfperkinsforcep.com for communication with the several thousand depositors in CEP Trust and participants in the Investment Programs. All pertinent documents, beginning with the SEC complaint and the Order appointing the Receiver, are being posted to the site, along with a FAQ section (Frequently Asked Questions) and periodic posts by the Receiver regarding current developments. An email account has been established with this website allowing two-way communication by that medium. Hundreds of emails from investors have been reviewed as a result of the establishment of this site. The Receiver's website has been designated by the Bankruptcy Court as the official notice for all applicable bankruptcy filings.

B. Investigation and Analysis

a. CEP Trust possessed bank accounts at J P Morgan/Chase and National City Bank. Neither CEP Holdings nor the Investment Programs had separate bank accounts that have been identified thus far. Funds coming into CEP Trust by check, money order, wire or other transfers were credited to the CEP Trust account of the investor similar to a traditional bank. Transfers to the Investment Programs were simply journal entries reducing the investor account at CEP Trust and increasing the account of CEP or CEPCoast or Coastin88. Similarly, "investment" payouts

by the Investment Programs are credited to the investor's CEP Trust account. Actual cash transfers back to the investor are done only at investor request.

- b. The Receiver and his staff are in the process of analyzing the four databases that comprise the primary records of the receivership entities. These include millions of internet transactions for CEP Trust, CEP, CEPCoast and Coastin88. There are no general ledgers, routine financial statements, bank reconciliations or other traditional investment accounting records. Over 17,000 accounts have been established at CEP Trust in its brief history since July 2006, but approximately 10,000 of those presently have a zero balance. CEP Trust records reflect 7,631 accounts with positive balances totaling \$969,000 as of the time the servers were shut down.
- c. Preliminary analysis of the cash flowing through the CEP Trust bank accounts indicate approximately \$16 million was deposited during the period of July 2006 through July 2007. There were additional funds, perhaps as much as \$2 million, that were received and disbursed via other payment processors such as E-Gold during this period.
- d. No "brick and mortar", travel agency, condominium or other traditional financial investments have been noted in the review of bank transactions to date. A portion of the CEP Trust funds in the form of "reserves" may have been reinvested in the two autosurf websites. These reserves were comprised of a portion of the 10% (CEPCoast) or 12% (Coastin88) of Ad Pack revenues not paid out each day. The balance of the CEP Trust account # 100017742 entitled "Coast Reserve Backup" actually held a negative \$1.4 million balance when the Receiver assumed control.

It is believed that this negative balance was the result of transferring reserve balances to the daily revenue sharing pool in excess of the reserves on hand.

- e. The employees of CEP Trust and the Programs were principally the families and friends of Defendants Reed and Kimbrell. For instance, Reed's father and father-in-law and Kimbrell's father received pay for supporting the Programs' websites. The Receiver has identified funds totaling \$1.5 million that were transferred from CEP Trust to the Defendants, their family and friends during 2006 and 2007. A lawsuit has been filed to recover these funds as discussed below.
- f. A Washington limited liability company called SureInvest, LLC provided customer support for Coastin88. Its agreement with Reed and Kimbrell was that it would be paid 2% of Coastin88 Ad Pack revenues for its services. The Receiver has identified approximately \$1.7 million that was transferred by check or by ACH from CEP Trust to SureInvest, LLC and its principals. A lawsuit has been filed to recover these funds as discussed below
- g. A preliminary analysis of investor transactions found in the Program databases notes that over 4,200 investors have each invested with the CEP entities more than they have withdrawn. The Receiver refers to this as a net positive cash position or a net positive cash balance. The total of these positive net cash positions is approximately \$9.3 million. In simple terms, these investors have lost approximately \$9.2 million, since there is \$77,000 in cash on hand. As our research continues, our preliminary understanding is that approximately \$3 million was transferred to the Defendants, other insiders and to SureInvest LLC as discussed above, and the balance went to approximately 1,450 other account

holders with a net negative cash position totaling approximately \$6.2 million. In other words, these investors had a collective purported profit of \$6.2 million.

C. Receiver Entities Placed in Bankruptcy

- a. As authorized in paragraph X of the Order and after consultation with counsel, the Receiver filed voluntary chapter 11 petitions for CEP Trust and CEP Holdings, Inc. in the U.S. Bankruptcy Court, Northern District of Georgia, Atlanta Division on July 27, 2007. The Receiver is presently operating the receivership estate as Debtor in Possession. Judge J. E. Massey was assigned to the matter and the case numbers are 07-71810-jem and 07-71813-jem, presently jointly administered under the former.
- b. The petitions were filed in recognition of the large potential liabilities of the receivership estate, possibly over \$10 million, and the small amount of assets identified thus far. There was a very large volume of disbursements during the 90 days prior to filing the petitions (over \$5 million) that may be recoverable in part through the preferences sections of the bankruptcy code. Also, the Receiver considered the practical efficiencies of working with the Atlanta Bankruptcy Court since the Receiver, the identified assets of the receivership entities and their records are now in Atlanta.
- c. A complaint has been filed in a Bankruptcy Court adversary proceeding against Defendants Reed and Kimbrell, along with their family and friends in order to recover the transfers summarized in section B.e above.
- d. A complaint has been filed in a Bankruptcy Court adversary proceeding against SureInvest, LLC and its three principals, Michael Donaker, Kyle Herron and

Tammy Dowell in order to recover the transfers summarized in section B.f above.

- e. Complaints are being drafted at this time to address large fictitious profit transfers and apparent preferential transfers.

Respectfully submitted, this 15th day of August, 2007.

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

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