

THE INFORMED INVESTOR

**THE ASC MISSION
IS TO PROTECT
INVESTORS FROM
SECURITIES FRAUD
AND PRESERVE
LEGITIMATE CAPITAL
MARKETS
IN ALABAMA**

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Enforcement Headlines (See story summaries on pages 3-5)
Visit the new ASC website for more stories and information (www.asc.state.al.us).

- (10/02) Authorities and Banks Cooperate to Return "Millions" ... (**Russell County**)
 (09/27) Kash Pled Guilty to Sale of Unregistered Securities... (**St. Clair County**)
 (09/19) Blacketer Sentenced to 25 Years...for 80 Felony Counts of Fraud.
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 (04/17) Promoter of Nancy's Tours Sentenced to 12 Years... (**Lexington, AL**)
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 Unregistered Security.
 (02/14) Michael Carreca of **Prattville, AL** Arrested on 8 Counts of Fraud.

ASC Statistics for Fiscal Year 2001 (10/01/00 - 09/30/01)

- Restitutions to victims of securities fraud: \$9,957,423.
- Rescissions ordered in ASC cases: \$517,888.
- Administrative Actions: 165.
- Criminal Convictions Obtained: 21.
- Public Warnings Issued: 14.
- The Registration Division issued 104,441 licenses/registrations.
- There are 31 individuals awaiting grand jury action, arrest or trial.
- The Commission has 124 cases under investigation at this time.
- Contributed \$6.9 million to the General Fund after expenses.
- Total staff is 35, (includes: 4 attorneys; 9 special agents; and 5 division managers).



(Courtesy of NASAA¹)

New NASAA president urges stepped up oversight of investment advisers; Calls electronic registration key to more uniform, effective regulation, 10/12/2001

-- Borg also concerned about unlicensed insurance agents selling securities.

WASHINGTON (October 12, 2001) - The nation's top state securities regulator today promised investors stronger oversight of the fast-growing investment adviser industry, citing both instances of and the growing potential for fraud. (Continued on page 2)

¹ The Alabama Securities Commission is a member of the North American Securities Administrator Association (NASAA), an organization of the 66 state, provincial and territorial securities administrators in the U.S., Canada, Mexico and Puerto Rico.

(New NASAA President...Continued from page 1)

Joseph Borg, director of the Alabama Securities Commission and new president of the North American Securities Administrators Association (NASAA), said increased exams of investment advisory firms and electronic registration of advisers are at the top of his agenda.

"While the vast majority are honest professionals, the growing potential for fraud by small investment advisers should concern us all," Borg told attendees at the Securities Industry Association's Small Firms Conference in Ft. Lauderdale, Florida on Friday. Under federal law, states have sole regulatory authority over investment advisory firms with less than \$25 million under management. The Securities and Exchange Commission regulates larger investment advisory firms.

Borg also said he would urge state regulators to adopt the Investment Adviser Registration Depository, an electronic database similar to the Central Registration Depository, which contains information on brokers, including disciplinary history. Information from the IARD is available to investors via the Internet, Borg noted, making it easier for them to wisely select an investment advisory firm.

The IARD is jointly owned by the states and the SEC, and administered by the National Association of Securities Dealers. So far, 39 states have committed to adopt the IARD, either by administrative order or through legislation.

In the aftermath of Sept. 11, Borg said state securities regulators would endeavor to make all reasonable accommodations for firms affected by the terrorist acts.

Borg expressed concern over the growing number of independent insurance agents selling securities without a license. Many of the investments they are selling, such as viatical settlements and promissory notes, are high risk or potentially fraudulent, Borg noted. He said NASAA would work more closely with state insurance regulators to curb the problem.

Borg pledged to continue the work done by former NASAA President Deborah Bortner to promote more uniform regulation among states, especially in the registration and licensing of broker-dealers and their representatives. Borg has also worked closely with other NASAA members on the ongoing effort to revise the Uniform Securities Act.

Borg is known for his strong enforcement record. Alabama took a leading role in the fight against microcap stock fraud, helping bring indictments against brokers and principals at Meyers Pollock Robbins and Duke & Company. Borg testified before Congress on the movement of corrupt brokers from one microcap firm to another. More recently, Borg took the lead in shutting down the Greater Ministries International Church of Tampa, Florida. In August Greater Ministries founder Gerald Payne was sentenced to 27 years in prison for fraud. More than 20,000 church members were defrauded of nearly half a billion dollars, regulators estimate.

Borg, 48, was born in New York City to Maltese immigrant parents. He earned an undergraduate degree from City College of New York and a law degree from Hofstra University School of Law on Long Island. In 1994, he left a career in private practice to become Alabama's director of securities.

With the passage of the Gramm-Leach-Bliley Act and increased consolidation in the financial services sector, regulators of banking, insurance and securities need to work more closely together, Borg said.

"Investors are the largest constituent group in the United States today -- bigger than organized labor, Democrats, Republicans, Baby Boomers, even AARP members," Borg said. "We have a duty to serve and protect them. As regulators, our jobs have never been more important or demanding."

Enforcement Headline Summaries (Continued from page 1)

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MN Partners, Inc. Wrap-Up: Authorities and Banks Cooperate to Return "Millions" to Victims of Securities Scam (Phenix City)

MONTGOMERY, ALABAMA (October 2, 2001) -- Joseph P. Borg, Director, Alabama Securities Commission (ASC) announced final preparations to return the remaining seized funds and assets to victims, from the closed MN Partners, Inc. (MN), Phenix City, Alabama.

Borg said, "This is a very unusual outcome for the victims of a securities scam, because there were about 32,000 shares outstanding and owners of each share will receive at least sixty seven percent of their investment back. The credit goes to the quick and cooperative efforts of the District Attorney office from Russell County, the Alabama Attorney General, and the commercial banking industry in coordination with the Alabama Securities Commission. This resulted in bank accounts and office assets being frozen and confiscated from MN Partners, Inc. by ASC. This is a prime example of what can be done to protect the public when government and commercial agencies work together."...

Kash Pled Guilty to Selling Unregistered Securities (St. Clair County)

MONTGOMERY, ALABAMA (September 27, 2001) ...William Bryan Kash pled guilty to the offense of selling unregistered securities in violation of Ala. Code §8-6-4 (1975), before the Honorable Judge William E. Hereford on September 26, 2001.

Kash received a three year sentence suspended. His requirement of probation is to pay restitution to all victims, not just those on the indictment. A hearing has been set to determine the amount of restitution and the manner of payment...

Borg said, "This case confirms that viatical settlement contracts and related promissory notes based on viatical settlement contracts are indeed securities as defined by the Alabama Securities Act and the Court."

...The viatical business makes money by purchasing life insurance policies from people who have a terminal illness at a substantial discount from the face amount of the policy.

Blacketer Sentenced to 25 Years (Walker County)

MONTGOMERY, ALABAMA (September 19, 2001) Francis Eugene Blacketer, of Springfield, Missouri, has pled guilty and was sentenced to 25 years in the state penitentiary for 80 felony counts of fraud...in a hearing on September 14...

Blacketer...faces the issue of victim restitution and also must appear as a material witness in a criminal case pending against an alleged business associate. Additionally, Blacketer faces federal charges in Missouri involving wire and mail fraud...Blacketer was extradited from Missouri to face the Alabama charges...

Borg, Director of the Alabama Securities Commission, said, "Thanks to the combined efforts of state and federal authorities Blacketer and his business called Creative Funding will no longer cheat citizens out of their hard earned dollars. This was a loan scheme, where investors supplied the loan money for mortgages, which were to pay a high rate of return...the mortgages never existed, investors lost their money which will probably never be recovered." (Continued on page 4)

(Continued from page 3)

Andrew Williams Sentenced to 10 Years in Prison (Daphne)

MONTGOMERY, ALABAMA (August 6, 2001) ...Williams, who appeared before Circuit Judge Robert E. Wilters, plead guilty to 1 felony count of Theft of Property 1st Degree, 1 felony count of Selling Unregistered Securities, and 1 felony count of Fraud in Connection with the Sale of Securities.

Williams was sentenced to 10 years in prison, and was ordered to pay \$148,750 in restitution to 30 Baldwin County victims.

Borg, the Alabama Securities Commission Director, said, "Williams utilized a Ponzi type of investment scheme to pay off and promote his program to the most current investors using the money given to him from previous investors. The investigation revealed that 66 Alabama investors gave Williams over \$660,000 to participate in his scheme."

Leonard James Surrenders to Franklin County Sheriff

MONTGOMERY, ALABAMA (August 3, 2001) ...James...surrendered at the Franklin County Sheriff's office, in Russellville, Alabama. The warrant for James arrest was based on evidence presented by the Franklin County, District Attorney and the Alabama Securities Commission to a Franklin County Grand Jury in May. James is charged on one count of Theft of Property 1st Degree and six counts of Felony Securities Violations. D.A. John Pilati said, "This is the next step in an unfolding story involving alleged criminal activity by James. As I previously stated, this probe did not target Senator Bedford and Mr. Blount."

Securities Commission Director Borg said, "The added efforts of the Alabama Attorney General Office, Senator Roger Bedford of Russellville, and cooperation from the bond underwriters assisted in providing the evidence which led to this arrest."

Evidence alleges that James misused proceeds of an Industrial Development Bond issued by the City of Russellville, Alabama and failed to make required disclosures. Also, after James took control of the funds produced by the sale of the bonds to unsuspecting investors, he used those funds for purposes not approved by the bond issue.

Sheriff Deputies Arrest Spruiell of Cropwell, Alabama

MONTGOMERY, ALABAMA (May 2, 2001) Joseph P. Borg, Director, Alabama Securities Commission announced today that on April 27, 2001, warrants were signed by agents of the Alabama Securities Commission Enforcement Division alleging that Joe Edward Spruiell, a resident of Cropwell, Alabama committed theft in connection with the sale of securities.

On May 1, 2001 St. Clair County Sheriff's deputies arrested Spruiell and formally charged him with two counts of 1st degree theft. A preliminary investigation conducted by the Alabama Securities Commission disclosed that Spruiell obtained approximately \$70,000 from two St. Clair County residents. Spruiell represented that he would invest funds on behalf of his clients with a company known as Life Benefit Annuity Marketing.

Promoter of Nancy's Tours in Lexington, Alabama Sentenced to 12 Consecutive Years of Imprisonment

MONTGOMERY, ALABAMA (April 17, 2001) ...Nancy Trousdale was the owner, operator, and promoter of Nancy's Tours in Lexington, Alabama and Donald Trowbridge was a partner in the venture.

(Continued on page 5)

(Continued from page 4)

Trousdale was placed into immediate custody and sentenced to 12 consecutive years of imprisonment and ordered to pay restitution of over \$3.7 million dollars to victims who invested in her travel ticket venture...

Trousdale was sentenced for the following offenses:

- Sale of securities in Alabama without being registered as an agent with the Alabama Securities Commission.
- Made false statements to an investor for the purpose of selling a security.
- Misdemeanor to believe checks issued to investors were valid.
- Used investors' money to pay for personal expenses.
- Issued checks for investment returns which were returned due to insufficient funds.

Trowbridge previously pled guilty to 19 counts of a Lauderdale County Grand Jury indictment for his actions in the Nancy's Tours scheme. He was sentenced to six months in a work release center and ordered to pay over \$2 million in restitution to victims of the travel ticket venture. Trowbridge received a less severe sentence for his cooperation with authorities during the investigation.

Reverend Agee, Birmingham, Alabama, Pled Guilty to 1 Count of Sale of Unregistered Security

MONTGOMERY, ALABAMA ...Reverend Hosea Agee, Jr. ...appeared before the Honorable Judge Mac Parsons, Bessemer Division, in Birmingham, Alabama on February 26, 2001.

Agee pled guilty to 1 count of Sale of Unregistered Security and also acknowledged 1 prior felony conviction. Judge Parsons gave Agee a 4 year suspended sentence of confinement, with 5 years of probation, and an order to pay restitution of \$21,000 to 3 victims at \$475.00 per month beginning March 5, 2001. Also Agee was barred from selling securities...

These indictments allege that Agee violated various securities' laws as a result of his sales of Church bonds of Westside Church of God In Christ, Inc. Other charges are pending in the Birmingham Division of Jefferson County.

Borg said, "This crime fits the profile of an affinity scam which targets people in an organization by a member of that organization, which is oftentimes a church."

Michael Carreca of Prattville, Alabama, Arrested on 8 Counts of Fraud

MONTGOMERY, ALABAMA (February 14, 2001) Honorable Janice M. Clardy, District Attorney, 19th Alabama Judicial Circuit, and Honorable Joseph P. Borg, Director Alabama Securities Commission announced today the Grand Jury indictment of Michael Carreca, Prattville, Alabama on 8 counts of Fraud in Connection with the Sale of Securities, 2 counts of Theft in the First Degree, 3 counts of Sale of Unregistered Securities, and 3 counts of Sale of Securities by an Unregistered Agent...

It was alleged that Carreca, the owner of Southern Diversified Business Enterprises, Inc. (SDBE), illegally sold common stock to investors. A review of the Securities Commission registration files disclosed no record of registration or exemption from registration for Carreca as a dealer or agent in the state of Alabama, and no record of registration or exemption from registration for SDBE.

Further allegations indicate that Carreca led investors to believe their returns were guaranteed and would be used to further Southern Diversified Business Enterprises, Inc. and that Carreca converted investor funds to personal use.

THE NEW ASC FINANCIAL EDUCATION PROGRAM



As the new Education and Public Affairs Manager for the Alabama Securities Commission one of my main priorities, since arriving in February 2001, is to establish and promote a superb Financial Education program throughout the state of Alabama.

The informed investor no matter what age, profession or level of wealth has a better chance of sharing in our great nation's prosperity and is less likely to fall prey to securities fraud.

Dan Lord

Financial Literacy Programs for Public and Private Schools (K-12).

The Financial Literacy program offers two professionally developed curriculum books, free of charge, to any interested high school public or private school teacher at no expense. The first publication released was the *Basics of Saving and Investing* teaching guide. This guide can be and is presently used in various business, math, and social studies courses. During the last part of 2001 high school economics teachers throughout the state of Alabama will receive the new publication called *Personal Finance in the Economics Classroom*. The new publication meets specific curriculum criteria for Alabama Public Schools. These publications were developed jointly by securities regulatory and business organizations such as IPT, NASAA, NASD and NICE. ASC provides training and information to teachers requesting assistance in the use of these publications.

Financial Education Programs for All Citizens of Alabama.

In addition to providing printed information to any citizen who calls or writes we have provided Fraud Prevention and Informed Investor Education to all segments of society in Alabama. Some of the organizations receiving presentations and training upon request included the AARP (mature citizens), NAIC (investor clubs), Masons, Commercial Banking Industry, Rotary Clubs, Southern Business Education Association (SBEA). Also, we are working with the Alabama Cooperative Extension System and have participated in an annual conference called *Unlocking & Sharing Resources for Urban Families* in the Huntsville area and *Protecting Elders from Financial Abuse* in the Montgomery area.

Why is the Need for Financial Education at a Critical Point?

The amount of wealth stolen through securities fraud in Alabama and the United States is in the billions. Scams have stolen millions of dollars from citizens in Alabama and most of them cover many other states and countries. The size of investment loss in scams typically range from \$1-\$500 million. With few exceptions victims lose most or all of their money. (Continued on page 7)

THE NEW ASC FINANCIAL EDUCATION PROGRAM (Continued from page 6)

Financial Education is one of the strongest preventative measures against securities fraud for Alabama citizens and saves millions of dollars for state and federal law enforcement, judicial and social agencies. ASC teaches citizens to make informed investment decisions, how to check out all types of securities and dealers for appropriate registration, measures to prevent becoming a victim of securities fraud, and the reporting of suspected illegal activities. Citizens must learn to invest wisely. They will not be able to depend on social security and employment-sponsored pension plans for retirement income. According to a study released by the Securities and Exchange Commission, April 1999--"Of the approximately 120.4 million American workers, about 60.4 million public and private sector workers have no pension plans." According to a 1997 study by Public Agenda, "more Americans are working for smaller companies--less likely to have pension plans, or even voluntary retirement plans." All working citizens of the United States will have expanded opportunities to invest tax sheltered dollars in preparation of future retirement, this increases the requirement for Financial Education and fraud prevention awareness.

There is a Financial Literacy Crisis Among Youth in America, according to a study released by the Securities and Exchange Commission, April 1999.

"Teenagers in the United States have become a formidable economic force. In December 1998, Teen age Research Unlimited projected that teens ages 12 to 19 spent \$94 billion of their own money--including money earned or received from allowances, gifts, or employment--in 1998, compared with \$84 billion in 1997....Teens also influenced the spending of an additional \$47 billion in family money. That's a total of \$141 billion."

"A 1998 poll of 14 to 16 year-olds revealed that "53 percent received little to no financial advice from their parents" And according to a 1998 survey of 13-21 year-olds, only 26 percent reported that their parents actively taught them how to manage money."

"The average college student who takes out student loans graduates with a debt burden of \$20,000."

"According to a survey by *Consumer Reports*, "sixty-four percent of college students have a credit card in their name, and 20 percent have four or more cards."

"In its 1999 Youth & Money Survey of students ages 16 to 22, the American Savings Education Council (ASEC) found that "28 percent of students with a credit card roll over debt each month."

"...a 1997 survey of individuals who filed for personal bankruptcy protection revealed that 8.7 percent of all bankruptcy filings were among young adults ages 18 to 25 years old."

If our youth are not Financially Educated they will not share or profit in the growth opportunities of this great nation and emerging business worldwide.

On the Horizon.

The new Financial Education program has made great headway since a position was allocated to work this and the Public Affairs program full time at the Alabama Securities Commission. On the horizon ASC is looking at networking and building a coalition to support and promote Financial Education among government and commercial agencies who have a common interest to promote Financial Education.



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Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisors, and investment advisor representatives, the registration status of securities, to report suspected fraud, or obtain consumer information:

Call: 1-800-222-1253

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From the Director

Dear Investor,

The Alabama Securities Commission (ASC) regulates the securities industry in Alabama.

ASC is committed to protect investors against securities fraud and provides aggressive enforcement actions against any firm or individual who has violated the Alabama Securities Act or other state and federal statutes to the detriment of Alabama investors.

The Alabama Securities Act provides for the licensing and regulation of securities broker-dealers, agents, investment advisers and investment adviser representatives, and financial planners. ASC regulates the individual securities through registration. All of the above entities must be registered with the ASC to conduct business in Alabama unless subject to a statutory exemption from registration.

ASC promotes financial literacy to all citizens and students in Alabama by providing presentations, free information and access to curriculum for financial literacy education.

Prepare yourself to make an informed investment decision! Contact the Alabama Securities Commission to determine if the representative and firm with whom you wish to do business are properly registered in Alabama. Also, the Commission staff can provide free information relating to the disciplinary history (complaints, civil law suits, etc.), educational background and work experience of a firm or representative.

Sincerely,

Joseph P. Borg
Director