

Director's Comment to the Legislature

- State Securities Cops on the beat
- Settlements net Alabama millions
- Commission increases audits
- Legislation to strengthen the Alabama Securities Act

Dear Legislators,

The Alabama Securities Commission was proud to successfully serve the State of Alabama with outstanding results during the past year.



Joseph P. Borg, Director

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

State securities cops on the beat:

Alabama Securities Director represents US State Securities Regulators before Committee on Banking, Housing, and Urban Affairs, United States Senate.

“The Role of State Securities Regulators in Protecting Investors” (Excerpts from testimony, June 2, 2004)

Chairman Shelby, Ranking Member Sarbanes and Members of the Committee, I'm Joe Borg, Director of the Alabama Securities Commission and Chairman of the Enforcement Section of the North American Securities Administrators Association, Inc. (NASAA)¹. It's been a privilege for me to serve as Director of the Commission since 1994, and to have been elected as NASAA's President for during 2001-02. It's a particular honor for me to have the opportunity to publicly thank my Senator, Richard Shelby, for his thorough and thoughtful approach to restoring investor confidence in our markets.

The enforcement role of states securities regulators differs in some ways from the SEC and the self-regulatory organizations (SROs). Because our local offices are often the first to receive complaints from investors, state securities regulators serve as an early warning system, working on the front lines, investigating potentially fraudulent activity, and alerting the public to the latest scams. After identifying a problem, many states can take immediate enforcement

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¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was founded in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

ASC Statistics for Fiscal Year 2004 (10/01/03-9/30/04)

- Restitution to victims of securities fraud: **\$ 11,958,356.**
- Rescissions ordered in ASC cases: **\$ 3,508.**
- Administrative Actions: **50.**
- Criminal Felony Convictions Obtained: **5.**
- Public Warnings Issued: **20.**
- Registration Division issued **100,032** licenses/registrations.
- Cases investigated **270.**

At the end of FY 2004:

- **39** Individuals awaiting grand jury action, arrest or trial.
- **\$7.4 million** contributed to the General Fund after all expenses.
- **55** positions (includes: 7 attorneys; 12 special agents; 8 analysts)

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action without the time-consuming need to obtain formal agency orders. States also have a history of taking enforcement actions against the very worst fraudsters, often those selling unlicensed products and Ponzi and pyramid schemes of all types.

States' Investigations into Mutual Fund Industry Abuses

I commend this Committee for its thorough and deliberative examination of trading abuses in the mutual fund industry. State securities regulators, the SEC, NASD, and mutual-fund firms themselves have launched inquiries into mutual fund trading practices. To date, more than a dozen mutual funds are under investigation and several mutual fund employees have either pleaded guilty, been charged or settled with state regulators.

State Securities Enforcement Activity

These high profile national cases arise periodically, but they should not obscure the more routine caseload representing the bulk of the states' enforcement work. As always, state securities regulators continue to vigorously pursue sales practice abuses and a variety of scams and frauds against unsuspecting investors. State securities regulators have a long history of protecting investors at the local level day in and day out. We often initiate investigations as a result of complaints from investors in your states who feel they have been wronged by a broker-dealer, securities professional, or those claiming to be a securities specialist. Each NASAA member has one or more offices within their state, with contact information readily available on the web. Many investors understandably feel that the logical place to start with a grievance is their local state securities regulator. The states have compiled an impressive record in bringing enforcement cases, including criminal prosecutions. The chart before you, and attached to this testimony, illustrates state enforcement statistics for the reporting period 2002 to 2003 with over 70 percent of the 52 jurisdictions responding. The states filed a total of 2964 administrative, civil and criminal enforcement actions; assessed \$822,315,470 of monetary fines or penalties; collected \$660,109,508 in restitution, rescission and disgorgement and sentenced criminals to over 717 years of incarceration. NASAA sent out a recent survey to obtain this latest data, and I'd be pleased to follow-up with the Committee in a few weeks with more complete information.

Because we're grass roots regulators, we often serve as an early warning system of emerging corporate frauds and investment scams before they are detected at the federal level. Other frauds, generally relating to companies not traded on any exchange, never reach the federal level and are handled by state regulators. The Alabama Securities Commission's Enforcement Division opened an investigation on Francis Clark Sr., CEO and President of US Fabtec L.L.C, located in Alabama. US Fabtec, L.L.C. was to be a joint venture with Mitsubishi Aluminum Fabtec Holding, Inc., a subsidiary of Mitsubishi International Corporation. Complaints alleged that Clark spent corporate funds on personal items such as country club dues and his hobby of stock car racing. Mr. Clark solicited seven domestic investors for \$1,407,676 and two Japanese Companies to invest \$1,287,553 for a total of \$2,695,229. It was determined that Clark thereafter continued to solicit additional investments and embezzled money from the company. In 2003, Mr. Clark was sentenced to 12 years and to pay restitution of \$1,603,117.04 for two counts of Securities Fraud and two counts of Theft of Property I.. (If you would like a transcript of the full testimony of Joseph Borg before the US Senate contact the Alabama Securities Commission)

Excerpt from The Birmingham News Article (Thursday, June 03, 2004):

MARY ORNDORFF (News Washington correspondent)

Shelby: Investors need strong state regulators

WASHINGTON - State regulators are often the first line of defense against investment scams and securities fraud and Congress should resist any attempts to curtail their authority, Sen. Richard Shelby said Wednesday.

"I believe there is a role for state regulators of securities. They're the enforcers, the police on the beat. They're close to the ground," the Alabama Republican said.

Shelby, as Chairman of the Senate Banking Committee, summoned a panel of advocates for strong state regulatory agencies and devoted a morning to hearing their testimony. No bill was on the agenda but the session was clearly a message to anyone thinking about tinkering with state powers. Shelby wasn't specific, but the issue has come up among House members.

"There have been statements and other people at times have talked about how the (federal Securities and Exchange Commission) should be the sole regulator . . . of our securities markets but you don't hear this from us in the banking committee, on both sides of the isle," Shelby said...

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"Because we're grassroots regulators, we often serve as an early warning system of emerging corporate frauds and investment scams," said Borg, who is also Chairman of the Enforcement Section of the North American Securities Administrators Association...

Alabama Securities Commission increases audits:

ASC has reorganized to more efficiently manage licensing/registration and meet new auditing requirements.

In late 1996, Congress passed the National Securities Markets Improvement Act "NSMIA" which produced comprehensive changes in the regulatory scheme for investment advisers and their representatives. Investment advisers are entities (generally companies and sometimes sole proprietorships) who, for compensation, advise investors as to whether they should purchase or sell securities. NSMIA established new regulatory methods which require the SEC to primarily regulate advisers with assets under management in excess of \$25 million and exclusive authority over investment advisers that advise mutual funds, regardless of size. States will primarily regulate the investment advisers with assets of less than \$25 million. This new Act now requires ASC to audit all qualifying investment advisers who domicile in the State of Alabama.

In order to meet new auditing requirements, this Division was divided into two functions and two of our most experienced and qualified analysts were made managers; one manager over the Licensing/Registration function and another manager over the Auditing/Exams function.

A systematic schedule is almost complete which will audit over 100 qualifying investment advisors on a recurrent basis. This is a significant increase in workload and when the system and qualified personnel are on board, the Commission should be able to effectively audit all domiciled investment advisors every three years.

Non-scheduled audits of securities broker-dealers, agents, investment advisors, investment advisor representatives, and financial planners will continue at increased levels and may occur anytime "for cause" based on inquiries generated by complaints or as a result of an enforcement investigation.

Legislation

The Alabama Securities Commission and the Alabama Law Institute will introduce new legislation (the Alabama Securities Act) based on the National Conference of Commissioners on Uniform State Laws (NCCUSL) endorsed Uniform Securities Act. The principle of moving our laws governing the securities industry in close uniformity with federal law is essential in a world market with electronic money transfers, records, signatures, filing, and trades which may take place in a moments notice from any part of the world.

Also, a move towards uniformity better aligns federal and state securities law to compliment each other in order to protect investors from securities fraud and preserve legitimate capital markets. ###

SELECTED NEWS REPORTS

MONTGOMERY COUNTY (January 14, 2004)

Kelly Vickers, an attorney, last of 9 sentenced in case involving Daystar

Honorable Joseph P. Borg, Director of the Alabama Securities Commission announced today that Kelly Vickers, a local attorney from Montgomery, Alabama was sentenced to 365 days in the county jail suspended and placed on 2 years probation, ordered to pay \$25,000 in restitution to victims, fined \$2,000, ordered to pay a \$1,000 assessment to the Alabama Crime Victims Compensation fund, ordered to report to Court Referral and ordered to conduct 100 hours of community service.

Vickers had pled guilty, July 24, 2003, to one count of theft of property in the third degree as a result of charges surrounding financial activities involving the proposed expansion of the former Daystar Assembly of God located in Prattville, Alabama.

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STATE WIDE (February 17, 2004) **Ten Alabama State Agencies announce today the establishment and implementation of a new alliance to fight the ongoing war against white collar crime throughout the state of Alabama:**

Members of the Economic Crime Alliance of Alabama:

1. Alabama Securities Commission
2. Alabama Department of Revenue - Investigations Division
3. Office of the Attorney General
4. Department of Examiners of Public Accounts
5. Office of Prosecution Services (District Attorneys)
6. Alabama Department of Public Safety - Alabama Bureau of Investigations
7. Alabama Insurance Department
8. Alabama Criminal Justice Information Center
9. Alabama Department of Industrial Relations
10. Alabama Department of Forensic Sciences

Mission Statement:

The mission of the Economic Crime Alliance (ECAA) of Alabama is to provide a statewide support system for the prevention, investigation, and prosecution of financial, economic and high technology crime, and to support and partner with other appropriate entities in initiatives addressing the protection of public funds and the financial resources of the citizens we represent.

ECAA is a non-funded partnership of law enforcement agencies, audit agencies and state regulatory bodies with investigative authority, and state and local prosecution offices with jurisdiction within the State of Alabama.

The Alliance will combine law enforcement agencies and prosecutor's knowledge and resources to better combat economic and high-tech crime and effectively prosecute offenders.

COLBERT COUNTY (March 24, 2004) **Dale and Shirley Graybill were arrested**

The Honorable Gary Alverson, District Attorney, 31st Judicial Circuit, Colbert County and the Honorable Joseph P. Borg, Director, Alabama Securities Commission announced that Dale and Shirley Graybill were arrested March 22, 2004 on two, 3 count indictments returned against them by the Grand Jury of Colbert County for Securities Fraud involving a company know as Memlock Systems. The Graybills were released on \$15,000 bond each.

The indictments allege that the Graybills sold unregistered securities (2 counts each person) described as an off-shore bank debenture trading program and employed a scheme to defraud investors (1 count each person) in violation of the Code of Alabama 1975. A review of the Commission registration files disclosed no record of the registration or exemption of any securities issued by Dale or Shirley Graybill or Memlock Systems in the State of Alabama.

ALABAMA & MISSISSIPPI (March 26, 2004) **Regulators Assess \$225,000 Fine and Penalties Against AmSouth Investment Services -- *Joint investigation uncovers poor oversight, problems with variable annuities***

Secretary of State Eric Clark and the Alabama Securities Commission have assessed \$225,000 in fines and penalties against Birmingham-based AmSouth Investment Services, Inc., a subsidiary of AmSouth Bank, for failure to adequately protect investors in two states.

"In this joint investigation involving two state regulators, the SEC and the securities industry, we found a number of cases of poor oversight and, in one case, outright illegal activity by an AmSouth Investment Services representative," Clark said. "Most of the problems we found related to variable annuities and their unsuitability for most investors. This settlement allows all Mississippi victims to get out of their variable annuity without any penalties or sales charges, and implements new policies to protect future investors."

Under the agreement, AmSouth Investment Services will pay a \$25,000 fine, reimburse the states \$75,000 in investigative costs, and contribute \$125,000 for investor education programs in Mississippi and Alabama. Mississippi will receive two-thirds of the total amount; Alabama will receive one-third. AmSouth Investment Services must also pay for an independent review of all internal policies and procedures designed to detect and prevent securities law violations, and improve access to compliance and supervisory rules at every branch office.

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ALABAMA & ST. CLAIRE COUNTY (April 7, 2004) SEC charges Timothy R. Heyman and Heyman International, Inc. for engaging in an ongoing Ponzi scheme that raised over \$10 million from investors in nearly a dozen states. The Alabama Securities Commission (ASC) issues simultaneous Cease and Desist Orders against Heyman, Heyman International, Inc. and other parties for their involvement in the scheme.

On April 5, 2004, the Securities and Exchange Commission filed a Motion for a Temporary Restraining Order seeking an asset freeze and other emergency relief in the United States District Court for the Northern District of Alabama to halt an ongoing \$10 million Ponzi scheme conducted by Timothy R. Heyman ("Heyman"), and Heyman International, Inc. ("Heyman International"). The Court entered temporary restraining orders restraining and enjoining Heyman and Heyman International from violations of the registration and antifraud provisions of the federal securities laws. The Court also entered orders to freeze the assets of Heyman, Heyman International and Heyman International investor funds wherever located, among other emergency relief.

The Alabama Securities Commission has simultaneously issued a Cease and Desist Order against Heyman and Heyman International. The Cease and Desist Order also names Donald E. Watts, Betty Watts and Omni Fasteners Components Corp., all of Pell City, Alabama, alleging the unregistered sale of securities and that they acted as unlicensed broker-dealers and agents in violation of the Alabama Securities Act.

The Securities and Exchange Commission, Internal Revenue Service, Federal Bureau of Investigation and Alabama Securities Commission are working together on a continuing investigation.

VIENNA, AUSTRIA (April 10, 2004) Honorable Joseph P. Borg, Director of the Alabama Securities Commission has accepted an invitation to speak at the United Nations Commission on International Trade Law (UNCITRAL) in Vienna, Austria, April 16, 2004.

Borg said, "I am proud to represent all State securities regulators and the great State of Alabama as participants in this international effort to build unity and cooperation in fighting crime. Presently, a wide variety of laws and policies in different countries often make it very difficult to track down criminals or laundered money that has left our borders. International crime affects Alabamians and citizens throughout the United States as people around the world can invest via the internet from anywhere and at anytime. Alabama citizens have been victims to offshore Ponzi, foreign currency, pyramid and prime bank schemes. Now is the time to set up cooperative information sharing programs, policy and laws to move towards greater enforcement and protection from fraud."

JEFFERSON COUNTY (April 30, 2004) The Alabama Securities Commission announced the arrest of Terry Harris, a resident of Birmingham, Alabama. Harris is the founder of the former Wealth Builders International (WBI), a Birmingham based company.

On April 29, 2004, Harris was arrested on a 12 count indictment returned by the April 2004 session of the Jefferson County Grand Jury based on 1 count of Selling Unregistered Securities, 2 counts of Selling Securities Without Benefit of Registration as a Securities Agent, 2 counts of Transacting Business as an Unregistered Investment Advisor, and 7 counts of fraud in connection with the sale of securities. At the time of his arrest Harris was appearing at the Montgomery County Courthouse for an arraignment concerning a previous indictment by the Montgomery County Grand Jury.

Harris was placed in the Montgomery County Detention Facility awaiting transport to Jefferson County and bond was set at \$50,000. He was later transported to Birmingham and released on bond. Previously, on March 24, 2004 Harris was arrested, by the Birmingham Police Department, on a 3 count indictment returned by a Montgomery County Grand Jury based on 1 count of Selling Unregistered Securities, 1 count Selling Securities Without Benefit of Registration as a Securities Agent, and 1 count of Transacting Business as an Unregistered Investment Advisor. Harris was released on a \$15,000 bond.

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The Commission's investigation of WBI indicates that between September 1, 2001 and February 26, 2003, approximately 1,767 investors deposited \$4,743,537.98 either in WBI or an associated entity. Investors were paid approximately \$952,338.90 as profits which in fact did not exist. Trading fees/losses totaled \$1,088,302.08. Unaccounted/ misappropriated funds totaled \$197,829.05. The amount of funds available for disbursement totaled approximately \$2.5 million.

WALKER COUNTY (May 25, 2004) **The Honorable Charles Baker, District Attorney, 14th Judicial Circuit, Walker County, Alabama and the Honorable Joseph P. Borg, Director, Alabama Securities Commission announced today that on May 17, 2004, John Mewbourn pled guilty to 6 counts of sale of unregistered securities before Judge James C. Brotherton, Circuit Court of Walker Co...**

John Mewbourn, formerly a pastor of Agape Christian Ministries, was involved in a mortgage scam with Francis Eugene Blacketer of Springfield, Missouri who was indicted on 16 counts of selling securities in Alabama without being registered with the Alabama Securities Commission. Francis Eugene Blacketer pled guilty and was sentenced to 25 years in the state penitentiary for 80 felony counts of fraud, by the Honorable Judge James C. Brotherton in a hearing on September 14, 2001.

Creative Funding was a loan scheme, where investors supplied the loan money for mortgages, which were to pay a high rate of return. At the end of the contract, the borrower was supposed to make a single "balloon" payment that would return the investor's principal plus substantial interest. Since the mortgages never existed, investors lost their money and it will probably never be recovered.

MOBILE COUNTY (July 28, 2004) **Joseph P. Borg, Director Alabama Securities Commission and John Tyson, District Attorney, 13th Judicial Circuit in Alabama announced today the arrest and revocation of the bonds of Thomas E. McCray and Inez S. McCray of Mobile, Alabama.**

Thomas and Inez McCray were initially arrested by agents of the Alabama Securities Commission on May 7, 2004 and were charged with one count each of selling unregistered securities and selling securities while not registered as a securities agent in the State of Alabama. The charges were brought as a result of a joint investigation conducted by the Mobile County District Attorney's office and the Alabama Securities Commission. The McCrays were released from custody on the same day of the arrest after each posted a \$200,000.00 bond.

On July 27, 2004, Thomas and Inez McCray appeared in Mobile District Court for a preliminary hearing on the charges. After hearing arguments, District Court Judge Charles McKnight found that probable cause existed to refer the charges to the Mobile County Grand Jury. During the hearing Judge McKnight also heard testimony and arguments on District Attorney Tyson's motion to revoke the bonds of Thomas and Inez McCray. Assistant District Attorney Martha Tierney presented evidence showing that Thomas and Inez McCray continued to commit felony securities violations while free on bond. Judge McKnight revoked the bonds of Thomas and Inez McCray and remanded the Defendants to the custody of the Mobile County Sheriff.

The McCray's are charged with selling unregistered securities in the form of certificates of ownership in an entity known as Health & Wealth Coop in Sharpsburg, Kentucky. On May 6, 2004, District Attorney Tyson's office began receiving complaints alleging that Thomas and Inez McCray were offering and selling investments issued by Health & Wealth Co-op in Mobile County, Alabama. The Complainants alleged that the McCray's held meetings at their home in Mobile, Alabama, promoting Health & Wealth Coop.

During these meetings the McCray's represented that a deposit or investment, with Health & Wealth Coop would pay investors monthly interest ranging from 6.25% to 12.5%.

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ELMORE COUNTY (July 29, 2004) **Joseph P. Borg, Director, Alabama Securities Commission, Randall V. Houston, District Attorney, 19th Judicial Circuit in Alabama, and Elmore County Sheriff Bill Franklin announced today the indictment and arrest of Edwin Rick Wood of Millbrook, Alabama on 21 counts of the sale of unregistered securities, 21 counts of the sale of securities by an unregistered agent, 64 counts of Securities Fraud, and 16 counts of theft of property in the first degree. Circuit Judge Ben A. Fuller set the bond on this case at \$600,000.00.**

The indictment alleges that from July 2002 to January 2004, Wood fraudulently induced 34 residents from the states of Alabama, Florida, Louisiana, and Tennessee to invest in excess of \$2.4 million through the sale of oral and written promissory notes. Wood told his investors that they money would be used to further construction projects being performed by his company, Three Hands Construction, LLC.

The indictment further alleges that Wood falsely led his victims to believe that he had exclusive rights to government subsidized construction contracts in the cities of Millbrook and Montgomery, Alabama. Wood told his investors that he would pay them interest on the notes ranging from 20% to 40%.

STATE WIDE (August 13, 2004) **Joseph P. Borg, Director, Alabama Securities Commission warns Alabama citizens to be cautious about telephone calls soliciting the opportunity to purchase over the counter (OTC) stock. An OTC stock is usually valued at less than five dollars per share and may be referred to as a penny stock or pink slip. Since the value of the stock is so small it can double in value or lose value quickly--a high risk investment.**

Borg said, "Alabamians, please beware of telephone calls from people acting like they know you in a prerecorded or scripted message offering you a great inside deal on the purchase of OTC's."

The Commission has received numerous calls today that a female was calling inviting them to join in a great stock buy immediately. The caller will talk fast stating she has a great inside deal on some OTC's. The caller personalizes the conversation by saying her daddy is making a big buy this weekend and you can purchase some of the stocks by calling her back at a certain number on her cell phone. The calls are intended to appear as if the caller is calling a close friend that is receiving "secret" information.

STATE WIDE (August 26, 2004) **Under the terms of settlements announced today between securities regulators and Deutsche Bank Securities Inc. and Thomas Weisel Partners LLC, ALABAMA stands to receive more than \$400,000 upon final acceptance of the terms of the agreement said Joseph P. Borg, Director of the Alabama Securities Commission. The settlements result from allegations of conflicts of interest at brokerage houses where analysts recommended stocks due to improper influence from their investment banking colleagues...**

Borg said the investigations of Deutsche Bank and Thomas Weisel Partners, together with the 2003 Global Settlement, are part of a comprehensive regulatory effort to reform the relationship between investment banking and research and to manage appropriately conflicts of interest. "Today's settlements represent a significant step in our continuing efforts to ensure that investors are treated fairly and provided with objective research," Borg said.

The money received for Alabama will be apportioned to the General Fund, investor education, and local law enforcement as per an agreement in process to be finalized by the Alabama Securities Commission and the brokerage houses.

The Alabama Securities Commission was one of the lead states in the Wall Street investigation, which previously returned \$5.1 million to Alabama in late 2003.

STATE WIDE (September 15, 2004) **Joseph P. Borg, Director, Alabama Securities Commission (ASC), signed an order today directing the following companies to Cease and Desist the illegal sales of securities in the state of Alabama.**

INTERNATIONAL PRODUCT INVESTMENT CORP., ("IPIC") is a Nevada corporation, with an address of 3663 Inland Empire Blvd., P.O. Box 3587, Rancho Cucamonga, CA 91729.

IPIC ATLANTIC LLC ("IPICA") is a Florida corporation with an address of 8544 Lost Cove Drive, Orlando, FL 32819.

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GREGORY SETSER (“G SETSER”) is identified as the President of IPIC with an address of 3663 Inland Empire Blvd., P.O. Box 3587, Rancho Cucamonga, CA 91729.

CYNTHIA SETSER (“CY SETSER”) is identified as the Treasurer of IPIC’s with an address of 3663 Inland Empire Blvd., P.O. Box 3587, Rancho Cucamonga, CA 91729.

CHARNELLE SETSER (“CH SETSER”) is identified as the Office Manager of IPIC’s with an address of 3663 Inland Empire Blvd., P.O. Box 3587, Rancho Cucamonga, CA 91729.

TORSTEN THOMAS HENSCHKE (“HENSCHKE”) is identified as the International Director of IPIC-Atlantic and in that position managed IPIC’s Florida offices located at 8544 Lost Cove Drive, Orlando, Florida 32819.

Director Borg said, “It appears that these organizations have solicited over \$160 million from Christian evangelical leaders, members of evangelical congregations, and affiliated organizations in “joint venture agreements” and “founder’s shares”.

STATE WIDE: AUTAUGA, DALE, GENEVA & HENRY COUNTIES

(October 14, 2004) The Alabama Securities Commission has issued Cease and Desist Orders against multiple Alabama individuals, in a coordinated effort with the United States Securities and Exchange Commission and other regulatory and law enforcement agencies, to halt a 24.5 million dollar “Prime Bank” Ponzi scheme.

As the Securities and Exchange Commission filed emergency action to halt an ongoing fraudulent Securities Ponzi scheme operated by Learn Waterhouse, Inc., a Texas corporation based in Jacksonville, Florida and Tyler, Texas, the Alabama Securities Commission simultaneously issued its Cease and Desist Order and multiple subpoenas to ten respondents believed to be connected with or operating as representatives of Learn Waterhouse, Inc.

The Alabama Securities Commission Cease and Desist Order names Faye Chancey, of Chancellor, Alabama, Jeffery Chapman and Randall L. Wells, both of Prattville, Alabama, Billy Hall, II, of Newton, Alabama, Brian Heath Hughes, Jody Hughes, Stacy Hughes, Charles McVay and Laurie McVay, all of Ozark, Alabama and Patricia Trawick, of Newville, Alabama.

The investigation of Learn Waterhouse conducted by the Alabama Securities Commission, United States Attorney’s Office, Federal Bureau of Investigation, Florida Department of Financial Services, Texas State Securities Board, Arizona Corporation Commission, and the Iowa Insurance Division’s Securities Bureau, determined that from December, 2003 through August, 2004, Learn Waterhouse, Inc, Randall Treadwell, Rick Sluder, Larry Saturday and Arnulfo Acosta, through a multi-level series of representatives and agents, raised at least 24.5 million dollars from 1700 investors nationwide by conducting a fraudulent Prime Bank scheme.

The allegations are that Learn Waterhouse pooled investor funds to engage in “buy/sell” transactions in “secret” “invitation only” bank trading program that promised investor returns ranging from 5 to 50% per month.

The coordinated state and federal actions have resulted in search warrants, freezing of assets, employment of a temporary receiver, and other actions designed to prevent removal of assets and destruction of documents.

Alabama Securities Commission Director, Joseph Borg, stated, “By combining our resources with other state and federal agencies, we multiplied the effectiveness of our resources against those who would swindle the hard earned money from our citizens.”

HUNTSVILLE (October 18, 2004) FEDERAL COURT ORDERS ALABAMA RESIDENT RANDALL NELSON TO PAY OVER \$800,000 TO SETTLE COMMODITY POOL FRAUD CHARGES

In Joint Federal/State Action, Court Orders Nelson to Repay a Total of \$680,000 to Investors and to Pay Civil Penalties Totaling \$125,000.

(Continued on page 9)

The Order settles charges against Nelson alleging violations of the antifraud, registration, reporting and other provisions of the federal commodity laws and the Alabama securities laws in an action brought jointly by the CFTC and Alabama Securities Commission on September 23, 2004. The Order requires Nelson to make full repayment to all defrauded customers and to pay civil penalties amounting to \$125,000. The Order also enjoins Nelson from further violations of the federal commodity laws and state securities, and permanently prohibits him from trading commodity futures contracts or securities. In consenting to the entry of the Order, Nelson admitted that all the allegations of the complaint were true and correct.

The complaint, filed on September 23, 2004, charged that from May 2000 through March 2003, Nelson acted as an unregistered commodity pool operator and engaged in a Ponzi scheme by stealing customer funds, making fraudulent sales solicitations and issuing false account statements. The Alabama Securities Commission and the CFTC joined as named plaintiffs, and charged Nelson with violation of the federal commodity laws and the Alabama antifraud and securities laws.

Investor Alert: ALABAMA, LOUISIANA, MISSISSIPPI (October 29, 2004)

Citizens beware of offers via Internet from Liberty Assets, Inc. (LAI) & Mondale Trading and Foreign Shareholder Protection Department (FSPD)

The State of Louisiana Office of Financial Institutions, Securities Division, Mississippi Secretary of State's Office, Business Regulation and Enforcement Division, and the Alabama Securities Commission warn potential investors to watch out for offers from Liberty Assets, Inc. (LAI) & and Foreign Shareholder Protection Department (FSPD).

Eric Clark, Mississippi Secretary of State, Joseph Borg, Director of the Alabama Securities Commission and John Ducrest, Commissioner of the Louisiana Office of Financial Institutions said, "We have recently received complaints from residents of the United Kingdom, Singapore, Australia and New Zealand who have been solicited by agents of LAI. The complainants state that LAI offered to purchase shares of old stock and shares issued by defunct companies on behalf of groups of investors for as much as four times of the market prices for the securities. However, prior to purchasing the securities LAI requires its participants to deposit what LAI calls a "penalty restriction bond" for 10% of the total purchase price with one of its affiliated companies. Potential investors need to beware of this company. You can easily avoid being a victim of this type of fraud by checking to see if a company is registered to sell securities and the product being offered is registered in your state of residence."

CLEBURNE COUNTY (November 9, 2004) **The Honorable Joseph D. Hubbard, District Attorney for the 7th Judicial Circuit, and the Honorable Joseph P. Borg, Director of the Alabama Securities Commission announced today that Wayne H. Smith, a resident of Heflin, Alabama, was arrested today on warrants issued by the Cleburne, County Grand Jury and charged with 4 Counts of Theft of Property in the First Degree, 2 Counts of Fraud in Connection with the Sale of Securities, 2 Counts of Sale of Securities by an Unregistered Agent, and 4 Counts of Selling Unregistered Securities.**

The alleged violations took place within the 7th Judicial Circuit of the State of Alabama. The violation of any associated securities counts are measured Class C felonies, and are punishable by one year and one day to 10 years in prison, and/or a fine of up to \$10,000.00, or any amount double the pecuniary gain to the defendant. The Theft of Property First Degree is considered a Class B felony punishable by not more than 20 years, or less than 2 years in prison.

Smith, a local attorney, allegedly accepted investment monies from clients leading them to believe their funds would be invested in an "Off Shore Leveraged Loan Program", through an investment entity called Cheaha Management. The investigation revealed that Smith utilized portions, or in some cases, all of the individual client's investment funds for his own personal benefit. Preliminary accounting findings allege Smith took in over \$300,000.00 from investors within the 7th Judicial District.

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SPECIAL NEWS MEDIA RECOGNITION FOR ASC:



[Joseph Borg](#)

Insights takes a look at Joseph Borg, director of Alabama Securities Commission. *

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CNN aired a special INSIGHT news clip highlighting the effectiveness of the Alabama Securities Commission as one of the top state securities regulatory agencies in the country.

The special CNN report highlighted the Commission's unmatched record of convictions over the past 8 years and its ability to obtain meaningful prison sentences for convicted white collar criminals.

This spot ran a total of 15 times over a 10 day period on various CNN programs including CNN Headline News.

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Dan Lord, Education and
Public Affairs Manager

PERSONAL FINANCE EDUCATION UPDATE

Personal financial education and fraud prevention program activities once again exceed prior year initiatives. The Commission assisted in bringing over \$60,000 in grant funds in support of financial education activities from the Investor Protection Trust (IPT). The following pictures and comments describe some activities that are providing free education materials, instruction, and grants to provide personal finance education to the citizens of Alabama. The Commission understands that Personal Finance Education is the key to wealth accumulation, fraud prevention and for all Alabamians to share in the American dream.



APT & ASC Partner to Promote Personal Finance 12/01/04

Joseph Borg, Director of the Alabama Securities Commission presented a grant check in the amount of \$15,200 to Jon Beans, the News Director for Alabama Public Television, at the Montgomery studio. ASC was instrumental in assisting APT to write and receive this grant from the Investor Protection Trust.

APT will use these funds to undertake a major project focusing on financial education. With the journalistic and production resources from their weekly business series, "Alabama @ Work," APT plans to produce educational and informational pieces designed to improve financial literacy across a broad section of the public to include students, first-time home buyers, senior citizens, and working Alabamians.

ASC & Trenholm State College conduct personal finance summer school. Last June ASC partnered with Trenholm State College to teach personal finance skills to high school students from the Montgomery, AL community. The school lasted 8 weeks and the curriculum was based on personal finance and career building information. Activities included a visit to ASC, a business etiquette course and a formal graduation with parents attending.



Jump\$tart Coalition conducts Personal Finance day for over 350 Business/Marketing Education teachers.

ASC is proud to be an active partner/member of the Alabama Jump\$tart Coalition to promote personal financial education in K-12 public and private schools throughout Alabama. On July 19th business marketing teachers were treated to a special day, which included information and free curriculum from numerous agencies to help promote personal finance education in existing courses taught at high schools throughout Alabama. Director Borg assisted Jump\$tart to apply for an IPT grant of \$2,500 and businesses and other organizations made contributions that totaled over \$15,000 in support of this event. The morning activities included a Café type of environment where teachers could examine different curriculum materials and talk to personal finance experts from a wide-array of state, government and business agencies. A luncheon was provided for the teachers and the keynote speaker was the President of the National Jump\$tart Coalition, who talked about the financial literacy crisis in United States. ASC intends to actively work with the Alabama Jump\$tart Coalition to provide Alabama teachers more personal finance materials like packaged or online lesson guides and free curriculum class materials to promote personal financial education in all Alabama schools.

(Continued on page 12)

¹The Investor Protection Trust exists to promote non-commercial investor education. The Trust supports pluralism and equal opportunity in its grant making and in its internal policies. The opportunities that prospective grantee organizations provide for minorities and women are considered in evaluating proposals. Activities supported by grants and program-related investments must be charitable, educational or scientific, as defined under the appropriate provisions of the U.S. Internal Revenue Code and Treasury Regulations. The foundation monitors grants through regular financial and narrative reports submitted by the grantee.



ASC announces a record year for making presentations and providing information to Senior Alabamians

“This year the Commission reached more Seniors in Alabama than ever before,” said Joseph Borg, Director of the Alabama Securities Commission. “Our objective is to teach Seniors to take control of their personal finances and learn to protect themselves from securities fraud. This generation of Seniors is known as the “courtesy generation” and are often embarrassed to check somebody out asking for their money, or to say no when being pressured. Also, when you think about it, Seniors hold most of the accumulated wealth. Sadly enough, when a Senior citizen loses their home and money to an investment scam, they don’t have enough time left to recover. Our Seniors are a great asset to the state, these hard working citizens deserve to enjoy the harvest of their work efforts and sacrifices to make our country and the state of Alabama the best place to live in the world.”

The ASC director and staff spoke about personal finance and fraud prevention to thousands of Seniors last year:

ASC partnered with the Attorney General’s Elderly Abuse office, the Department of senior services, AARP and other agencies to speak at events in Auburn, Birmingham, Dothan, Huntsville, Mobile and Montgomery.



ASC partnered with Medicare representatives, the Department of Senior Services, and a number of caregiver agencies to speak at four events during the week prior to Thanksgiving at Senior Centers throughout Alabama. This is an annual event that historically reaches out to the rural communities. Events took place in Rainsville, Russellville, Center Point and Butler Alabama.

Key Educational Initiatives in 2004

The Alabama Securities Commission (ASC) presented five educational program grants to be used for the promotion of personal finance education throughout the state of Alabama. The grants supported the following new initiatives and the Commission actively participated in each event:

Government and business agencies joined to promote personal finance education to the economically depressed part of West Alabama. The objective is to provide personal finance education to ministers and lay member representatives in churches.

The Jump\$tart Coalition of Alabama developed a program to provide local business and government agency personnel to speak at high schools in the Birmingham, Alabama area.

Participated with the Alabama Cooperative Extension in Huntsville Alabama, to promote, conduct and judge winners for the statewide LifeSmarts high school competition playoff.

ASC developed a curriculum outline and pursued a grant to conduct a high school personal finance summer school for 15 students in partnership with a local junior college.

Jump\$tart Coalition conducted a Personal Finance Day for over 380 Business/Marketing teachers at the annual teacher’s conference in Alabama. ###

ALABAMA SECURITIES COMMISSION

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Fax: (334) 242-0240

Email: asc@asc.alabama.gov

Website: www.asc.state.al.us



SENIORS "TAKE CONTROL" AND PROTECT YOURSELF FROM BECOMING A VICTIM OF SECURITIES FRAUD

1. Don't be a "courtesy victim." You may be from a generation that was taught to be courteous at all times to phone callers, as well as people who visit you at home. Con artists will not hesitate to exploit the good manners of a potential victim. When a stranger asks for your money, you should proceed with the utmost caution. You are under absolutely no obligation to stay on the telephone with a stranger or allow them in your home. In these circumstances, it is not impolite to explain that you are not interested and hang up the phone or ask a stranger to leave your premises. If you are lonely and in need of companionship, don't make the mistake of seeking it from someone whose only real interest is to get his or her hands on your money.
2. Say "no" to any investment professional or con artists who presses you to make an immediate decision. Before investing check out the salesperson, firm and the investment opportunity itself. Extensive background information on investment salespeople and firms is available by contacting the Alabama Securities Commission. Almost all investment opportunities must be registered for sale in the state in which you live. Your state securities agency can tell you if the investment opportunity is properly registered. Before you part with your hard-earned savings, get written information about the investment opportunity, review it carefully, and make sure that you understand all the risks involved.
3. Always stay in charge of your money. A stockbroker, financial planner or telemarketing con artist who wants your money will be more than happy to assure you that he or she can handle everything, thereby relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into something you don't understand or who urges that you leave everything in his or her hands. Constant vigilance is a necessary part of being an investor. If you understand little about the world of investments, take the time to educate yourself or involve a family member or a professional, such as your banker, before trusting a stranger who wants you to turn over your money and then sit back and wait for results.
4. Watch out for salespeople who prey on your fears. Con artists know that many Americans worry they will either outlive their savings or see all of their financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. Swindlers and abusive salespeople often pitch schemes as an opportunity for you to build up life savings to the point where such fears are no longer necessary. Remember that fear and greed can cloud your good judgment and leave you in a much worse financial posture. An investment that is right for you will make sense because you understand it and feel comfortable with the degree of risk involved.
5. Don't let embarrassment or fear keep you from reporting investment fraud or abuse. People who fail to report that they have been victimized in financial schemes often hesitate out of fear or embarrassment that they will be will be judged

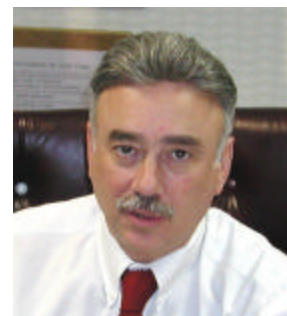
incapable of handling their own affairs. Some senior citizens have indicated that they fear that their victimization will be viewed as grounds for forced institutionalization in a nursing home or other facility. **If you think you have been scammed, the sooner you contact ASC the greater the chance of stopping the fraudster and regaining some of your lost money.**

6. Beware of "reload" scams. Younger victims who are ripped off by swindlers have time to pick themselves up and restore some or all of their losses through new earnings. Most older victims have a finite amount of money that is unlikely to be replenished in the event of fraud. **The result is a panic that is well known to con artists, who have developed schemes to take a "second bite" out of senior citizens who already have been victimized.** Faced with a loss of funds, some senior citizens will go along with another scheme (allowing themselves to, in effect, be reloaded) in which the con artists promise to make good on the original funds that were lost... and possibly even generate new returns beyond those originally promised. When a significant loss occurs contact ASC to check out the person who invested your money before investing more.

Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisers, investment adviser representatives, and financial planners, the registration status of securities, to report suspected fraud, or obtain consumer information. Call: 1-800-222-1253 Fax: 1-334-242-0240 Email: asc@asc.alabama.gov

Write: Alabama Securities Commission
770 Washington Avenue, Suite 570
Montgomery, Alabama 36130-4700

The internet is a great source of free investment information. Check out the ASC website at: www.asc.state.al.us



Sincerely,

A handwritten signature in blue ink, appearing to read 'Joseph P. Borg', with a large, sweeping flourish extending to the left.

Joseph P. Borg
Director