

ANNUAL REPORT
FISCAL YEAR ENDING
SEPTEMBER 30, 2003

**ANNUAL REPORT
FISCAL YEAR ENDING
SEPTEMBER 30, 2003**

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Prepared and submitted pursuant to *Code of Alabama, 1975*, § 8-6-53(d).

STATUTORY AUTHORITY

The Commission is responsible for administering and enforcing the laws of the State of Alabama relative to:

Sec. 8-6-1, *et seq.* - Securities Act No. 740
(1969 Regular Session) and as amended

Sec. 8-6-110, *et seq.* - Industrial Revenue Bonds Act No. 586
(1978 Regular Session)

Sec. 8-7-1, *et seq.* - Sale of Checks Act No. 177
(1961 Special Session)

The Commission's authority extends to **any activity involving the issuance, offering, sale, and other related transactions involving securities made within, into, or from the State of Alabama.**

The purpose of the Securities Act is to protect investors from fraud and to preserve legitimate capital markets. The accomplishment of these objectives is legislatively provided for in five different ways by:

Requiring the registration or the specific exemption from registration of securities prior to their public or private offer of sale;

Requiring the registration of Broker/Dealers and salesmen and regulation of their activities;

Requiring the registration of Investment Advisers and Investment Adviser Representatives and regulation of their activities;

Providing civil remedies to purchasers of securities sold in violation of the Acts; and

Providing administrative, civil, and criminal penalties for those who participate in the unlawful sale of securities.

Through its legislative mandate, the Commission and its staff assist Alabama businesses during capital formation and protects Alabama issuers, businesses, and residents from fraudulent securities transactions. The Commission does not recommend or endorse broker/dealer firms, salesmen, investment adviser firms, representatives, or the purchase of any securities, nor does it pass upon the accuracy or completeness of any prospectus, private placement memorandum or sales literature.

ORGANIZATION

The Alabama Securities Commission consists of the Attorney General, the State Superintendent of Banks, the State Insurance Commissioner (by virtue of their offices). Also, two attorneys and two certified public accountants are appointed by the Governor from lists of nominees submitted by the Alabama Bar Association and the Alabama Society of Certified Public Accountants and confirmed by the Senate. The Commission maintains oversight, provides policy guidance and establishes rules for the performance of its functions and the accomplishment of its purpose. The members of the Commission during Fiscal Year 2002-2003 were:

ACTIVE

HAROLD B. KUSHNER, JR., Chairman	Attorney at Law Birmingham, Alabama	03/01- Present
J. WRAY PEARCE, CPA, Vice Chairman	Certified Public Accountant Birmingham, Alabama	05/01-Present
BILL PRYOR, ESQ., Member	Attorney General Montgomery, Alabama	01/97-Present
ANTHONY HUMPHRIES, Member	Superintendent of Banking Montgomery, Alabama	03/03-Present
WALTER A. BELL, Member	Commissioner of Insurance Montgomery, Alabama	01/03-Present
TYRONE C. MEANS, Member	Attorney at Law Montgomery, Alabama	05/01-Present
DANIEL C. HARDMAN, CPA, Member	Certified Public Accountant Birmingham, Alabama	03/02- Present

PAST

MARIA B. CAMPBELL, Member	Superintendent of Banking Montgomery, Alabama	06/01-03/03
D. DAVID PARSONS, Member	Commissioner of Insurance Montgomery, Alabama	01/99-01/03

OFFICE PERSONNEL

Directorate Division

Joseph P. Borg, Director
Christie A. Rhodes, Executive Assistant II
Denise B. Cornwell, Clerical Aide

Legal Division

Susan B. Anderson, Deputy Director
J. Randall McNeill, Deputy Attorney General
Kimathy J. Booher, Legal Research Assistant

Accounting/Personnel Division

Renee S. Sanders, Senior Accountant
Gwendolyn Lover, Account Clerk

Data Systems Division

David E. Gilmore, IT Systems Specialist

Education and Public Affairs Division

Daniel G. Lord, Training Specialist II
Matthew G. Champion, Student Aide

Enforcement Division

John M. Foley, Sr. Special Agent; Manager/Enforcement	
James G. Pugh, Sr. Special Agent; Manager/Administrative	
Stephen E. Brantley, Special Agent	Kimberly S. Lewis, Special Agent
Ricky G. Locklar, Special Agent	Reuben E. Redd, Special Agent
Charles D. Harrison, Special Agent	Nelson D. Williams, Special Agent
Christopher P. Young, Special Agent	Rossie L. Peters, Special Agent
Patrisa J. Elmore, Executive Secretary	Donjaleque Q. Jackson, Adm. Support Asst. I
Anita F. Wilkerson, Admin. Support Asst. II	Ruth E. Markland, Admin. Support Asst. II

Registration Division

Edwin L. Reed, Attorney I/II	
Rena Davis, Registration Manager; Examinations	Lisa M. Tolar, Registration Manager; Licensing
Marvernitha B. Kyles, Securities Analyst	Rebecca D. Lynam, Securities Analyst
Walter W. Goss, Jr., Securities Analyst	Leslie D. Worrell, Securities Analyst
Arlanda H. Goodwin, Admin. Support Asst I	Sandra S. Pitts, Admin. Support Asst I
Conceita R. Watkins, Clerk	Alrika R. Ingram, Clerk
Melodee M. Major, Clerical Aide	

PURPOSE

The Alabama Securities Commission (the "Commission") administers and enforces the following Alabama statutes: THE ALABAMA SECURITIES ACT, including the Sale of Checks Act, the Pre-Issuance Procedures for Industrial Revenue Bonds and Fiduciary Security Transfers. The Commission is comprised of seven Commissioners, consisting of the Attorney General, the Superintendent of Banks, the Commissioner of Insurance, two Attorneys and two Certified Public Accountants.

The Commission is functionally divided into the following six divisions: (1) Directorate; (2) Legal; (3) Accounting/Personnel; (4) Data Systems; (5) Education and Public Affairs; (6) Enforcement; (7) Registration.

The function of the Commission and its staff is to regulate the sale of securities and the securities industry in Alabama. The Commission's jurisdiction encompasses all securities offered and sold in or from Alabama or to Alabama residents. The Securities Act requires the registration of all securities offered for sale in Alabama unless there is an applicable exemption. The Securities Act provides a series of exemptions to cover situations where, because of the nature of the security or the character of the transaction, registration is not deemed to be necessary in the public interest or for the protection of investors.

With respect to the responsibility for regulating the securities industry in Alabama, the Commission maintains as its primary objective the encouragement of investor protection and confidence in the investment industry. In this respect, all persons who propose to act as broker-dealers, agents (registered representatives), investment advisers or associated persons (investment adviser representatives) must be licensed by the Commission prior to engaging in such activities.

The Sale of Checks Act requires the filing of an application and issuance of a license before engaging in the business of selling, issuing or dispensing checks or receiving money as an agent for obligors for the purpose of paying obligor's bills, invoices or accounts.

The Commission's functions also include pre-clearance of industrial revenue bonds, the investigations of alleged violations of the provisions of the above-referenced statutes along with the initiation of administrative, civil and criminal proceedings and case referrals to other agencies where appropriate.

The primary purpose of the regulatory responsibilities and objectives described above is to protect the public from fraudulent practices in connection with the offer, sale, and purchase of securities in Alabama while encouraging, at the same time, the financing of legitimate business and industry in the state.

ALABAMA SECURITIES COMMISSION

Annual Report

Fiscal Year Ending September 30, 2003



Joseph P. Borg, Director

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

--Legislation, Education & Enforcement--

Alabama is proud to have one of the best conviction rates for criminal securities fraud in the United States. The Commission is lauded as one of the top ten most responsive state securities agencies in the country. The securities industry magazine "Research" has called Alabama "a model" for state regulators.

Recently, in addition to its record in protecting investors, the Commission participated as a lead state, in partnership with the SEC, NYSE, and NASD, in gathering detailed investigative evidence, resulting in new rules of practice and the payment of fines by large Wall Street firms who allegedly issued biased stock research and gave executives of client companies' special access to stock offerings.

The Commission's objective in participating in enforcement and legislation at the national level is to encourage a productive market by leveling the playing field so investors can get accurate analyst information to make an informed investment decision. The most significant barrier to the recovery of our markets is the loss of confidence by investors.

The Commission's active participation with other state regulators through NASAA* has paid great dividends in the regulation of the securities industry. The securities business today has few boundaries, especially with the wide use of the internet. We have seen small scam operations garner millions of dollars from citizens of Alabama, other states and countries all over the world in just a few months using the internet to advertise, solicit investments by email, and by use of other more traditional marketing methods. Alabama's cooperation with other state and federal authorities enables security regulators to combine resources throughout North America.

Some NASAA/ Alabama projects include promoting financial education in high schools, and continual training in enforcement, registration, compliance, etc. ASC staffers are working on uniformity of securities regulation throughout the United States and on cross border issues with our neighboring countries of Mexico and Canada. NASAA is a member of a worldwide securities regulatory organization known as IOSCO (International Organization of Securities Commissioners), as well as an association of North and South American regulators known as COSRA (Council of Securities Regulators of the Americas), in an effort to promote new markets and efficient securities regulation. ASC has been one of three official U.S. states' representatives to IOSCO for the last three years.

The ASC Education and Public Affairs Division is only three years old and has significantly expanded our ability to provide fraud prevention training and materials to all Alabamians. Recently, the Commission has joined with banks, industry and other governmental agencies throughout Alabama to found the Alabama JumpStart Coalition. This volunteer effort will organize and combine resources to promote financial education in high schools throughout the state. This exciting venture will help provide corporate funds and grants for materials and training to public and private schools. The Commission's staff conducts numerous presentations, speaking engagements and seminars for a variety of civic groups and associations, fraternal organizations and educational institutions. The ASC's objective is to educate all citizens of Alabama – from high school students to senior citizens – in controlling one's own resources, to avoid victimization, and to acquire the knowledge and comprehension to make an informed investment decision.

The Commission is committed to promote legislation to ensure a fair market and takes strict enforcement action against people who steal from Alabama investors. Commission activities in this arena will help restore the investment market in Alabama and assist people in saving, investing, and accumulating wealth.

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

EDUCATION AND PUBLIC AFFAIRS

Annual Report Update



Daniel Lord, Manager

The scope of this division has grown beyond expectation since its formation about 3 years ago.

The Senior Citizen education initiative is helping Alabamians protect their retirement pensions and estates. Through ASC programs, Alabamians are learning to effectively protect themselves from security fraud. Also, speaking activities and training sessions provide critical information for people to understand different investment products and proven concepts such as diversification and dollar cost averaging. The working citizen, from technician to construction worker, to teachers and physicians are being informed about current securities scams and

encouraged to “investigate before investing”. Printed materials and internet information is all provided free of charge. The Commission has made partnering arrangements with other state, federal and commercial agencies to provide thousands of dollars of educational delivery to teachers and students in addition to printed materials.

The Commission assisted the Alabama Cooperative Extension, the Jump\$Start Program, and the Alabama Council of Economic Education to receive grants from the Investors Protection Trust, a charitable foundation. Funds come from securities fraud settlements such as the recent Wall Street Settlements that were earmarked for educational initiatives. These funds will be used to purchase materials and training for high school teachers, students and senior citizens.

In Public Affairs, ASC has enjoyed statewide and nationwide publicity on a number of issues such as fraud prevention and the war on white collar crime. Utilizing the media, ASC keeps citizens of Alabama informed about enforcement actions, investor alerts, fraud prevention tips, and free services available from the Commission.

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

The Financial Literacy program offers two professionally developed curriculum books 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. In addition, high school economics teachers throughout the state of Alabama received a new publication entitled Personal Finance in the Economics Classroom. The new publication meets specific curriculum criteria for Alabama Public Schools and is available in hard copy or may be downloaded off the internet. 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, ASC provided Fraud Prevention and Investor Personal Finance education to all segments of society in Alabama. Some of the organizations receiving presentations and training include AARP (mature citizens), NAIC (investor clubs), Commercial Banking Industry, Rotary Clubs, Kiwanis Clubs, and the Better Business Bureau. Also, ASC is working with the Alabama Cooperative Extension System and has participated in numerous annual conferences such as “Unlocking & Sharing Resources for Urban Families” in the Huntsville area and “Protecting Elders from Financial Abuse” in the Dothan area. ASC actively participated for the past three years in the nationwide program called “Facts on Saving and Investing Campaign Month.” For the past two years the campaign has received a letter of support from the President of the United States and a proclamation from the Governor of Alabama.

EDUCATION AND PUBLIC AFFAIRS (continued)

Some Education Activities/Presentations:

Presentations about Services and Fraud Prevention: Kiwanis, Rotarians, Senior Citizens Groups, Retired Railroad Clubs, Extension Clubs, Senior Education Clubs

Legal and Business Schools: Director has addressed MBA students and legal students at schools to include Auburn University, the Cumberland School of Law, Jones School of Law...

Professional Education Seminars: Association of Certified Fraud Examiners, Financial Planning Associations, Institute of Internal Auditors, Society of CPAs, ...

Department of Education: Presentation of ASC services to high schools and free financial curriculum materials to Business Technical Teachers at state convention.

High Schools: Upon request, special financial education presentations are designed for students and teachers. Mentor a local high school investment club in Montgomery and provide financial education day at the ASC for students.

State Agencies: Provided service and finance education seminars to extension agents in Huntsville, Mobile, Clanton, Dothan and other areas. Worked with the extension agents in a joint effort to teach senior citizens about fraud prevention in Dothan, Auburn, Gadsden, Huntsville, Florence and many other areas. Partnered with the Department of Senior Services at events in Dothan to promote fraud prevention through literature and free video presentations.

Some Initiatives:

Affinity: Working with the FDIC, Federal Reserve Bank, Senator Jeff Session's office, and the National Black Church Family Council to provide fraud prevention education and personal finance training to church clergy and church groups in West Alabama counties.

High School Teachers: Working with the Alabama Council of Economic Education to provide financial education training seminars and free curriculum materials to high school business teachers in Alabama.

Senior Citizens: Providing fraud prevention education and personal finance education, and other information on medical programs and legal rights to citizens state wide. Accomplishing this by working with the Department of Senior Services, the Alabama Cooperative Extension, AARP and the Better Business Bureau to reach more seniors.

Field Trips: Allowing high school classes to visit and tour the Commission and other historical buildings in this area. Program includes two hours of personal finance education and two hours of career motivation and guidance training by ASC staff professionals, including the Director, attorneys, analysts and special agents.

JumpStart: This is one of the Commission's newest and most exciting initiatives. The Commission has helped establish and is actively participating on the Board of Directors of the new Alabama JumpStart Coalition, which is composed of business, state and federal agencies who have a desire to promote personal financial education to the youth of Alabama. The pilot initiative is partnering with Junior Achievement and businesses throughout the Birmingham area to provide and train a qualified business professional to teach one day per week of the five day mandatory senior economics course in Alabama.

Public Affairs Program

ASC has enjoyed both statewide and national publicity this year. News releases are issued about arrests and convictions and often printed in newspapers throughout the state of Alabama. Radio, television and printed media are used to provide investor alerts to Alabamians and advice about fraud, like the "Top Ten Scams" list each year. The ASC website is developing into a noted source of information about securities fraud and enforcement actions and a vehicle to find many sources of financial education (visit the ASC website at www.asc.state.al.us).

National and local media have come to ASC for information on topics as the war on white collar crime and advice about fraud prevention, enforcement actions, financial education, and saving or investing issues. The Director of ASC has appeared on numerous national television news shows like C-SPAN, CNN, and at the National Press Club. Articles and comments in news media include an article in Forbes and numerous articles in newspapers like the Wall Street Journal, New York Times and USA Today. The ASC Director has participated in television and talk shows on numerous occasions in Alabama to spread the word about fraud prevention and address key issues in the securities industry.

NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

The Commission continues its membership in the North American Securities Administrators Association, Inc. (NASAA), consisting of the securities administrators of the 50 US states, District of Columbia, Canadian provinces and territories, Republic of Mexico and Puerto Rico.

As a NASAA member, the Commission joins other securities administrators in programs relating to investor education, information sharing, and cooperative enforcement efforts; and in promoting uniformity of state securities requirements and other actions necessary for effective state and federal securities regulation.

Commission Director Joseph Borg was the elected President of NASAA in 2001 and completed his one-year term in October of 2002. He has remained a member of the NASAA Board of Directors. Other staff members participated in project groups made up of counterparts from other states or countries. Project groups develop many policy guidelines and consider issues of financial education, registration, licensing, litigation and enforcement, and areas involving regulatory areas concerning investment advisors.

NASAA programs are carried out through its various committees. During Fiscal Year 2002-2003 Commission employees served on or participated with the following NASAA committees: Affinity Based Outreach; Investment Advisor Operations; Investment Advisor Zones; Investor Education Coordination; Legal Committee; Litigation Training and Enforcement Policy; and the Board of Directors.

The Commission intends to continue active participation on various NASAA committees, which, in coordination with the SEC, NASD, NYSE, other exchanges, industry representatives, the accounting and legal professions, and other related groups have promulgated national uniform standards and guidelines. The adoption of these uniform filings alleviate burdens on those sectors of the securities industry by eliminating duplicative examination and registration requirements, thus reducing the amount of time, money, effort, and paperwork required, and achieving less costly and more effective regulation of the industry. Such guidelines apply to the following types of securities activities and filings: licensing, registration, audits, oil and gas, real estate, real estate investment trusts, commodity pools, equipment leasing, health care facilities programs, offerings on the Internet, and others.

ALABAMA SECURITIES COMMISSION **REGULATORY SERVICES PROGRAM**

APPROPRIATION DESCRIPTION

The Alabama Securities Commission assists Alabama businesses during capital formation and protects Alabama's issuers, businesses and residents from fraudulent securities transactions. The Commission does not recommend or endorse broker-dealer firms, salesmen, investment adviser firms, representatives or the purchase of any securities; nor does it pass upon the accuracy or completeness of any prospectus, private placement memorandum or sales literature. The Commission does, however, bring administrative civil actions and receiverships, issue warrants, prepare indictments and cases for trial when necessary. Extensive examinations and investigations are conducted by Commission personnel, including multi-jurisdictional investigations and joint cases with Federal, state and local law enforcement agencies.

FUND 374: Sale of Checks Fund. The Sale of Checks Act requires the filing of an application and issuance of a license before engaging in the business of selling, issuing, or dispensing checks or receiving money as an agent for obligors for the purpose of paying obligors bills, invoices or accounts. Section 8-7-1, *et seq.*, Sale of Checks Act No. 177 authorizes the Commission to accept applications, conduct investigations with respect to said applications, require bond and conduct examinations as necessary.

FUND 375: Securities Commission Fund. The Commission is responsible for administering and enforcing laws of the State of Alabama relative to the Alabama Securities Act, § 8-6-1, *et seq.*, Securities Act No. 740. The purpose of the Act is to protect investors from fraud and to preserve legitimate capital markets. The accomplishment of these objectives is legislatively provided for in five major ways: (1) requiring the registration or the specific exemption from registration of securities prior to their public or private offer of sale; (2) requiring the registration of broker-dealers and salesmen and regulation of their activities; (3) requiring the registration of investment advisers and investment adviser representatives and regulation of their activities; (4) requiring notice filings of mutual funds, Reg. A, and Reg. D filings under the Securities Acts of 1933 and 1934; and (5) the filing of certain other specialized securities offerings by way of coordination, notification, qualification, or limited exemptions.

FUND 376: Industrial Revenue Bond Notification Fund. The Alabama Securities Commission acts as a pre-clearance check on certain industrial revenue bonds as provided for under Section 8-6-110, *et seq.*, Industrial Revenue Bonds Act No. 586. The Commission reviews and analyzes filings made prior to sale of said bonds to investors and issues appropriate No Stop Orders.

FEE SCHEDULE

FILING	DEFINITION	FEE	AUTHORITY
Notification	Generally available for seasoned issuers and requires limited disclosure.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1000	§ 8-6-8(d) <i>Code of Alabama, 1975</i>
Coordination	Registered statement has been filed in connection with the same offering. State filing in conjunction with SEC filing.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1000	§ 8-6-8(d) <i>Code of Alabama, 1975</i>
Qualification	Any other security.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1000	§ 8-6-8(d) <i>Code of Alabama, 1975</i>
Exemption	Securities not required to be registered by virtue of exemption under federal, state, or provincial statutes.		
Limited Offerings	(1) Alabama ULOE	\$150	§ 8-6-11(a)11(14)(m)(4), <i>Code of Alabama, 1975</i>
	(2) Regulation D filing under Rules 505 and 506	\$250	§ 8-6-11(c), <i>Code of Alabama, 1975</i> Commission Rule 830-X-6-11(1)(a)(3)(iv)

FILING	DEFINITION	FEE	AUTHORITY
	(3) Expansion Order filing to increase the number of purchasers in a limited offering that has already been exempted from registration.	\$250	§ 8-6-11(c), <i>Code of Alabama</i> , 1975
	(4) For sale up to 35 Alabama purchasers in 12 months.	\$250	Commission Rule 830-X-6-.12(1)(d)(iv)
	Extension of the term up to 12 months	\$150	Commission Rule 830-X-6-.12(1)(d)(iv)
Mutual Fund Exemption	Registration exemptions for Open-End Management Investment Company:		§ 8-6-10(11)(b)(2), <i>Code of Alabama</i> , 1975
	Total assets less than or equal to \$25 million:	\$300+ \$40 new application fee	§ 8-6-10(11)b.2., <i>Code of Alabama</i> , 1975
	Total assets greater than \$25 million, less than \$100 million:	\$600+ \$40 new application fee	
	Total assets greater than \$100 million:	\$1,000+ \$40 new application fee	
	Unit Investment Trusts:	\$200 + \$40 new application fee	
IDB	Industrial Revenue Bonds are municipal bonds issued for purpose of constructing facilities.	1/20 of 1% of principal amount of described bonds. No less than \$25, but not to exceed \$1,000	§ 8-6-115, <i>Code of Alabama</i> , 1975
Sale of Checks	Sale of any check, draft, money order, or other instrument for transmission or payment of money.		§ 8-7-6, <i>Code of Alabama</i> , 1975 § 8-7-9, <i>Code of Alabama</i> , 1975
	(1) Investigative fee for initial application	\$250	
	(2) Registration fee for principal office	\$250	
	(3) Additional location and agents in the state	\$5	
		(Max registration fee \$500, exclusive of investigative fee)	

FILING	DEFINITION	FEE	AUTHORITY
Opinions	Interpretations	\$150	§ 8-6-29, <i>Code of Alabama, 1975</i>
Agent	Any individual, other than a dealer, who represents a dealer or issuer in effecting or attempting to effect sales of securities.	\$50	§ 8-6-3(h), <i>Code of Alabama, 1975</i>
Dealer	Any person engaged in the business of effecting transactions in securities for the account of others or for his own account.	\$200	§ 8-6-3(h), <i>Code of Alabama, 1975</i>
Investment Adviser	Any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as a part of a regular business, issues or promulgates analyses or reports concerning securities.	\$200	§ 8-6-3(h), <i>Code of Alabama, 1975</i>
Investment Adviser Representative	Any partner, officer, director of or other individual employed by or associated with an investment adviser, except clerical or ministerial personnel, who (a) makes recommendations or renders advice regarding securities; (b) manages accounts or portfolios of clients; (c) determines which recommendations or advice	\$50	§ 8-6-3(h), <i>Code of Alabama, 1975</i>

FILING	DEFINITION	FEE	AUTHORITY
	<p>regarding securities should be given; (d) solicits, offers or negotiates for the sale of or sells investment advisory services; and (e) supervises employees who perform any of the foregoing.</p>		
<p>Administrative Assessment</p>	<p>Fee imposed upon any person who violates any provision of the article or rule or order issued under the article.</p>	<p>Not to exceed \$5,000 for each act or omission. Total assessment not to exceed \$50,000</p>	<p>§ 8-6-19(j)(2)(5), <i>Code of Alabama, 1975</i></p>
<p>Investigative Examinations</p>	<p>Investigative costs for examinations of violations of any provision of the article or violations of any rule.</p>	<p>Actual costs of investigation</p>	<p>§ 8-6-19(k)(1)(2), <i>Code of Alabama, 1975</i></p>

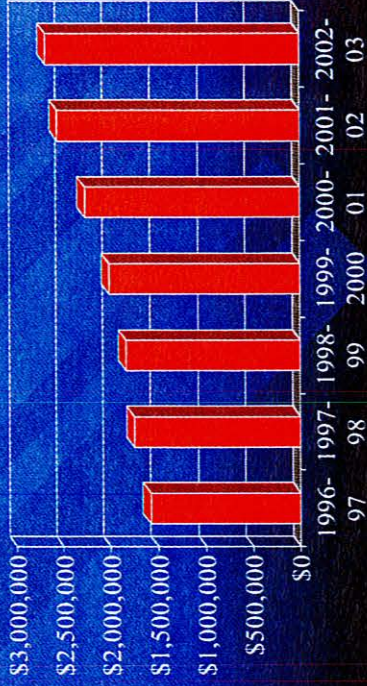
ASC STATISTICS

Fiscal Year 1996/97 – 2002/03

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Commission's Annual Expenses

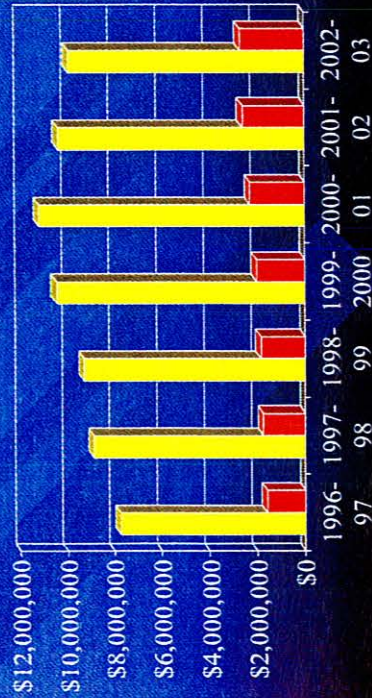
Fiscal Year 1996/97 – 2002/03



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Combined Revenue and Expenses

Fiscal Year 1996/97 – 2002/03



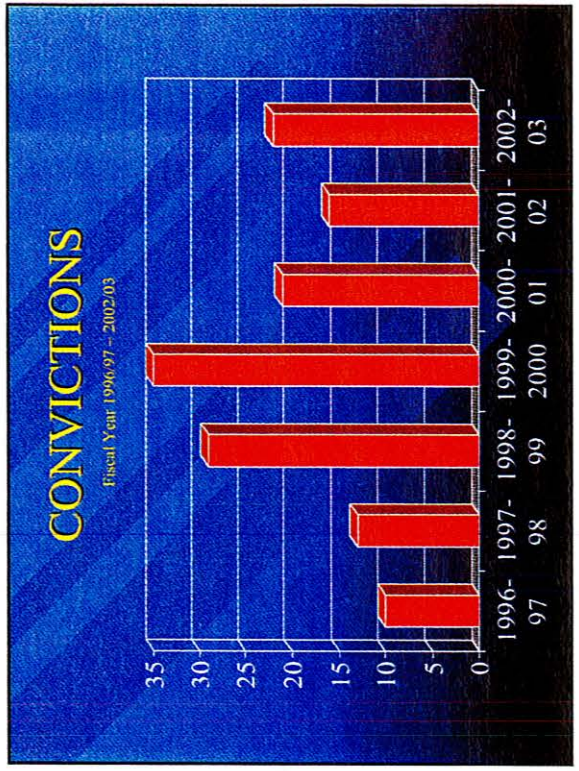
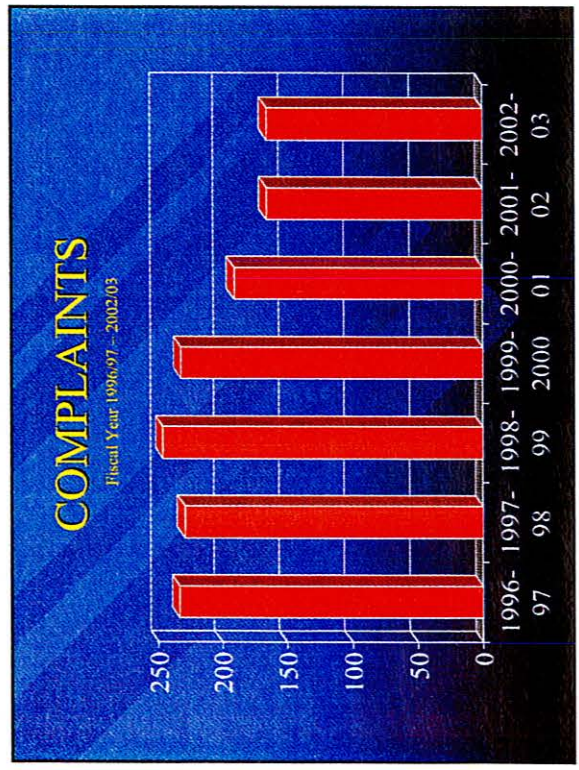
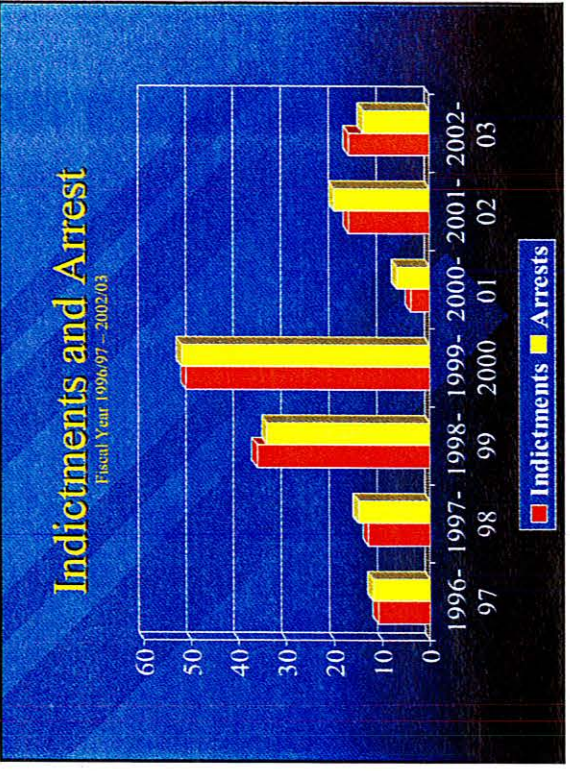
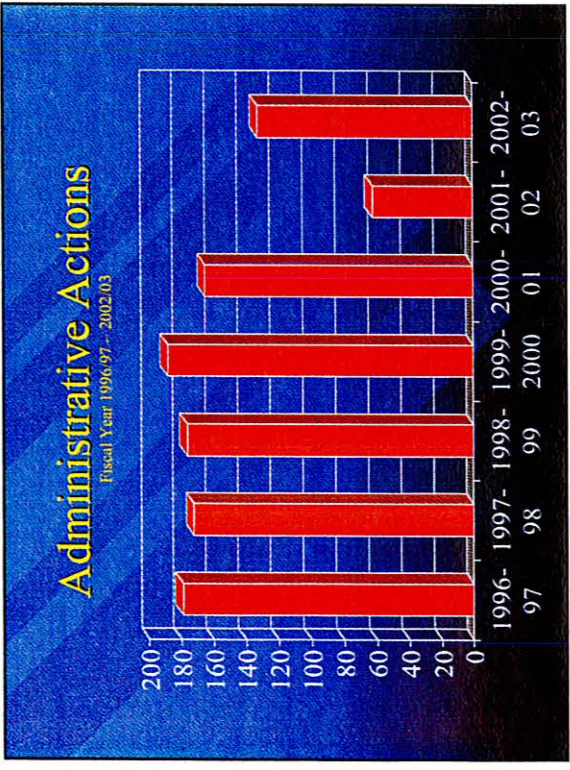
■ Revenue ■ Expenses

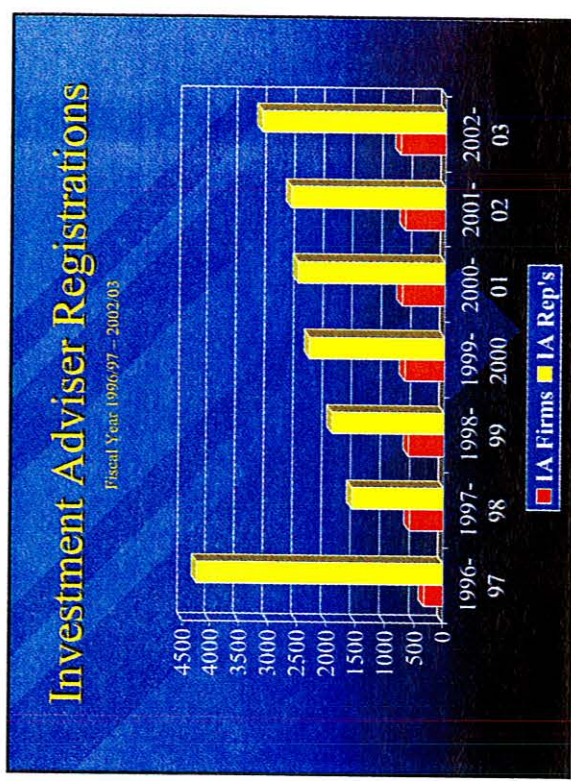
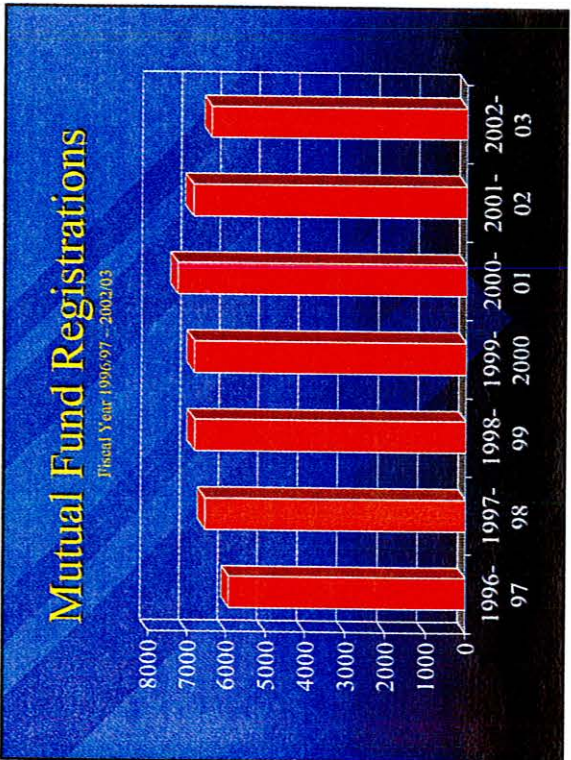
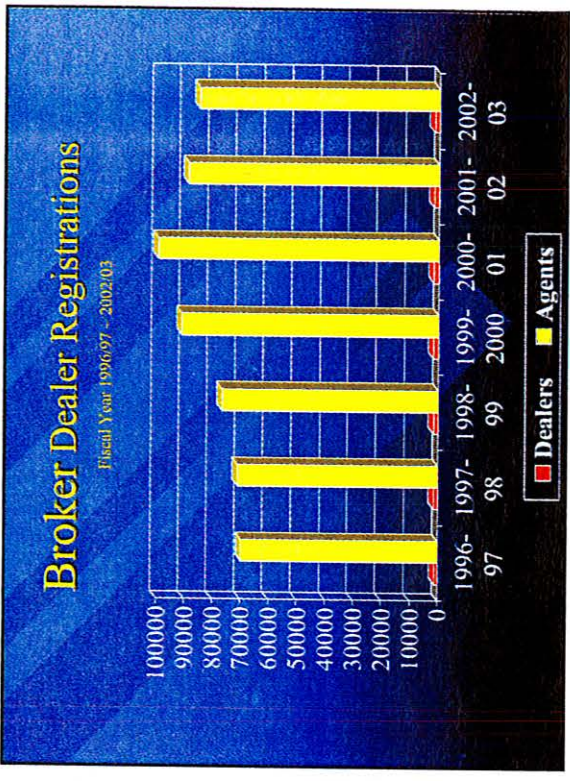
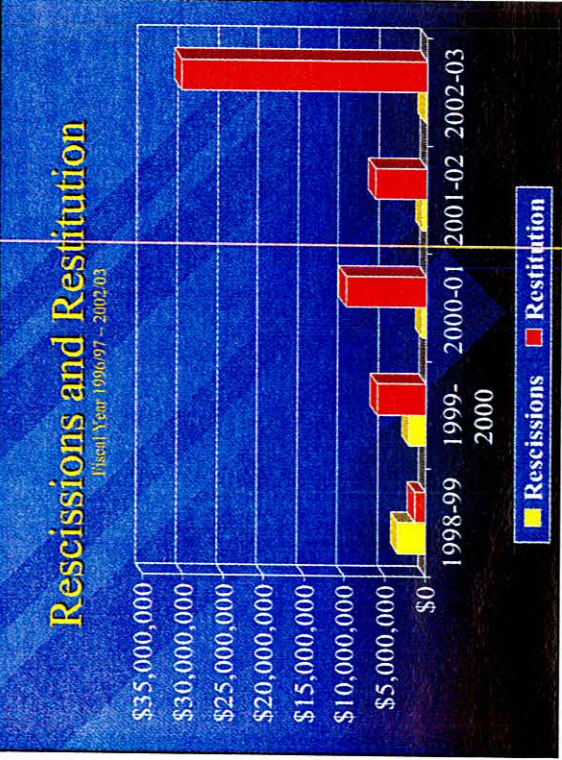
Revenue to General Fund

Fiscal Year 1996/97 – 2002/03



■ Revenue





FINANCIAL STATEMENT

FISCAL YEAR 2002-2003

Agency Revenues

Authority

§ 8-6-3(h)	Investment Advisers & Representatives	\$ 4,870,750
	Broker-Dealers & Representatives	
§ 8-6-8	Securities Registration.....	50,353
§ 8-6-11	Exemptions	112,650
§ 8-6-19	Administrative Assessments/Investigative Executions	27,165
§ 8-6-10(11)(b)(2)	Mutual Fund Exemptions	4,815,920
§ 8-6-29	Opinions.....	1,200
§ 8-6-115	Industrial Revenue Bonds	16,733
§§ 8-7-6; 8-7-9	Sale of Checks	23,340
	Miscellaneous Revenues	9,205
	TOTAL REVENUES	\$ 9,927,316
	To General Fund	\$ 4,600,553
	To Sale of Checks Fund	23,340
	To Securities Commission Fund	5,286,690
	To Industrial Revenue Fund	16,733
	TOTAL	\$ 9,927,316

Expenditures

Personnel Costs	\$ 1,652,143
Employee Benefits	392,086
Travel (In-State).....	13,350
Travel (Out of State)	19,976
Repairs & Maintenance	2,040
Rentals & Leases	276,964
Utilities & Communications	30,244
Professional Services	30,874
Supplies, Materials & Operating Expenses	92,457
Transportation Equipment Operations	17,668
Transportation Equipment Purchases	58,542
Other Equipment Purchases	52,699
TOTAL	\$ 2,639,043
Additional Transfer to State General Fund	2,500,000
TOTAL EXPENDITURES	\$ 5,139,043
TOTAL TO GENERAL FUND FOR FISCAL YEAR 2002-2003	\$ 7,100,553

ENFORCEMENT

A comparative summary of the Enforcement Division's
Fiscal Year 2002-2003 and Fiscal Year 2001-2002
 activities are shown on the following charts:

ALABAMA SECURITIES COMMISSION				
Administrative Orders Issued				
Enforcement Division				
TYPE OF ORDER ISSUED	Fiscal Year 2001-2002		Fiscal Year 2002-2003	
	No. of Respondents	No. of Respondents	No. of Respondents	Orders
Cease and Desist	28	28	95	24
Consent	9	9	11	10
Show Cause	1	1	9	4
Order to Vacate	9	9	10	4
Permanent Bar	15	15	7	7
TOTALS	62	62	132	49

Recission Offers	Restitution
Fiscal Year 2002-2003	Fiscal Year 2002-2003
No. of Cases: 1	No. of Cases: 14
No. of Investors: 45	
Total Amount: \$295,462.82	Total Amount: \$30,121,145.91

ENFORCEMENT

ALABAMA SECURITIES COMMISSION Enforcement Activity		
ACTIVITY	Fiscal Year 2001-2002	Fiscal Year 2002-2003
"I"=Inquiry		
"S"=Formal Investigation		
Investigations Opened - "I"	130	118
Investigations Closed - "I"	101	137
Investigations Opened - "S"	35	47
Investigations Closed - "S"	50	30
Administrative Actions	62	132
Receiverships Appointed	1	0
Rescission Offers Obtained	5	1
Indictments Obtained	17	17
Warrants Obtained	8	2
Arrests Made	20	14
Convictions Obtained	16	22
Public Warnings Issued	6	10
Referrals to Other Agencies	8	11

At the end of Fiscal Year 2002-2003, there were 6 individuals awaiting Grand Jury, 8 individuals pending arrest, and 8 individuals awaiting trial.

REGISTRATION AND EXEMPTION ACTIVITY

STATISTICAL SUMMARY

10/01/2002 - 09/30/2003

	Application Filed	Application Approved	Renewal Processed	Application Withdrawn	Application Terminated
Broker/Dealer	146	120	1540	0	208
Broker/Dealer Agent	2167	21043	63776	66	25230
Eleemosynary Financing Exemption	46	37	0	4	0
Exempt Consent	14	14	0	0	0
Expansion Order	5	4	0	1	6
Industrial Revenue Bond	22	22	0	0	0
Investment Adviser - Federal	77	73	621	1	9
Investment Adviser - State Registered	22	17	68	4	5
Investment Adviser Representative	174	1026	2121	0	805
Limited Offering	442	379	0	2	9
Mutual Fund Exemptions	944	896	5548	13	108
Registration by Coordination	69	48	0	5	3
Registration by Qualification	2	3	0	0	1
Restricted Agent	47	58	134	3	16
Sale of Checks Vendor	13	10	39	0	0

Note: The total number of registrations and exemptions issued in fiscal year 2003 was 97,597.

**INDUSTRIAL REVENUE BONDS
FY 2002-2003**

LESSEE	DATE SUBMITTED	FEE CHARGED	DATE ISSUED	AMOUNT OF ISSUE
Romar Motels, Inc. Project; City of Orange Beach, Alabama	10/7/02	\$1,000.00	10/8/02	\$ 3,285,000.00
Speculative Building (Alabama Power Company); Greene County, Alabama	10/10/02	193.00	10/14/02	386,000.00
Briar-Garrett, L.L.C.; City of Haleyville, Alabama	10/10/02	1,000.00	10/14/02	2,000,000.00
FGDI, LLC; City of Mobile, Alabama	11/6/02	1,000.00	11/17/02	15,500,000.00
International Paper Company; City of Selma, Alabama	11/7/02	1,000.00	11/17/02	15,900,000.00
Weyerhaeuser Company Project; Town of Camden, Alabama	11/18/02	1,000.00	11/23/02	44,000,000.00
Hisan, Inc. Project; City of Scottsboro, Alabama	11/21/02	1,000.00	11/26/02	2,750,000.00
Evergreen Realty LLC & Tenax Manufacturing Alabama, LLC; City of Evergreen, Alabama	11/21/02	1,000.00	11/27/02	7,700,000.00
Robbins, LLC; City of Muscle Shoals, Alabama	12/5/02	1,000.00	12/6/02	6,500,000.00
Tad Industries, LLC; City of Sylacauga, Alabama	2/6/03	1,000.00	2/12/03	2,000,000.00
Lucor Steel Decatur LLC; City of Decatur Alabama	4/18/03	120.00	5/21/03	86,000,000.00
International Paper Company; Town of Courtland, Alabama	4/30/03	1,000.00	5/9/03	8,140,000.00
International Paper Company; Town of Courtland, Alabama	4/30/-3	1,000.00	5/9/03	50,765,000.00
International Paper Company Project; City of Selma, Alabama	5/5/03	1,000.00	5/5/03	13,000,000.00
International Paper Company (2003 Series C); Town of Selma, Alabama	6/12/03	1,000.00	6/13/03	2,900,000.00
International Paper Company; Town of Courtland, Alabama	8/1/03	1,000.00	8/4/03	21,230,000.00
Springhill Medical Complex, Inc.; City of Mobile, Alabama	8/18/03	1,000.00	8/19/03	13,100,000.00
Impact Family Counseling; City of Birmingham, Alabama	8/28/03	175.000	8/29/03	350,000.00
Aids Alabama, Inc.; City of Birmingham, Alabama	9/15/03	365.00	9/18/03	730,000.00
Alabama Pine Pulp Company, Inc.; Monroe County, Alabama	9/30/03	1,000.00	9/30/03	190,000,000.00
Alabama River Pulp Company, Inc.; Monroe County, Alabama	9/30/03	1,000.00	9/30/03	171,753,194.00
Alabama River Pulp Company, Inc.; City of Monroeville, Alabama	9/30/03	1,000.00	9/30/03	24,242,430.00
TOTALS:		\$18,853.00		\$682,771,624.00



JOSEPH P. BORG
Director

SUSAN B. ANDERSON
Deputy Director/General Counsel

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Superintendent of Banks

WALTER A. BELL
Commissioner of Insurance

TYRONE C. MEANS
Attorney at Law

DANIEL C. HARDMAN
Certified Public Accountant

ALABAMA SECURITIES COMMISSION MEETING OF AUGUST 13, 2003

The Alabama Securities Commission held a quarterly meeting on August 13, 2003, at 10:00 a.m., in the Conference Room located on the 5th Floor of the RSA Plaza Building, 770 Washington Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published in the Montgomery Advertiser, Birmingham News/Post Herald, Huntsville Times, and the Mobile Register.

Commission Members Present Were:

Hon. Harold B. Kushner, Attorney, Chairman
Hon. J. Wray Pearce, CPA, Vice-Chairman
Hon. Daniel Hardman, CPA
Hon. Anthony Humphries, Superintendent of Banks
Hon. Bill Garrett, Asst. Attorney General (Representing the Attorney General)

Commission Members Absent Were:

Hon. Walter A. Bell, Commissioner of Insurance
Hon. Tyrone Means, Attorney

Staff Members Present:

Joseph P. Borg, Director
Susan B. Anderson, Deputy Director
Christie Rhodes, Executive Assistant

Chairman Kushner called the meeting to order at 10:05 a.m. As the first order of business, Chairman Kushner requested the Commissioners to review and approve the minutes of the April 23, 2003, meeting. Commissioner Pearce moved to approve the minutes and Commissioner Hardman seconded the motion. The motion carried unanimously. Chairman Kushner next called upon Director Borg to provide the Commission with the Director's Report. Director Borg discussed personnel positions which are currently available at the Commission. There is an opening for a Clerical

Aide and an opening for a Clerk/Steno III, and the Commission staff is currently attempting to fill these positions. Due to the recent promotions of Ms. Lisa Tolar and Ms. Rena Davis to Registration Managers, there are now two available openings for Securities Analysts and the staff is in the process of interviewing to fill these positions. There is also an Attorney I/II position available, and Director Borg discussed with the Commission the concept of pairing several investigators with an attorney in a team approach to investigate and handle the prosecution of securities cases. This concept met with the approval of the Commission and the Commission staff will further explore the implementation of this system.

Director Borg next provided the Commissioners with information concerning the receipts and expenditures of the Commission, and information concerning the Registration and Enforcement Divisions. Director Borg also discussed briefly the public warnings issued by the Commission and the speaking engagements of the Commission staff.

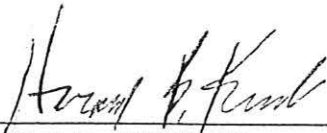
Under New Business, Director Borg provided the Commissioners with an update concerning the negotiations to finalize the settlements of the Wall Street investigations. The paperwork is close to being completed and these investigations should be concluded in the near future.

Deputy Director/General Counsel Susan Anderson was requested to discuss litigation pending against the Commission. There are currently three lawsuits pending against the Commission or its employees: Jordan v. Seigleman, et al; Attractions Plus v. The Alabama Securities Commission, et al.; and the statewide Crum litigation. Commissioner Hardman moved to enter Executive Session to discuss the specifics of this ongoing litigation and Commissioner Humphries seconded the motion. The motion carried unanimously and the Commission convened into Executive Session.

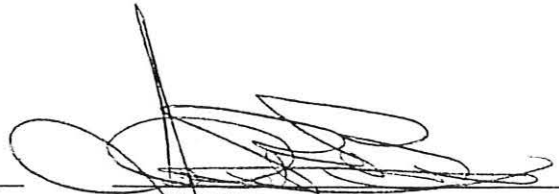
Upon exiting Executive Session, Director Borg provided the Commission with information concerning the Investor Protection Trust (IPT) and the financial grants it will consider making available to worthy, educational causes. The Commission staff has been presented with requests for grants from several sources, and Director Borg advised that the staff is considering recommendation of several small grants from the IPT to Alabama institutions. The Alabama Council of Economic Education has requested a \$5,000 grant to train high school teachers to implement investor education in approximately ten of Alabama's counties. The staff has received a request for a \$5,000 grant from the Jefferson County Jump Start Program. These funds would be used to purchase materials for investor education programs which are currently being sponsored by the Junior Achievement Program. A \$2,500 grant has been requested by the Life Smarts Program, which is a program sponsored by the National Consumer League and is aimed primarily at high school students. This grant would provide one-half of the funding for a camp in the Huntsville area. The Auburn University Extension Program has requested a \$2,500 grant to train and educate small businesses in financial awareness. Finally, the Alabama Cooperative Extension Program has requested a \$3,500 grant for the Successful Aging Initiative, whose purpose is to educate senior citizens in financial matters. The Commissioners agreed that all of these programs appear worthy and that they are all deserving of the Commission's assistance in obtaining the requested grants from IPT.

Finally, Director Borg advised that the NASAA Annual Conference will take place in Chicago, Illinois on September 14 through September 17, 2003, and invited any interested Commissioner to contact him concerning attendance of this seminar.

The meeting was adjourned at 11:50 a.m.



HAROLD B. KUSHNER
CHAIRMAN



JOSEPH P. BORG
DIRECTOR



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ALABAMA SECURITIES COMMISSION MEETING OF APRIL 23, 2003

The Alabama Securities Commission held a quarterly meeting on April 23, 2003, at 3:00 p.m., in the conference room located on the fifth floor of the RSA Plaza Building, 770 Washington Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published in the Montgomery Advertiser, Birmingham News/Post Herald, Huntsville Times and the Mobile Register.

Commission Members Present Were:

Hon. Harold B. Kushner, Attorney, Chairman
Hon. J. Wray Pearce, Certified Public Accountant, Vice-Chairman
Hon. Daniel Hardman, Certified Public Accountant
Hon. Tyrone C. Means, Attorney
Hon. Walter A. Bell, Commissioner of Insurance
Hon. Bill Garrett, Assistant Attorney General – Representing the Attorney General

Commission Member Absent:

Hon. Anthony Humphries, Superintendent of Banks

Staff Members Present Were:

Joseph P. Borg, Director
Susan B. Anderson, Deputy Director
Christie Rhodes, Executive Assistant

Chairman Kushner called the meeting to order at 3:05 p.m. As the first order of business, Chairman Kushner requested that the Commissioners review and approve the agenda for the meeting. Commissioner Hardman moved to approve the agenda and Vice-Chairman Pearce seconded the motion. The motion carried unanimously. Chairman Kushner then asked the Commissioners to review the minutes of the March 19, 2003 meeting of the Commission. Commissioner Means moved to approve the minutes and Vice-Chairman Pearce seconded the motion. The motion carried unanimously. Chairman Kushner next called upon Director Borg to

provide the Commission with the Director's Report. Director Borg provided the Commission with information concerning the receipts and expenditures of the Commission and information concerning the Commission staff's personnel, Registration and Enforcement Divisions and speaking and press engagements engaged in by the Commission staff.

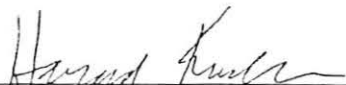
Under new business, Director Borg provided the Commission with a report concerning the status of proposed House Bill 572, a copy of which is attached hereto as Exhibit "A". This bill would serve two purposes, one of which would legalize past transfers from the Securities Commission to the General Fund. The staff and Commission are in favor of this portion of the bill. However, section two of the proposed bill would allow the Legislature to appropriate virtually any amounts that are currently earmarked for Commission operations, and both the staff and the Commission are adamantly opposed to this provision as currently drafted. Director Borg has spoken with every person who is listed as a sponsor of House Bill 572, and those individuals have all advised that they were under the impression that the Commission had approved this bill, and in view of the Commission's objections to the bill, would reconsider the content of the bill and requested that the Commission Director meet with the Governor's Office and/or the Finance Director's Office to correct the language of the bill. Director Borg advised that the Commission staff is currently working on a draft of a bill that it will attempt to substitute for the currently proposed House Bill 572.

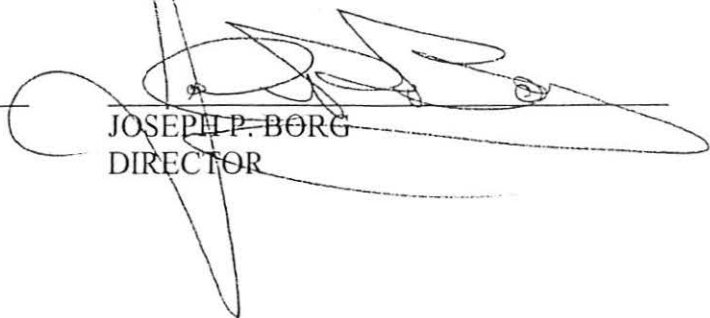
Director Borg directed the Commissioners attentions to the Commission staff's recommendation of a Policy Statement concerning the formation of de novo banks and the Commission members reviewed this policy statement with approval. A copy of the Policy Statement is attached hereto as Exhibit "B". Director Borg then provided the Commission with information concerning the status of the Wall Street investigation, and particularly Alabama's investigation of Lehman Brothers and its analysts' practices. Director Borg advised that all

states involved in this investigation have virtually completed their investigations and are currently finalizing settlement documents. An announcement is expected to be made on Monday, April 28, 2003, in Washington, D.C. regarding the settlement of all of the analyst cases involving the Wall Street firms. Director Borg advised that, when finalized, he believes approximately \$5 million dollars in settlement monies will go to the State of Alabama, paid for by all of the firms involved in the Wall Street investigation. The Alabama Securities Commission will receive reimbursement of its investigative costs as well as a certain amount to be applied to the Investor Protection Trust for investor education in Alabama and the remainder will be forwarded to the General Fund unless Congress mandates otherwise.

Vice-Chairman Pearce requested information concerning the use by the Commission staff of state automobiles, and Director Borg provided the Commission with that information, including the fact that automobiles are assigned to the Commission law enforcement staff and are used for Commission enforcement purposes. Director Borg further advised that, after meeting with the Finance Director, he does not anticipate the Commission staff losing these automobiles. Vice-Chairman Pearce then requested information concerning the Commission's Investor Education Program, and Director Borg provided the Commission with a status report of the progress being made in that area.

The Commission meeting was adjourned at 4:00 p.m.


HAROLD KUSHNER
CHAIRMAN


JOSEPH P. BORG
DIRECTOR

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7
8 SYNOPSIS: This bill ratifies transfers from the
9 Securities Commission Fund to the State General
10 Fund for fiscal year 1994 through 2003, and
11 authorizes the Legislature to transfer funds from
12 the Securities Commission Fund to the State General
13 Fund in the general appropriation act.

14
15 A BILL
16 TO BE ENTITLED
17 AN ACT
18

19 To ratify transfers from the Securities Commission
20 Fund to the State General Fund for fiscal years 1994 through
21 2003, and to authorize the Legislature to transfer funds from
22 the Securities Commission Fund to the State General Fund in
23 the general appropriation act.

24 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

25 Section 1. Notwithstanding any other provision of
26 the law to the contrary, the transfers from the Alabama
27 Securities Commission Fund to the State General Fund in the

1 general appropriation acts for fiscal years 1994 through 2003
2 shall be in lieu of the distributions required by Sections
3 8-6-3, 8-6-10, 8-6-11, 8-6-19 and 8-6-29 for each of those
4 fiscal years.

5 Section 2. Beginning in fiscal year 2004, the
6 Legislature may include in the general appropriation act a
7 transfer of funds from the Securities Commission Fund to the
8 State General Fund in an amount to be determined by the
9 Legislature. Said transfer shall not alter or amend the
10 requirement that funds collected by the Alabama Securities
11 Commission in accordance with Sections 8-6-3, 8-6-10, 8-6-11,
12 8-6-19 and 8-6-29 be deposited in the Securities Commission
13 Fund but shall constitute a determination by the Legislature
14 of proper funding for the operation of the Alabama Securities
15 Commission and the exercise of its plenary power to
16 appropriate public funds.

17 Section 3. It is the intent of the Legislature that
18 this act be construed as retroactive and curative. All
19 transfers from the Securities Commission Fund to the State
20 General Fund that were authorized in the general appropriation
21 acts for fiscal years 1994 through 2003 shall be deemed as
22 having been transferred under the authority of this act.

23 Section 4. The provisions of this act are severable.
24 If any part of this act is declared invalid or
25 unconstitutional, that declaration shall not affect the part
26 that remains.

1 Section 5. This act shall become effective
2 immediately upon its passage and approval by the Governor, or
3 its otherwise becoming law.

**ALABAMA SECURITIES COMMISSION POLICY
ON SALES OF SECURITIES OF DE NOVO BANKS**

The Alabama Securities Act requires that any security sold in this state must be registered with the Commission, unless the security qualifies for a statutory exemption from registration. The Act provides for a number of exemptions, including an exemption for "any security issued by and representing an interest in or a debt of, or guaranteed by, any bank organized under the laws of the United States or any bank . . . organized and supervised under the laws of this state." See Section 8-6-10(3) (Code of Ala. 1975). This exemption was further expanded by the National Securities Markets Improvement Act which provided federal "Covered Security" status for any federal chartered bank or a bank organized under the laws of any state. It is the Commission's position that this exemption, as well as the status of covered security is not available for securities issued by a bank in the process of organization. If any securities are to be sold to generate funds that will be used or placed at risk before the formal incorporation of the bank, then the sale of those securities must have an exemption other than Ala. Code § 8-6-10(3) or must be registered under the Alabama Securities Act, provided that any issuer who complies with the following procedures will be considered to be qualified for the exemption at Ala. Code § 8-6-10(3)

1. All funds from the offering are placed into escrow with an insured, third-party depository institution, as discussed in provision (4) below, such funds will not be considered to be "used" or "placed at risk."
2. The bank in organization may not accept any funds from an offering of securities in reliance on this policy statement until it has received a determination from the appropriate primary federal or state regulator, as the case may be, that its application is substantially complete.
3. The bank in organization must utilize an offering circular and comply with the FDIC's or other relevant federal banking regulator's statement of policy regarding the use of offering circulars in connection with public distribution of bank securities.
4. All proceeds of an offering conducted in reliance upon this policy statement by a bank in organization must be held in escrow with an insured, third-party depository institution until after the bank in organization has received the certificate of the Superintendent of Banks pursuant to Ala. Code § 5-5A-6 authorizing the filing of the certificate of incorporation or comparable authorization from other appropriate primary federal or state regulators. If the de novo bank does not receive such authorization within one year after commencement of the offering, the escrowed funds plus interest accrued, if any, must be returned in full to investors. The requirement that proceeds be held in escrow and the conditions for the proceeds' return must be set forth in both the offering circular and the subscription agreements utilized in the offering.

5. Effective May 1, 2003, at least ten (10) business days prior to the commencement of an offering in reliance upon this policy statement, the bank in organization shall provide the Commission copies of the offering circular and subscription agreement which it proposes to use in the offering and copies of the Interagency Biographical and Financial reports theretofore provided to bank regulatory authorities for each person who is expected to effect or attempt to effect offers or sales of the securities. The Commission staff will perform a disclosure review of the materials to be used in the offering and review the disciplinary history of any persons expected to effect or attempt to effect offers or sales of the securities. The exemption will be effective if the Commission staff has not entered into a proceeding or issued a stop order within ten(10) business days of the filing.
6. Those persons for whom notification is provided who will effect or attempt to effect offers or sales of the securities shall not be required to be registered as a broker-dealer agent or restricted agent and will not be required to complete NASD securities examinations subject to the following:
 - a. A full background check has been completed by the primary federal or state regulator within the previous twelve (12) months
 - b. Notification of such persons participation in the offering is received by the Commission staff no later than ten (10) business days prior to the commencement of the offering.
 - c. No commission or other remuneration shall be paid, either directly or indirectly, primarily for the solicitation of the sale of the de novo bank securities.
7. Nothing herein affects or impairs the applicability of the anti-fraud provisions of the Alabama Securities Act.

Effective 4/23/03



JOSEPH P. BORG
Director

SUSAN B. ANDERSON
Deputy Director/General Counsel

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ALABAMA SECURITIES COMMISSION MEETING OF MARCH 19, 2003

The Alabama Securities Commission held a quarterly meeting on March 19, 2003, at 10:00 a.m., in the conference room located on the fifth floor of the RSA Plaza Building, 770 Washington Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published in the Montgomery Advertiser, Birmingham News/Post Herald, Huntsville Times and the Mobile Register.

Commission Members Present Were:

Hon. Daniel Hardman, Certified Public Accountant
Hon. Tyrone C. Means, Attorney
Hon. Walter A. Bell, Commissioner of Insurance
Hon. Anthony Humphrics, Superintendent of Banks
Hon. Frank Long, Assistant Attorney General – Representing the Attorney General

Commission Member Present By Telephone:

Hon. Harold B. Kushner, Attorney, Chairman

Commission Members Absent:

Hon. J. Wray Pearce, Certified Public Accountant, Vice-Chairman

Staff Members Present Were:

Joseph P. Borg, Director
Susan B. Anderson, Deputy Director
Christie Rhodes, Executive Assistant

The meeting was called to order at 10:10 a.m. As the first order of business, Chairman Kushner welcomed Commissioner Humphrics and Commissioner Bell to the Commission. Commissioner Humphrics has recently been named by Governor Riley as Superintendent of Banks, and Commissioner Bell has been appointed to the position of Commissioner of Insurance. Director Borg added his welcome to the new Commissioners and presented each new Commissioner with their official credentials, badges and pins.

Chairman Kushner then requested that the Commission review the proposed agenda. Commissioner Means moved to approve the agenda and Commissioner Hardman seconded the motion. The motion carried unanimously. Chairman Kushner next requested the Commissioners to review the Minutes of the December 6, 2002 meeting of the Commission. Commissioner Hardman moved to approve the Minutes and Commissioner Means seconded the motion. The motion carried unanimously.

Chairman Kushner requested Director Borg to provide the Commission with the Director's Report. Director Borg advised the Commission that stock trading in Health South had been suspended for an initial period of two days by the Securities & Exchange Commission due to large irregularities found by it in the accounting practices of Health South. The federal government will lead this prosecution and the Alabama Securities Commission will assist, as needed. Director Borg advised that, to his knowledge, this is the first case to be brought pursuant to the Sarbanes-Oxley Act and the new remedies provided therein.

Director Borg then presented the Monthly Report of the Commission's operations and provided the Commissioners with information concerning receipts and expenditures of the Commission, noting that the Commission staff had reduced the current budget by approximately five percent in response to Governor Riley's request to all state agencies to reduce spending. Commissioner Bell requested information concerning ongoing litigation against the Commission and moved that the Commission enter executive session in order to discuss the details of ongoing litigation against the Commission. Commissioner Humphries seconded the motion and the motion carried unanimously. The Commission then entered executive session.

Upon emerging from executive session, Director Borg continued with his report, providing the Commissioners with information concerning the Commission staff's personnel, Registration and Enforcement Divisions, and speaking engagements presented by the Commission.

Under new business, Director Borg provided the Commissioners with an update on the status of the multi-state task forces that are investigating analysts/investment banking practices of Wall Street brokerage firms. Settlement orders are being negotiated at this time for all fifty states and there are several points still to be agreed upon. Potential settlement monies will be split one-half between the federal agencies involved in the investigations and the other half to the states on a population pro rata basis. Director Borg estimates that Alabama's share in the total settlement should be approximately \$4.5 million dollars, and that most of this money will go to the General Fund of the State of Alabama, but that some of the settlement funds will be appropriated for investor education by agreement with the parties. Director Borg further advised that he believes it will still be several months before the details of the settlements are finalized and any settlement funds paid.

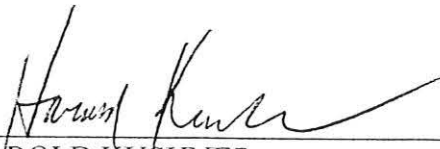
Director Borg then provided the Commission with an update concerning the adoption of the Uniform Securities Act. The staff is still working out details concerning the raising of fines and penalties for violations of the Alabama Securities Act, as well as issues relating to the functional regulation of the securities activities of the banking and insurance industry, recognition of NSMIA, Gram-Leach-Bliley Act and other issues. Director Borg advised the Commissioners that he intends to send them a draft of the new Act and summary sheet after revisions have been finalized. He further advised that he does not foresee the Act going before the Legislature during the current legislative session, although that is still a possibility.

Director Borg next provided information to the Commissioners concerning the CAPCO ("capital company") program, which is an endeavor being led by the Alabama Development Office. The Alabama Securities Commission has nothing whatsoever to do with whether or not the CAPCO regulations will go into effect, but if the regulations do become effective, the Alabama Securities Act would impact upon the registration of certain individuals who render advice to a CAPCO. This issue has been already raised with the Commission staff and it is the

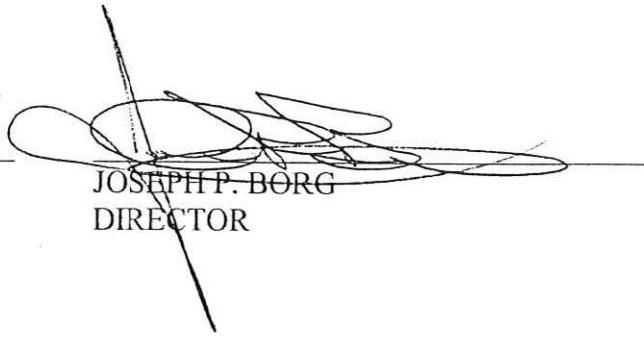
might give investment advice to a CAPCO, in that a CAPCO can only consist of insurance companies or other institutional investors. The Director outlined the CAPCO provisions and provided the Commissioners with a Proposed Order to this affect. Commissioner Hardman moved to approve this Order as written subject to the CAPCO regulations being implemented. The motion was seconded, and the motion carried unanimously. A copy of the Proposed Order is attached to these minutes as Exhibit "A".

Director Borg provided the Commission with a history of the Commission's position concerning the registration activities of a company attempting to organize a bank or a "de novo" bank. Historically, it has been the Commission's position that any activities of a bank in organization would require full registration with the Commission even though, once formed, the bank would be exempt from many of the Securities Act's registration provisions. This historical position of the Commission has been primarily lead by past leaders of the Banking Department. However, it has come to the attention of the Commission staff that the viewpoint of the Banking Department may have changed regarding this issue. A meeting was held by the Commission staff with the Banking Department, bank counsel and attorney practitioners to reviewing existing policy and develop an updated procedure policy. Director Borg provided the Commissioners with a draft of a new Policy Statement of the Commission which provides for limited registration activities by a de novo bank while still providing potential investors with adequate protection. The Director suggested that all Commissioners review this position and advise if there were any matter of concern to the Commission. A copy of the de novo policy after final changes have been made will be forwarded to the Commissioners.

Commissioner Bell moved to adjourn the meeting, and Commissioner Means seconded the motion. The motion carried unanimously and the meeting was adjourned at 11:35 a.m.



HAROLD KUSHNER
CHAIRMAN



JOSEPH P. BORG
DIRECTOR

PROPOSED ORDER

DRAFT

“Order exempting certain entities and persons affiliated with an Alabama CAPCO from registering as investment advisers or investment adviser representatives.

WHEREAS, the Alabama Securities Commission is charged with the administration of the Alabama Securities Act (the “Act”) and Chapter 830-X-1 *et. seq.* of the Regulations promulgated under the Act;

WHEREAS, §8-6-3(b) of the Act provides, in part, that “It is unlawful for any person to transact business in this state as an investment adviser or as an investment adviser representative unless . . . (2) [h]is only clients in this state are . . . other institutional investors as are designated by rule or order of the commission . . .”;

WHEREAS, the Commission acknowledges that the Alabama Legislature has created a special class of investment funds that are each subject to certification by the Alabama Development Office as a “certified capital company” (an “Alabama CAPCO”) under §40-14B-1 to 14B-22 of the Code of Alabama (1975), and the rules and regulations promulgated thereunder (collectively, the “CAPCO Act”);

WHEREAS, the CAPCO Act contemplates that “certified investors,” which consist of certain insurance companies or other persons that have state premium tax liability, shall be the principal investors in a CAPCO (other than the sponsor of the CAPCO or such sponsor’s affiliates);

WHEREAS, the Commission also acknowledges that (i) the CAPCO Act was adopted in order to promote economic development in the State of Alabama by increasing the amount of venture capital available for investment in Alabama-based businesses, and (ii) insurance companies are the principal investors in Alabama CAPCOs; and

WHEREAS, the Commission finds that the issuance of this Order is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act; and

WHEREAS, the Commission further finds that the registration of a person or entity whose only clients in this state are, directly or indirectly, one or more Alabama CAPCOs is not necessary or appropriate in the public interest or for the protection of investors;

EXHIBIT "A"

**THE ALABAMA SECURITIES COMMISSION THEREFORE
ORDERS THAT:**

1. Any person or entity that would otherwise be required to register as an investment adviser or investment adviser representative under §8-6-3(b) of the Act solely by reason of acting as an investment adviser or investment adviser representative, directly or indirectly, with respect to one or more Alabama CAPCOs, shall be exempt from §8-6-3(b) of the Act for so long as all of the investors in the CAPCO (other than such person or entity exempted hereby from investment adviser or investment adviser representative registration, or their affiliates (as defined the Act) are each an institutional investor as set forth in, or determined pursuant to, Alabama Code § 8-6-3(b)(2)..

2. This order shall remain in effect until amended or rescinded by the Alabama Securities Commission.”



JOSEPH P. BORG
Director

SUSAN B. ANDERSON
Deputy Director/General Counsel

ALABAMA SECURITIES COMMISSION

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Superintendent of Banks

WALTER A. BELL
Commissioner of Insurance

TYRONE C. MEANS
Attorney at Law

DANIEL C. HARDMAN
Certified Public Accountant

ALABAMA SECURITIES COMMISSION MEETING OF DECEMBER 6, 2002

The Alabama Securities Commission held a quarterly meeting on December 6, 2002, at 10:00 a.m., in the conference room located on the fifth floor of the RSA Plaza Building, 770 Washington Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published in the Montgomery Advertiser, Birmingham News/Post Herald, Huntsville Times and the Mobile Register.

Commission Members Present Were:

Hon. Harold B. Kushner, Attorney, Chairman
Hon. J. Wray Pearce, Certified Public Accountant, Vice-Chairman
Hon. Daniel Hardman, Certified Public Accountant
Hon. Olivia Martin, Assistant Attorney General – Representing the Attorney General
Hon. Elizabeth Bookwalter – Representing the Commissioner of Insurance

Commission Members Absent:

Hon. Maria Campbell, Superintendent of Banks
Hon. Tyrone C. Means, Attorney

Staff Members Present Were:

Joseph P. Borg, Director
Pat Elmore, Executive Secretary

Chairman Kushner called the meeting to order at 10:00 a.m. and requested the Commission to review and accept the proposed agenda. Vice-Chairman Pearce moved to approve the agenda and Commissioner Hardman seconded the motion. The motion carried unanimously. Chairman Kushner requested the Commissioners to review the minutes of the August 29, 2002 meeting of the Commission. Vice-Chairman Pearce moved to approve the minutes and Commissioner Means seconded the motion. The motion carried unanimously.

Chairman Kushner requested that Director Borg provide the Commission with a Director's Report. Director Borg presented the Monthly Report of the Commission's operations and advised that the Commission has hired Mr. Chip Harrison to fill the position of Special Agent-Forensic Accountant. A general discussion ensued concerning the Director's desire to employ an Attorney III, particularly in light of certain changes which are anticipated due to the adoption of a new Uniform Securities Act.

Director Borg next provided the Commissioners with information concerning the receipts and disbursements of the Commission and registration activity, noting that there are approximately ten percent fewer registrations during the current year than there were in the past year. Director Borg opined that he believes the shrinkage in registration has stabilized. The Director next advised the Commissioners that a lawsuit has been filed against the Commission similar to other suits against other state agencies which contends that the Governor's office, the Commission, et al., have violated the law by allowing the Legislature to appropriate certain funds from the Securities Commission's revenues. Director Borg noted that he has always objected to the method used by the Legislature to transfer ear marked funds from the Commission to the General Fund, and then he requested an executive session to discuss the issues involved in this ongoing litigation. The meeting was continued in executive session. In approximately 15 minutes, the Commission emerged from executive session and Director Borg continued with his report, providing data regarding the operations of the various divisions of the Commission. This led to a discussion of the Wall Street investigations, and Director Borg advised that through NASAA, the state securities regulators, the U.S. Securities & Exchange Commission, NASD and the NYSE are currently investigating eleven major brokerage firms and have proposed settlement offers to a number of the firms. If the cases do settle, the settlement monies will most likely be split between the federal regulators and the states, with each state receiving an amount proportionately based upon its population. In the event the Commission

does receive settlement funds, the Director anticipates that some of these funds would be allocated to an investor education fund, but that most of the settlement funds would go to the State of Alabama General Fund.

Under new business, Director Borg discussed the status of revising the current Alabama Securities Act to conform to the new proposed Uniform Securities Act. There are certain changes that need to be made to the current Act to bring it in conformity with several major pieces of federal legislation, including NSMIA (National Securities Market Improvement Act), the Sarbanes-Oxley Act and the Gramm Leach Bliley Act. The Director reported that the State of Michigan has met opposition from the banking community because it appears that the American Bankers Association wants a complete exemption of banks from the definition of broker-dealers which was not recommended by the National Conference of Commissioners on Uniform State Laws (NCCUSL). The proposed new Act provides for functional regulation of banks if they are engaged in broker-dealer activities. The Director advised that all Commissioners will soon be receiving a staff summary of the proposed Uniform Securities Act as well as a comparison of the key provisions of that Act with the current Alabama Act, and a proposal of any legislation before it is introduced to the Alabama Legislature.

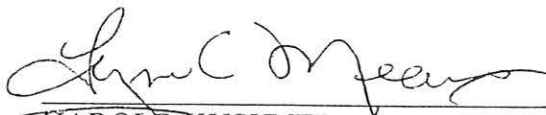
A discussion ensued concerning the Commission's previous action of approving the Attorney General's request to transfer \$1 million to the Forensics Department for law enforcement purposes. The Governor's office subsequently transferred funds from the State's Emergency Fund to Forensics. Funds from the Commission were not transferred, but may be transferred by legislative action to the Emergency Fund at a later date.

A request was made that Assistant Attorney General Olivia Martin check on the status of this matter and she did so. She advised that the Commission funds have not been transferred as of this time, but that the Attorney General and the Finance Director have committed to work with the Commission to have the Legislature budget and approve the transfer of \$1 million dollars to

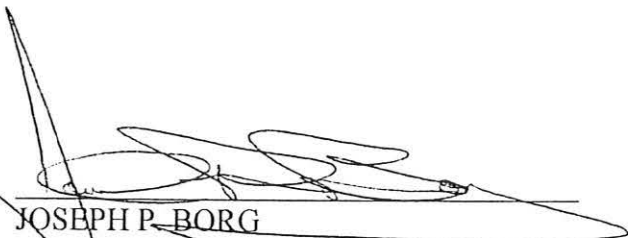
the Emergency Fund to replace funds which have been removed. Director Borg advised that the Governor's Office has already transferred \$1 million dollars to the Department of Forensic Sciences.

Lastly, Director Borg again mentioned the need for filling the Attorney III position in light of all the new federal laws recently enacted and the increased workload on the Commission faced by Commission in the current market environment.

Chairman Kushner adjourned the meeting at 11:30 a.m.



~~HAROLD KUSHNER~~
~~CHAIRMAN~~



~~JOSEPH P. BORG~~
~~DIRECTOR~~



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