

ALABAMA SECURITIES COMMISSION



**ANNUAL REPORT
FISCAL YEAR ENDING
SEPTEMBER 30, 2005**

ANNUAL REPORT FISCAL YEAR ENDING SEPTEMBER 30, 2005

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ABC Primetime covers the Prattville Daystar Church case.....	ATTACHED
Commission Meeting Minutes	ATTACHED

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 members are 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 2004-2005 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
TROY KING, ESQ., Member	Attorney General Montgomery, Alabama	03/04-Present
JOHN D. HARRISON, Member	Superintendent of Banking Montgomery, Alabama	04/05-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

ANTHONY HUMPHRIES, Member	Superintendent of Banking Montgomery, Alabama	03/03-04/05
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OFFICE PERSONNEL

Directorate Division

Joseph P. Borg, Director

Christie A. Rhodes, Executive Assistant II

Angela D. Motley, Admin. Support Asst. II

Legal Division

J. Randall McNeill, Deputy Director

Jane L. Brannan, Attorney III

Edwin L. Reed, Attorney I/II

Kimathy J. Booher, Legal Research Asst.

Marion D. Newcomb, Legal Research Asst.

Accounting/Personnel Division

Renee S. Sanders, Accounting Manager

Gwendolyn Lover, Account Clerk

Data Systems Division

David E. Gilmore, IT Systems Specialist

Education and Public Affairs Division

Daniel G. Lord, Training Specialist II

Enforcement Division

John M. Foley, Sr. Special Agent; Manager/Enforcement

Stephen E. Brantley, Special Agent

Charles G. Harrison, Special Agent

Kimberly S. Lewis, Special Agent

Ricky G. Locklar, Special Agent

Rossie L. Peters, Special Agent

Reuben E. Redd, Special Agent

Anita F. Smith, Special Agent

Michael D. Wilkerson, Special Agent

Nelson D. Williams, Special Agent

Christopher P. Young, Special Agent

Patrisa J. Elmore, Executive Secretary

Jane G. Adams, Adm. Support Asst. II

Anita F. Wilkerson, Admin. Support Asst. II

Registration Division

Rena H. Davis, Registration Manager; Examinations

Lisa M. Tolar, Registration Manager; Licensing

Marilyn D. Bullard, Securities Analyst

Paul A. Gugliotta, Securities Analyst

David J. Kirke, Securities Analyst

Marvernitha B. Kyles, Securities Analyst

Spencer D. Lee, Securities Analyst

Sandra D. Smith, Securities Analyst

Tina M. Tell, Securities Analyst

Leslie D. Worrell, Securities Analyst

Arlanda H. Goodwin, Admin. Support Asst I

Sandra S. Pitts, Admin. Support Asst I

Conceita R. Watkins-Crumpton, Clerk

Lauren B. Worthington, Clerk

Kayla M. Moore, 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.

Annual Report

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

Fiscal Year Ending September 30, 2005 --Registration, Education & Enforcement--

ASC continues to receive recognition as a leader among the nation's state securities regulators. The Commission was highlighted for its enforcement action in the Prattville Daystar Church case on ABC Primetime and lauded in the national magazine *OnWallStreet*, for having one of the most aggressive and polished enforcement programs in the United States. (See attachments)



The registration process is the Commission's "Gatekeeper" functionality to protect Alabama citizens from securities fraud and to encourage the commercial securities industry to comply with state and federal laws. The Alabama Securities Act requires that all broker-dealers, agents, investment advisors, investment advisor representatives, and financial planners who conduct business with a citizen in Alabama, be registered (licensed) or have an exemption and requires all securities offered to be registered unless exempt. The Registration Division provided protection to Alabamians from investment fraud and encouraged compliance through audits and the effective management of 106,480 registrations and exemptions issued in Fiscal Year 2005.

The Commission's objective in participating in education initiatives, enforcement and legislation at the national level is to encourage a productive market by leveling the playing field and providing investors accurate information to make an informed investment decision. The most significant barrier to the continued recovery of our markets is the loss of confidence by investors. The Commission's active participation with other federal, state and local agencies in the regulation of the securities industry pays great dividends for Alabama investors by providing a safer and fairer investment market.

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 local, state and federal authorities enables security regulators to combine resources throughout North America.

ASC initiatives and involvement in multi state projects include promoting personal finance and investor education, and comprehensive professional education in such areas as enforcement, registration, and compliance. ASC personnel 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 (Counsel 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 three of the last five years. In addition, Alabama was specifically invited by the United Nations Committee on International Trade and Law to present its experiences concerning international securities fraud and white collar crime. ASC's Director is now a United States delegate to the expert group on the United Nations Commission on International Trade Law (UNCITRAL).

The ASC Education and Public Affairs Division has significantly expanded our ability to provide fraud prevention training and materials to all Alabamians. The Commission has joined with banks, industry and other governmental agencies throughout Alabama to develop a successful Alabama Jump\$tart Coalition which is promoting personal finance education to youth throughout the state of Alabama. This volunteer effort will organize and combine resources to promote financial education in high schools throughout the state. In June 2005 the Commission assisted the Department of Education to receive grants and conduct a personal financial training program to over 400 business technical high school teachers in Alabama. The Commission's staff conducts numerous presentations, speaking engagements and seminars for a variety of civic groups and associations, fraternal organizations and educational institutions. 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 maintain the investment market in Alabama and assist our citizens in saving, investing, and accumulating wealth.

* Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S Virgin Islands, Canada, and Mexico.

EDUCATION AND PUBLIC AFFAIRS

Annual Report Update



Daniel Lord, Manager

This year the Commission has successfully promoted investor education and personal finance education to more Alabamians than ever before. Through direct ASC efforts \$32,000 was obtained in national grant funds to support investor education and personal finance education throughout Alabama.

The ASC Senior Citizen education initiative is helping Alabamians protect their retirement pensions and estates. Through ASC programs, Alabamians are learning to effectively protect themselves from investment fraud. In addition, speaking activities and training sessions provide critical information for Alabamians to understand different investment products and utilize 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 are all provided free of charge. The Commission has made partnering arrangements with state, federal and commercial agencies to provide thousands of dollars of free personal finance and investment educational materials to teachers, students, and citizens in printed form or for access/download on the Internet.

During FY 2004-2005, the Commission assisted the Alabama Cooperative Extension, the Alabama Jump\$tart Coalition, the Alabama LifeSmarts program and other organizations to receive grants from the Investors Protection Trust, a national charitable foundation. Funds come from national securities fraud settlements such as the recent Wall Street Settlements that were earmarked for educational initiatives. Most of these funds were 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.

Personal Finance related programs in Alabama receiving Investor Protection Trust grant funds as a direct result of ASC recommendations:

- Alabama Public Television, “Time of Your Life” Senior citizens personal finance and fraud prevention education program. (\$7,500)
- Provided a personal finance training day to over 350 high school business/marketing teachers at an annual conference in Birmingham. (\$3,500)
- Alabama Cooperative Extension Senior outreach events in Montgomery and Huntsville. (\$3,500)
- High school “LifeSmarts” team competition which includes personal finance life skill questions. (\$3,500)

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(continued from page 6)

- Partnership with the Alabama Jump\$tart Coalition and Department of Education: Phase I & II of a three part project to incorporate personal finance curriculum into math and social studies courses grades 5-12. (\$9,200)
- Sent a highly qualified business/marketing teacher to a week long Investor Education School to assess the quality of the curriculum and bring back information to provide personal finance education to public school teachers in Alabama. (\$3,300)
- Provided a four week summer school about Financial Planning and Career Preparation for high school teenagers at Trenholm Technical College in Montgomery. (\$1,500)

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

The Commission's 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 have access to a publication entitled Personal Finance in the Economics Classroom which 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.

ASC provides printed information to any citizen who calls or writes and provides Fraud Prevention, Investor, and Personal Finance education to all segments of society in Alabama. Some of the organizations receiving presentations and training include AARP (mature citizens), Commercial Banking Industry, Rotary Clubs, Kiwanis Clubs, and the Better Business Bureau. ASC partnered with the Alabama Cooperative Extension System and participated in numerous conferences which included events in Huntsville and Montgomery that provided fraud prevention and investor education to citizens over 50. The Commission joined with the Attorney General's office, and the Department of Senior Services to reach out to Seniors throughout the state of Alabama and empower citizens to take control of their personal finances and protect themselves from financial fraud. ASC has actively participated for the past five years in the nationwide program called "Facts on Saving and Investing Campaign Month." Governor Bob Riley supported this initiative with a State proclamation and designated April 2005 as "Facts on Saving and Investing Month."

**The Internet is a great source of free investment information.
A good starting point is the ASC website at: [OHwww.asc.state.al.us](http://www.asc.state.al.us).**

Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisors, and investment advisor representatives, 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

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

NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

The Commission continues its membership with the North American Securities Administrators Association (NASAA). NASAA is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

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 and remained a member of the NASAA Board of Directors until 2003. Since then he has served as Chair of the Enforcement Section for NASAA and was re-elected to the Board of Directors. In September 2005, Joseph P. Borg was again elected to the position of President-elect for NASAA and will serve as President beginning September 2006. Only one person has ever served two terms as president in the 87 year history of NASAA.

A number of ASC staff members have participated in committees and project groups consisting of regulatory counterparts from other states and countries to develop policy guidelines and consider issues of financial education, registration, licensing, litigation and enforcement.

NASAA programs are carried out through its various committees. During Fiscal Year 2004-2005 Commission employees served on or participated with the following NASAA committees: Investment Advisor Operations; Investment Advisor Zones; Investor Education; Legal Committee; Litigation Training and Enforcement Policy; Senior Outreach; Special Projects; Viaticals; Enforcement; and 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 policies 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, and criminal actions including receiverships, the issuance of warrants, preparation of indictments and conducts trials 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 or regulatory 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

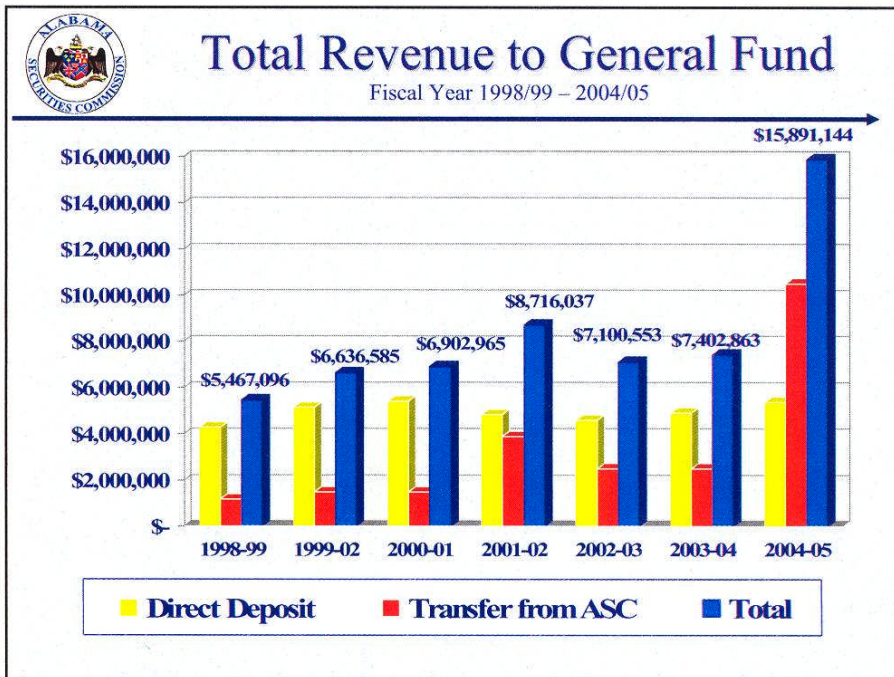
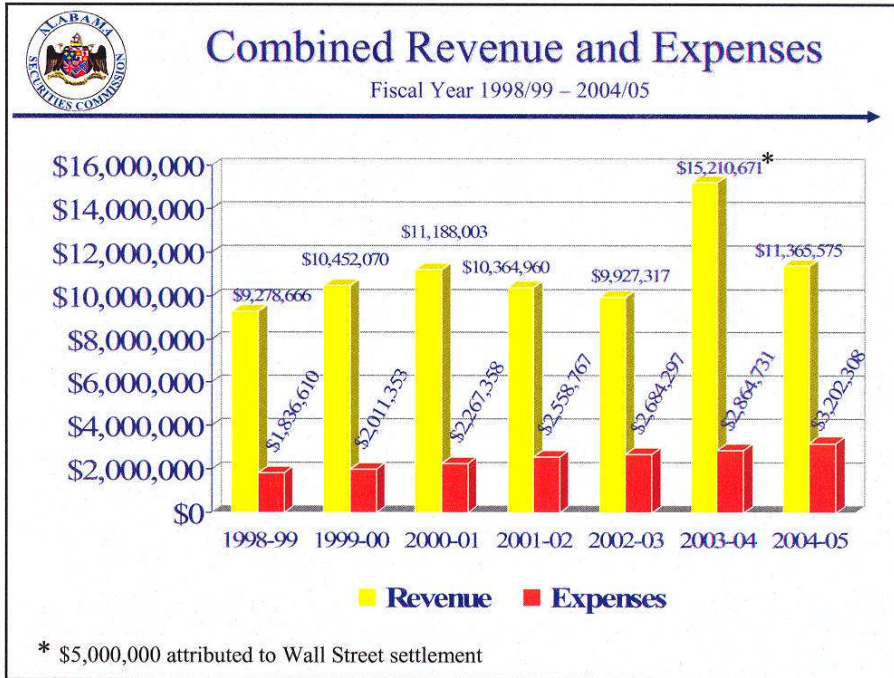
FILING	DEFINITION	FEE	AUTHORITY
Notification	Generally available for seasoned issuers and requires limited disclosure.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1000	§ 8-6-8(d) <i>Code of 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)(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)	

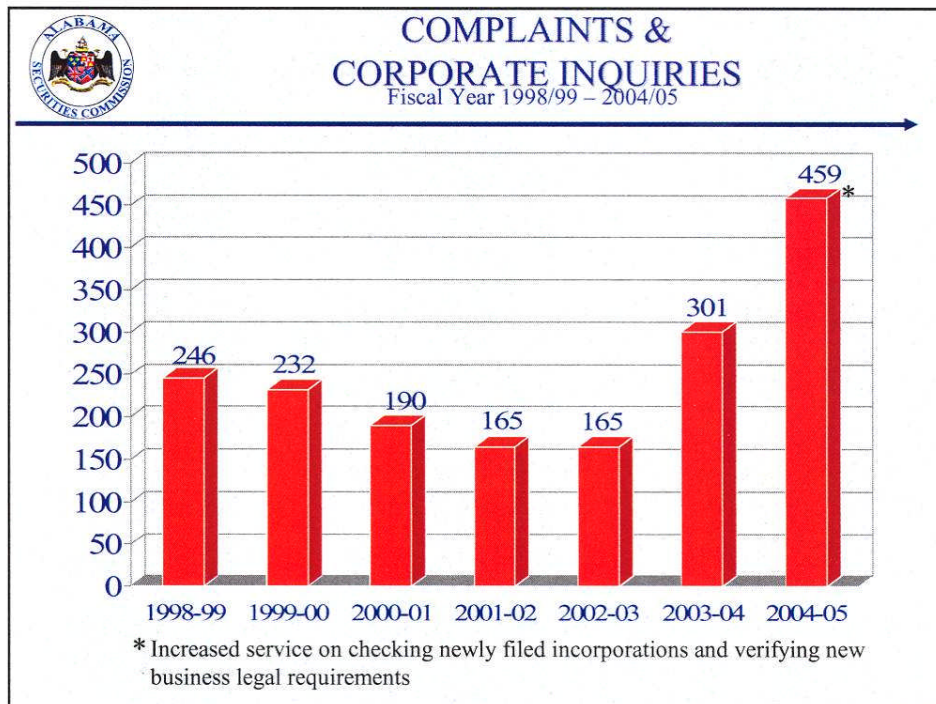
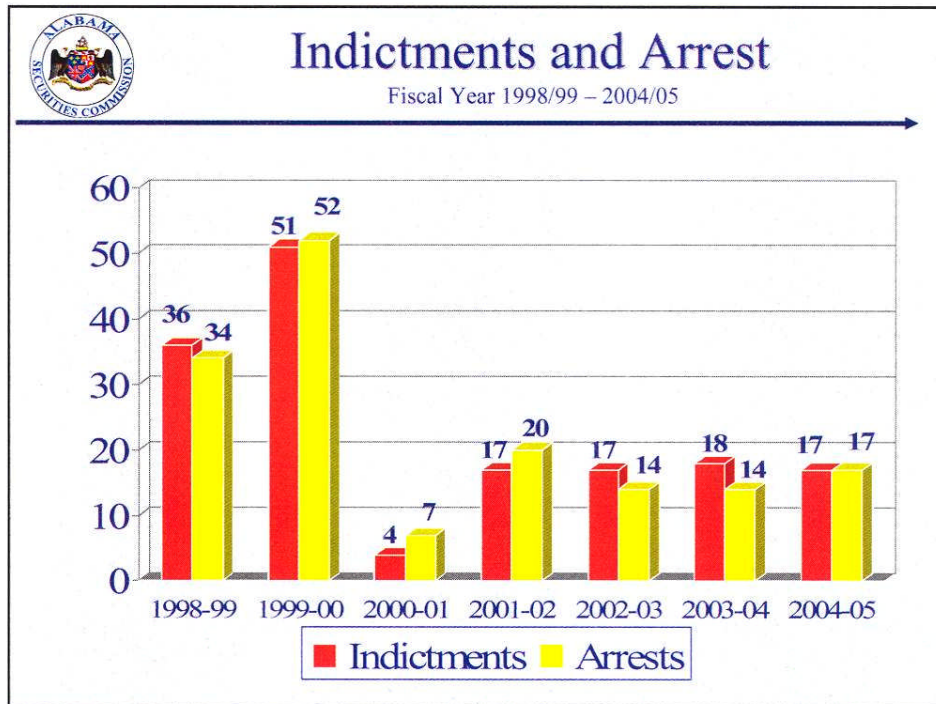
FILING	DEFINITION	FEE	AUTHORITY
Opinions	Interpretations	\$150	§ 8-6-29, <i>Code of Alabama, 1975</i>
Agent	Any individual, other than a dealer, who represents a dealer or issuer in effecting or attempting to effect sales of securities.	\$50	§ 8-6-3(h), <i>Code of Alabama, 1975</i>
Dealer	Any person 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
	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.		
Administrative Assessment	Fee imposed upon any person who violates any provision of the article or rule or order issued under the article.	Not to exceed \$5,000 for each act or omission. Total assessment not to exceed \$50,000	§ 8-6-19(j)(2), <i>Code of Alabama, 1975</i>
Investigative Examinations	Investigative costs for examinations of violations of any provision of the article or violations of any rule.	Actual costs of investigation	§ 8-6-19(k)(1), <i>Code of Alabama, 1975</i>

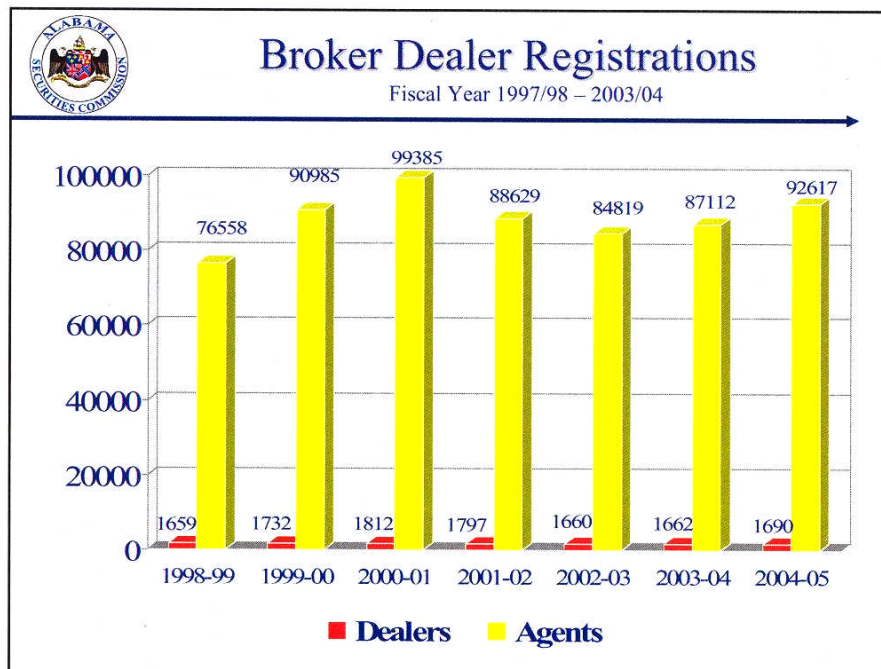
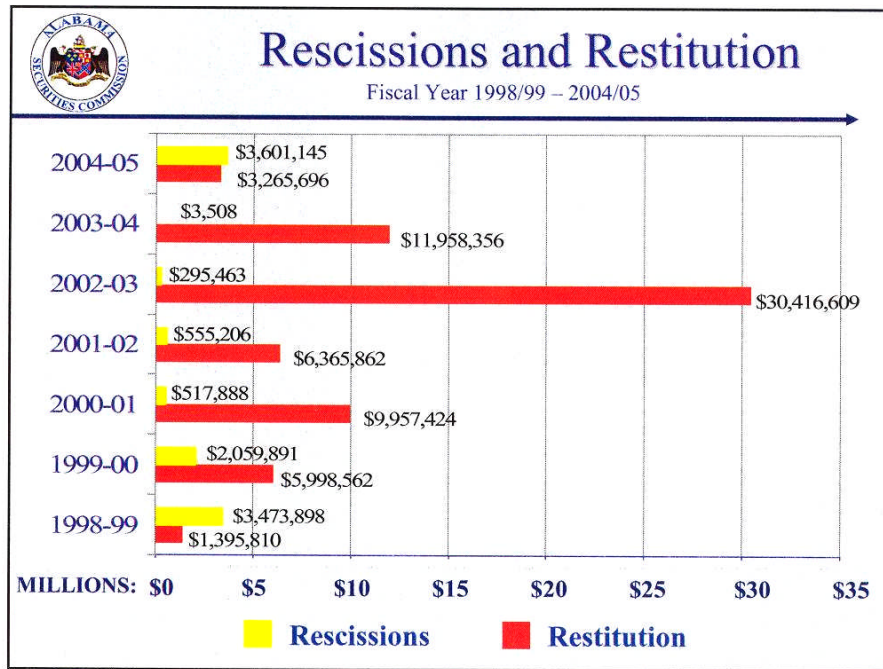
ALABAMA SECURITIES COMMISSION STATISTICS



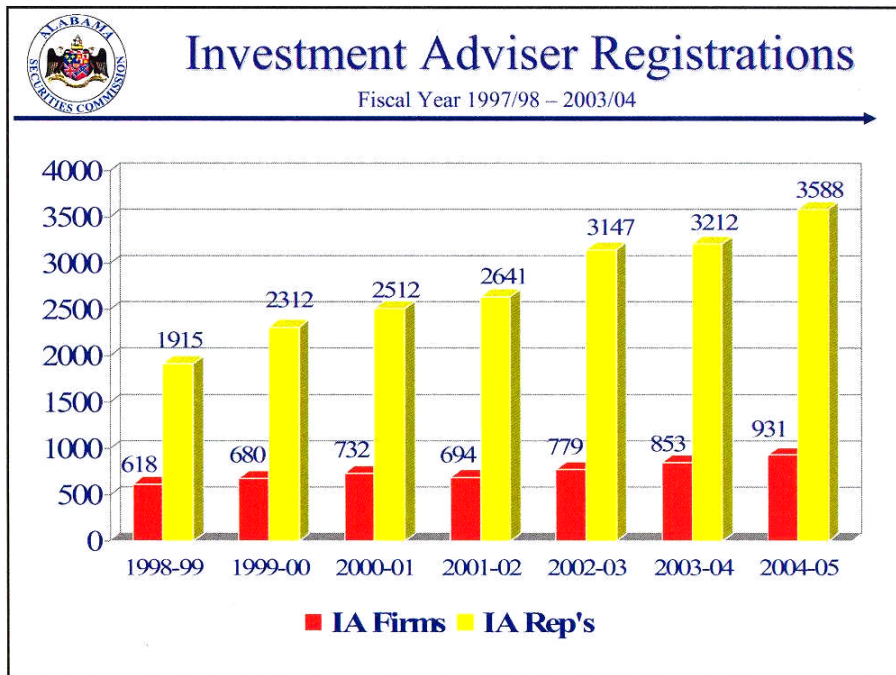
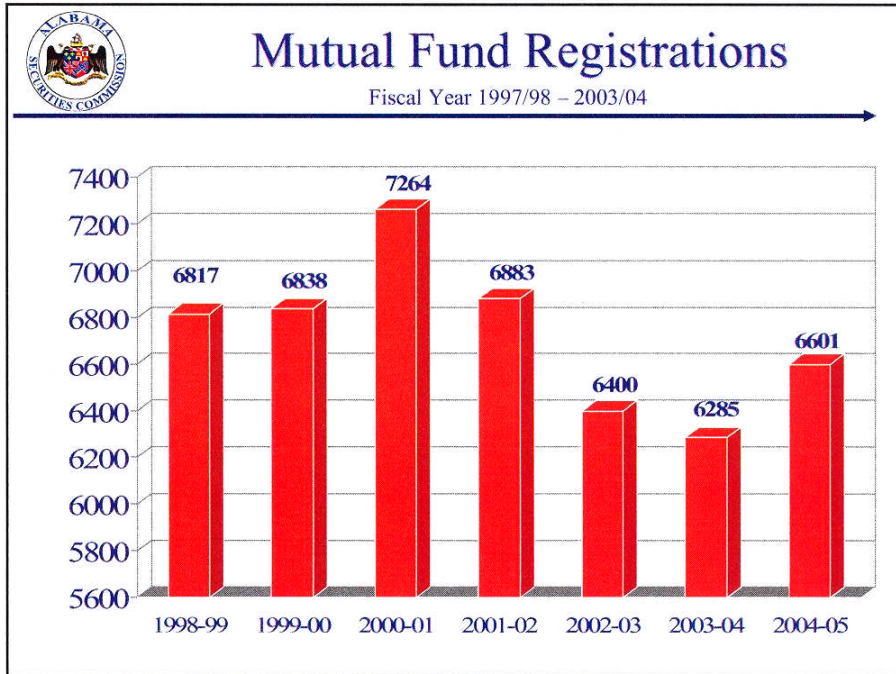
ALABAMA SECURITIES COMMISSION STATISTICS



ALABAMA SECURITIES COMMISSION STATISTICS



ALABAMA SECURITIES COMMISSION STATISTICS



FINANCIAL STATEMENT

FISCAL YEAR 2004-2005

Agency Revenues

Authority

§ 8-6-3(h)	Investment Advisers & Representatives	\$ 5,423,250
	Broker-Dealers & Representatives	
§ 8-6-8	Securities Registration	43,073
§ 8-6-11	Exemptions	186,270
§ 8-6-19	Administrative Assessments/Investigative Executions	375,174
§ 8-6-10(11)(b)(2)	Mutual Fund Exemptions	5,283,750
§ 8-6-29	Opinions	1,800
§ 8-6-115	Industrial Revenue Bonds	13,000
§§ 8-7-6; 8-7-9	Sale of Checks	25,540
	Miscellaneous Revenues	13,718
	TOTAL REVENUES	\$ 11,365,575
	To General Fund	\$ 5,391,144
	To Sale of Checks Fund	25,540
	To Securities Commission Fund	5,935,891
	To Industrial Revenue Fund	13,000
	TOTAL	\$ 11,365,575

Expenditures

Personnel Costs	\$ 1,837,923
Employee Benefits	539,205
Travel (In-State)	19,964
Travel (Out of State).....	29,648
Repairs & Maintenance	14,983
Rentals & Leases	315,581
Utilities & Communications	36,072
Professional Services	173,564
Supplies, Materials & Operating Expenses	110,510
Transportation Equipment Operations	30,609
Transportation Equipment Purchases	58,569
Other Equipment Purchases	45,635
TOTAL	\$ 3,212,263
Additional Transfer to State General Fund	10,500,000
TOTAL EXPENDITURES	\$ 13,712,263
TOTAL TO GENERAL FUND FOR FISCAL YEAR 2004-2005	\$ 15,891,144

Alabama Securities Commission Enforcement Division

Enforcement Activity

ACTIVITY "I"=Inquiry "S"=Formal Investigation	Fiscal Year 2004-2005
Investigations Opened - "I"	388
Investigations Closed - "I"	409
Investigations Opened - "S"	71
Investigations Closed - "S"	40
Administrative Actions	169
Receiverships Appointed	1
Rescission Offers Obtained	2
Indictments Obtained	17
Warrants Obtained	5
Arrests Made	17
Convictions Obtained	8
Public Warnings Issued	22
Referrals to Other Agencies	8

As of 9/30/05, there were 21 individuals awaiting Grand Jury, 6 individuals pending arrest, and 21 individuals awaiting trial.

Administrative Orders Issued

A comparative summary of the Enforcement Division's Fiscal Year 2004-2005 activities are shown on the following charts:

TYPE OF ORDER ISSUED	RESPONDENTS	ORDERS
Cease and Desist	119	24
Consent	11	8
Show Cause	17	6
Vacate	6	2
Permanent Bar	10	6
Revocation	4	2
Limited Reinstatement	1	1
Limited Registration and Censor	1	1
TOTALS:	169	50

REGISTRATION AND EXEMPTION ACTIVITY

STATISTICAL SUMMARY

10/01/2004 - 09/30/2005

	Application Filed	Application Approved	Renewal Processed	Application Withdrawn	Application Terminated
Broker/Dealer	141	137	1553	35	111
Broker/Dealer Agent	2560	24205	68412	0	21492
Eleemosynary Financing Exemption	47	36	0	7	0
Exempt Consent	11	11	0	1	0
Expansion Order	2	2	0	0	2
Industrial Revenue Bond	13	13	0	0	0
Investment Adviser - Federal	105	107	694	0	42
Investment Adviser - State Registered	21	13	117	7	23
Investment Adviser Representative	301	923	2665	0	666
Limited Offering	677	708	0	6	18
Mutual Fund Exemptions	1089	1081	5520	2	309
Registration by Coordination	56	29	0	16	6
Registration by Qualification	2	2	0	0	0
Restricted Agent	43	45	139	1	17
Sale of Checks Vendor	5	6	62	1	8

Note: The total number of registrations and exemptions issued in fiscal year 2005 was 106,480.

INDUSTRIAL REVENUE BONDS

FY 2004 - 2005

LESSEE	DATE FILED	FEE CHARGED	DATE APPROVED	AMOUNT OF ISSUE
Brown Precision Inc. Project	11/03/2004	\$1,000.00	11/22/2004	\$3,500,000.00
Georgia-Pacific Corporation	12/07/2004	1,000.00	12/20/2004	24,875,000.00
Springhill Medical Complex, Inc.	12/15/2004	1,000.00	12/17/2004	5,500,000.00
Birmingham Health Care Inc.	12/17/2004	1,000.00	12/22/2004	2,900,000.00
Melsur Corporation Project (Industrial Development Board of the City of Fultondale)	02/03/2005	1,000.00	02/16/2005	7,530,000.00
Hospice of Marshall County, Inc.	02/17/2005	1,000.00	02/18/2005	3,300,000.00
International Paper Company Project, 2005, Series A (The Industrial Development Board of the Town of Coutland - Pollution Control Revenue Refunding)	05/02/2005	1,000.00	05/03/2005	22,800,000.00
International Paper Company Project, 2005, Series A (Industrial Development Board of the Town of Coutland - Solid Wase Disposal Revenue Refunding)	05/02/2005	1,000.00	05/03/2005	48,200,000.00
Industrial Development Board of the City of Scottsboro (HiSan, Inc.)	05/02/2005	1,000.00	05/03/2005	3,150,000.00
Austal USA, LLC (Industrial Development Board of the City of Mobile, Alabama)	05/05/2005	1,000.00	06/24/2005	2,500,000.00
Industrial Development Board of the City of Montgomery - General Electric Co. Project	05/05/2005	1,000.00	05/05/2005	70,000,000.00
International Paper Company	07/29/2005	1,000.00	08/05/2005	4,700,000.00
Standard Furniture Manufacturing Company	08/01/2005	1,000.00	08/04/2005	3,500,000.00

TOTALS:

\$13,000.00

\$202,455,000.00

August 2005/Volume 15, No. 8

ONWALLSTREET

HELPING BROKERS BUILD A MORE SUCCESSFUL BUSINESS



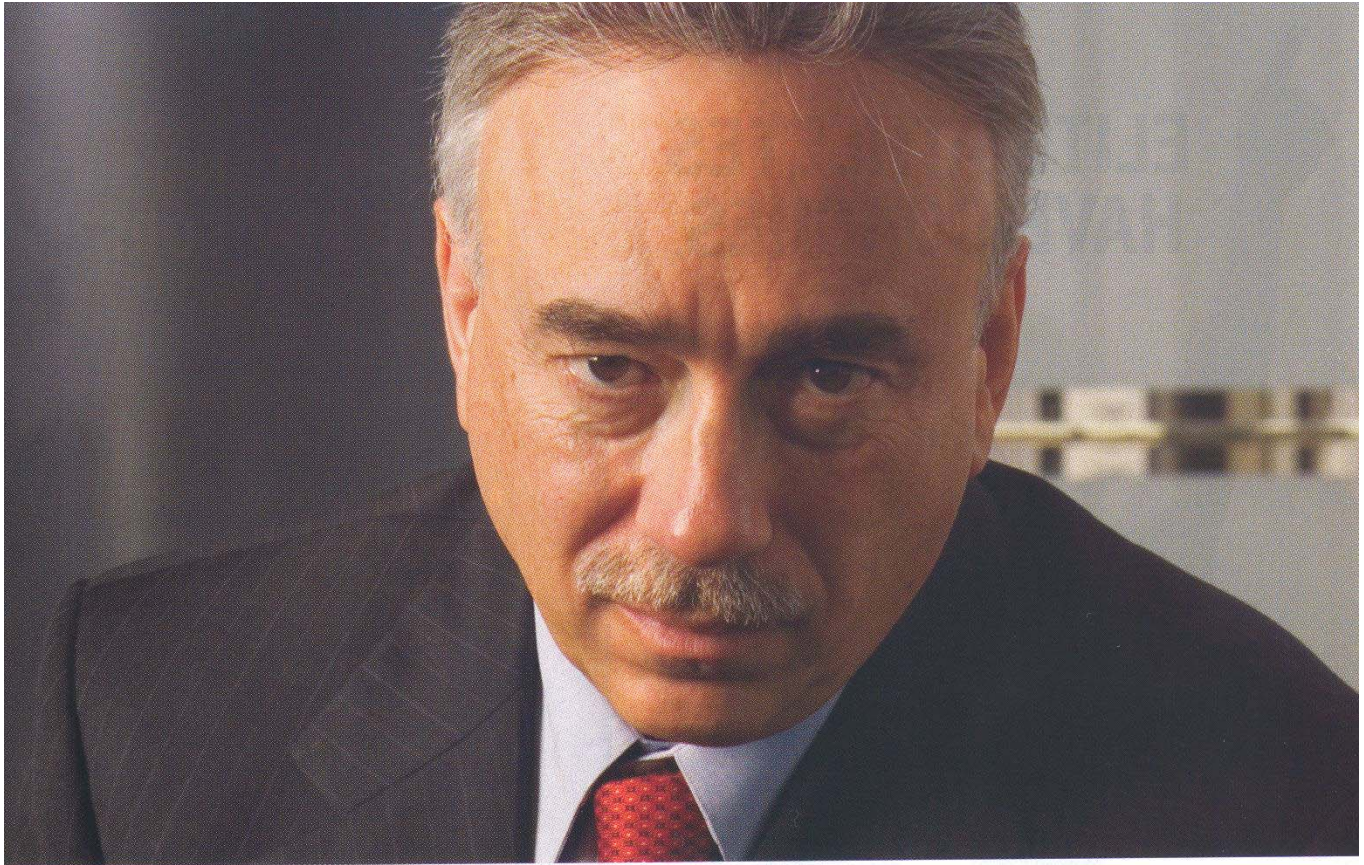
THE ROLLOVER CHASE

HOW ADVISERS ARE GETTING
RETIREES' 401(k) ASSETS



INSIDE

- Reps Hail Mack's Return to Morgan
- One Way to Play the Energy Boom
- Eliot Spitzer's Heirs Apparent



The New Crusaders

Three state regulators who are filling the void left by corruption buster Eliot Spitzer.

By Dorianne Perrucci

Tough-talking, influential and critical of the financial advisory community. Sounds like New York Attorney General Eliot Spitzer, doesn't it? Guess again. It actually describes three other state enforcers of securities laws—Joseph P. Borg of Alabama, Ralph A. Lambiase of Connecticut and Franklin L. Widmann of New Jersey.

With Spitzer running for New York governor and stepping out of the securities law spotlight, these three men—already widely quoted and leaders in their own right—will only see their prominence increase.

Each man's office varies in enforcement power—ranging from Connecticut, which issues a steady stream of enforcement orders and coordinates civil and criminal lawsuits with the state's Department of Banking and Insurance; to New Jersey, where the securities regulator works with the state's attorney general to prosecute civil and criminal cases; to Alabama, one of the few states where a securities regulator has direct authority to prosecute criminal matters.

The flood of state orders set into motion by the Wall Street global settlement unleashed a tide of regulatory activity on the local level that has financial professionals complaining that regulation has become overwhelming.

All three men agree that investor trust must be restored and to do that, the industry needs to reform some of their basic practices. The biggest problem? "Compliance is viewed as part of the cost of doing business, not what's good for the investor," says New Jersey's Widmann, who also heads the North American Securities Administrators Association, a trade group of 67 regulators in the 50 states, its territories, the District of Columbia, Mexico and Canada.

Photos: Ralph Lambiase/ Bruce Ando Joseph Borg/ Randall Crow

Borg (l.) and Lambiase (below) have a message for firms who aren't inclined to cross paths with these powerful state regulators: Do what's right, and you'll do OK.

Don't let the Southern veneer fool you. **Joseph P. Borg**, director of the Alabama Securities Commission, is a very friendly guy until you ask him that one question. The stories he's been recounting—how his car was stolen and burned after he and New York Attorney General Eliot Spitzer created the task force that put Wall Street under a microscope—come to an abrupt halt. There's a long silence on the other end of the phone when he's asked: "Have you ever lost a securities case?"

Lose, losing or lost: These are not words in the vocabulary of the former corporate and personal injury attorney who grew up in Astoria, Queens. "Not since I've been here," snaps Borg, who was appointed director of the Alabama Securities Commission in 1994. "I mean, in that one case, the judge let the broker plead to a misdemeanor. But I haven't lost a case that we tried."

Actually, there was another case—prior to his current job—that got away. In 1993, he was a partner at a Montgomery, Ala., law firm when an investor called and requested help in retrieving \$25,000 lost in a micro-cap stock fraud.



He settled that case for half of the amount. "I hadn't seen the abuses that were going on back then," he says. "But that opened my eyes."

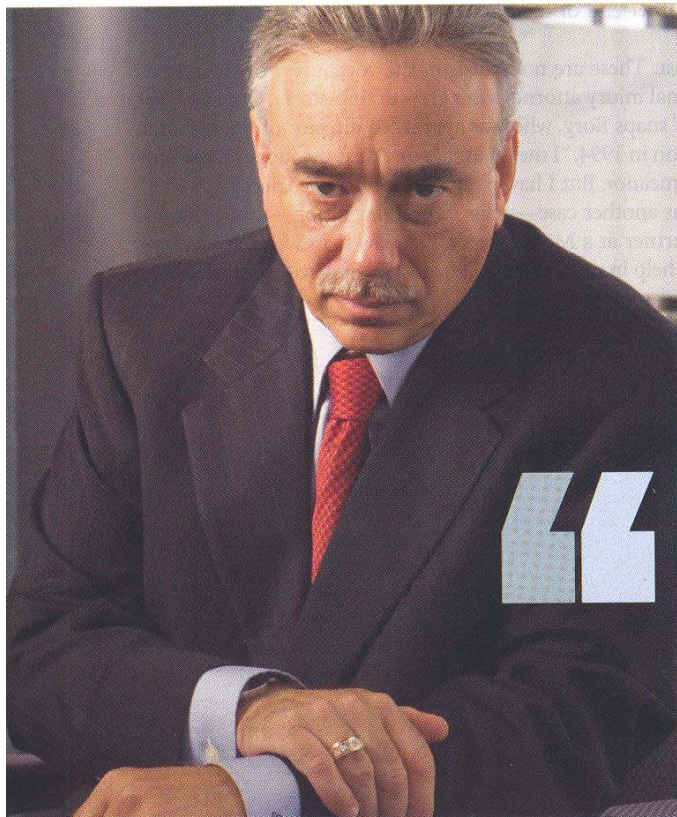
Since then, Borg has gone after violators big and small—sometimes on his own and other times as part of a coalition of state regulators. For instance, his office handled Lehman Bros. in the multistate probe into research-analyst conflicts at major Wall Street firms. As part of that investigation and its settlement, Borg's state received \$5.1 million.

And for the fiscal year ended September 2004, Borg's staff alone nailed 18 criminal indictments, arrested 14 brokers, delivered 144 enforcement orders and returned

He isn't too worried. To keep busting the bad guys—the vast minority of the industry, he stresses—he'll rely on a tool he learned to wield during the analyst conflict-of-interest cases: multistate enforcement. "The markets are interwoven, and geographic boundaries mean little when it comes to money," he says.

Even those financial advisers and firms who follow the law have nothing to worry about if they pay attention to only one piece of advice from Borg, who gives a presentation on compliance and suitability titled, "How to Avoid Joe Borg by Joe Borg."

"Just pay attention to the bottom line: what's best for the clients," he says.



“We’re not a big, fine state. I’d rather throw people in jail.”

— *Joseph Borg of Alabama*

\$12 million to investors. "We're not a big, fine state," says Borg. "I'd rather throw people in jail."

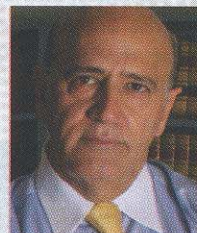
In the early '90s, a flurry of investor frauds gave Borg's office the power and staff to do that. But his staff of 55 will still have to stretch to keep up with today's hot list. "Ponzi and pyramid schemes, mostly with an overseas flavor; foreign currency; variable annuities that are open to scams because baby boomers have got to make up for lost time; affinity fraud—specifically religious affinity fraud—in the South and certain other parts of the country; and commodities and futures," Borg says.

For Borg, before the Wall Street settlement, there was the Stratton Oakmont case, which he calls "the granddaddy of the penny-stock boiler rooms." In the mid-'90s, the prosecution and subsequent litigation brought together 20 states and led to a Senate hearing.

In 2001, Alabama worked with several states to prosecute a \$500 million fraud against 18,000 investors by the Greater Ministries International Church in St. Petersburg, Fla. That same year, in a scam operated solely on the Internet, the Alabama Securities Commission seized more than 15,000 bank checks and froze assets worth \$5.3 mil-

What They've Done—and How They've Done It

Though all three state regulators share the same goal in their quest to clamp down on industry violations, their approaches have varied greatly. Here's how they compare:



	Borg Alabama	Lambiase Connecticut	Widmann New Jersey
No. of brokers and investment advisers	90,324	119,501	172,361
No. of broker-dealer firms	1,662	2,553	2,298
Administrative actions/orders in '04	187	69	45
Administrative actions/orders in '03	181	68	48
Restitution to investors in '04	\$11.9M	\$4.2M	\$3M
Restitution to investors in '03	\$30.4M	\$1.5M	\$1.2M
Penalties imposed in '04	\$5M	\$538,550	\$16.4M
Ongoing securities investigations	106	100	215

Source: Alabama Securities Commission, Connecticut Department of Banking, New Jersey Bureau of Securities

lion. The agency subsequently sent the assets back to investors located in 50 states and overseas, who fell victim to a Ponzi scheme set in motion by MN Partners, based in Phenix City, Ala.

Ralph A. Lambiase, a former Marine who started on the road to securities regulation as a rep, remembers when a broker was called “a customer’s man.”

Companies, he says, “focused on the customer, not on selling products that generate profits for the firm. Now there’s a lot more focus on greed, and I have a problem with that because that means you’re going to disregard the public interest.”

Lambiase, director of securities and business investments for Connecticut’s Department of Banking, has an even bigger problem—accountability. “With the big cases, name me the individuals who were identified,” Lambiase says. “The company will pay a \$200 million fine, but they want to settle the case without any liability, and I think that’s wrong. Prosecutors need to focus on who was guilty, even if that means less settlement and more litigation.” To federal regulators who spend too much time debating yet another rule, he has this advice: “Don’t just sit there for the purpose of creating rules—confront the behavior.”

He believes “regulation has become a safe harbor for the big firms” and has shifted the focus away from the

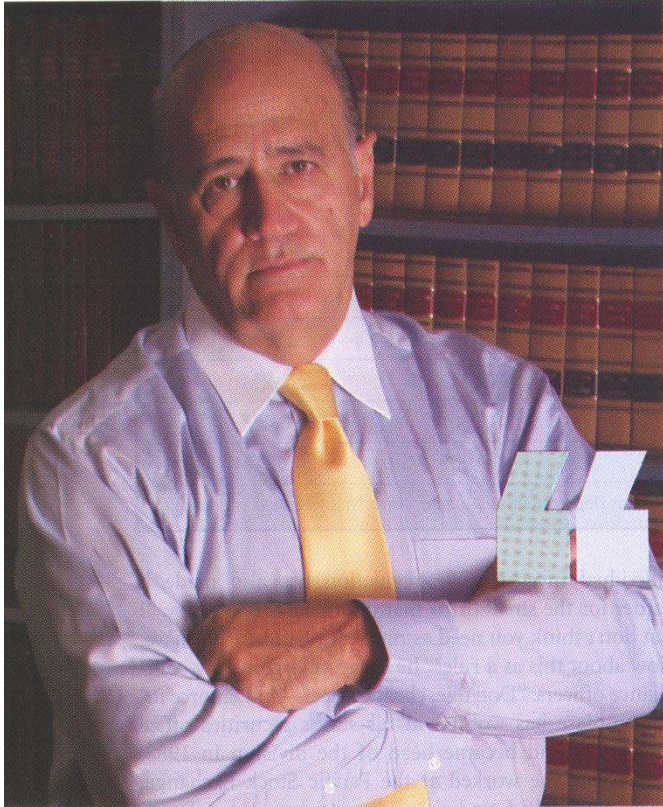
individual investor. Over-regulation has also made it harder for the small firms that dominate the industry. “I just don’t think you need as much regulation as we have. How about this as a rule?” he suggests to company compliance officers: “Don’t lie, cheat or steal—and enforce it.”

Lambiase has worked in his state’s securities office since 1978 and became head of the division in 1988. Before that, he worked at the Pacific Stock Exchange, where he tracked trading volume to monitor enforcement problems.

While he is light on the penalties (\$538,550 in 2004), Lambiase has brought more than a few enforcement actions—69 in the same year. Just as significant is the money he got back for investors: \$4.2 million in restitution. And take a look at the case involving LH Ross & Co., a Boca Raton, Fla.-based company accused of perpetrating a classic “pump and dump” scheme. After the firm ignored several administrative orders, his securities division in January imposed a fine of \$420,000 and permanently revoked the broker-dealer’s license.

Franklin L. Widmann, chief of the New Jersey Bureau of Securities, may look like a mild-mannered software engineer, but don’t let the thick eyeglasses fool you. He has spent a lot of time scrutinizing securities regulations—beginning in 1985, when he started working in the Governor’s office and looked at penny-stock fraud, and

again in 1997, when he was appointed to head the state's securities office. The result? Tougher enforcement powers that beefed up civil monetary penalties, and a rule that required firms to register securities offerings, which previously had not been done—a fact that earned New Jersey its scam-friendly reputation.



Stearns & Co. The firm agreed to pay \$80 million but didn't admit or deny guilt.

For the most part, it's not the wirehouses who break securities law; it's the unregistered firms. But one area where wirehouses need to pay closer attention is compliance, says Widmann, who—with Alabama's Borg—coor-

Regulation has become a safe harbor for the big firms.

— *Ralph Lambiase of Connecticut*

Those days are long gone. In 2004, the securities office levied more than \$16 million in penalties, had 215 active investigations in process and won 53 cases. Widmann set the pace, and his boss, Attorney General Peter Harvey, supplied the muscle. The lion's share came from the \$15 million fine levied against Allianz Dresdner Asset Management and two affiliated companies in a market-timing case.

The latest example of the team's intent to clean up the state: the \$10 million fine Merrill Lynch will have to pay and significant reforms the wirehouse must implement for allegedly failing to supervise the behavior of three financial advisers who engaged in market timing of mutual funds.

Widmann also took a leading role in the \$1.4 billion research-analyst-conflicts settlement. His state netted more than \$10 million from that agreement. He led the part of the probe in which six states investigated Bear,

dinated the NASAA task force that drove 14 investigations in 45 states resulting in 520 state orders.

On this one point, Widmann's steady gaze turns steely. "This is pervasive conduct across the industry, and it goes back to supervision, it goes back to investor confidence, and if investors don't have confidence, we have a big problem," he says. How big? "It's not a foregone conclusion that we'll keep the lead in the global economy," he says.

New Jersey's top securities cop says he will conduct more exams at the firms and make more unannounced site visits to enforce various supervision problems. To keep track of these issues, Widmann has a CRD (central registration depository) system and a program for investment advisers. But the industry's "culture of noncompliance" is a bigger challenge, he says. "The industry is more focused on sales and generating fees and commissions than they are on making sure their house is in order." ■

**ABC Primetime television show highlights ASC case
Christopher Cuomo visits the Commission to film story.**



Christopher Cuomo
Senior Legal Correspondent
ABC News

ASC investigated and joined with District Attorney Randall Houston (Elmore County, Alabama) in the prosecution of the now famous Daystar Church scandal, which took place in Prattville, Al.

The case resulted in sentencing of 9 people who participated in the scandal which led to the loss of \$3 million stolen from members and the foreclosure of a beautiful building to worship in.

Deputy Director McNeill said, “It was an exciting experience to be interviewed on a national television show. For the first time Steve Cooper, the kingpin of this crime who was sentenced to 31 years of confinement, expressed guilt and apologized to victims. This Commission is proud of its ability to work with Alabama law officials to punish people who steal from the residents of Alabama.”



JOSEPH P. BORG
Director
J. RANDALL McNEILL
Deputy Director

ALABAMA SECURITIES COMMISSION

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ALABAMA SECURITIES COMMISSION MEETING OF SEPTEMBER 19, 2005

The Alabama Securities Commission held a meeting on September 19, 2005, at 10:00 a.m. in the conference room located in the Alabama Securities Commission offices 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, Vice-Chairman
Hon. Bill Garrett, Assistant Attorney General (Representing the Attorney General)
Hon. Elizabeth Bressler, (Representing the Superintendent of Banks)
Hon. Tyrone Means, Attorney
Hon. Daniel Hardman, CPA
Hon. Reyn Norman, (Representing the Department of Insurance)

Staff Members Present Were:

Joseph P. Borg, Director
J. Randall McNeill, Acting Deputy Director
Christie Rhodes, Executive Assistant
Mike Foley
Ricky Locklar

Chairman Kushner called the meeting to order. The first order of business was the acceptance of the Minutes from the previous meeting held May 31, 2005. Mr. Borg then moved into old business and gave the Board an update from all the divisions in the office. First, he gave an update regarding the Accounting Division. In this area discussed was the number of employees, possible new areas to expand, and possible increase in fees. The next area discussed was regarding IT and possible expenditure for a different Microsoft platform. Mr. Borg did note that the office is in strong shape in budgeting regarding updates in IT. The next item discussed was of Education and Outreach. In this area Mr. Borg recounted the Public Alerts issued, the seminar panels in which Commission staff contributed, and education outreach programs done since the last meeting. Finally, the Order issued by the Commission regarding IA's and Broker Dealer Agents displaced because of Hurricane Katrina was discussed.

Under new business, the Sale of Checks case was discussed. In his discussion, Mr. Borg reported on the compliance we are now receiving which is evidenced by his invitation to speak with the Debt Management Association. Mr. Borg also noted the reasoning behind bringing the suit.

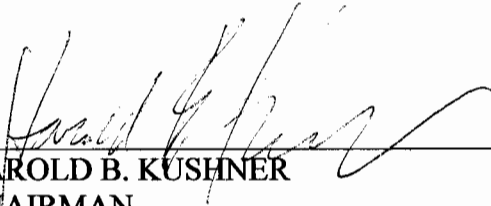
Chairman Kushner then moved that the meeting go into executive session.

Following executive session, Mike Foley and Ricky Locklar then presented the report of the Enforcement Division and trends/issues that they are seeing.

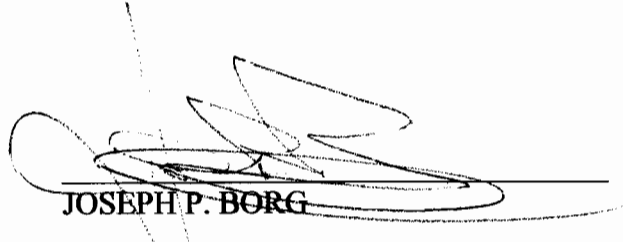
Mr. Borg then discussed the possibility of charging a fee for every branch office of an IA. He also discussed the possibility of proposing legislation for this fee as well as raising all of our fees. It was noted that we had not had a fee increase in 14 years.

Mr. Borg then discussed the Alabama Open Meetings Act of 2005, but noted that the Commission is already in compliance with it.

Prior to adjournment, Dan Hardman made a motion to pay authorized expenses for the Commission members. The motion was seconded by J. Wray Pearce; motion carried. With that, Mr. Kushner adjourned the meeting.



HAROLD B. KUSHNER
CHAIRMAN



JOSEPH P. BORG



JOSEPH P. BORG
Director
J. RANDALL MCNEILL
Acting Deputy Director

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Attorney at Law
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ALABAMA SECURITIES COMMISSION MEETING OF MAY 31, 2005

The Alabama Securities Commission held a special meeting on May 31, 2005, at 10:00 a.m. in the conference room located in the Alabama Securities Commission offices 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. Bill Garrett, Assistant Attorney General (Representing the Attorney General)
Hon. John Harrison, Superintendent of Banks
Hon. Tyrone Means, Attorney
Hon. Daniel Hardman, CPA
Hon. Reyn Norman, (Representing the Department of Insurance)

Commission Members Present by Telephone:

Hon. J. Wray Pearce, Vice-Chairman

Staff Members Present Were:

Joseph P. Borg, Director
J. Randall McNeill, Acting Deputy Director
Christie Rhodes, Executive Assistant
Jane L. Brannan, Attorney

Chairman Kushner called the meeting to order at 10:06 a.m. A conversation took place concerning the recent death of ASC Deputy Director and General Counsel Susan B. Anderson, who passed away on May 6, 2005. Director Borg and the Commission presented to James and Anna Anderson the Resolution of the Alabama Senate and a Proclamation by the Governor mourning the death of Susan B. Anderson.

The next order of business, the agenda for the meeting, was adopted. The Minutes of the previous Meeting were moved for approval by Commissioner Means and seconded by Commissioner Hardman and unanimously adopted.

Director Borg then detailed the April 2005 Monthly Report and summarized the Fiscal Year 2003-2004 Annual Report as presented to the Governor, Legislature and distributed as mandated by the Alabama Securities Act.

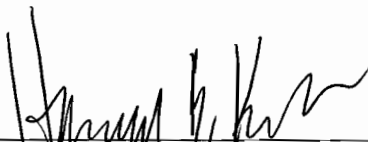
A new lease with the Retirement Systems and office space renovation plans were distributed and discussed. Director Borg introduced Superintendent of Banks, John Harrison, as a member of the Commission and presented Commissioner Harrison with his credentials as Commissioner.

Director Borg then discussed the restructuring of the legal division and introduced James Randall McNeill as Acting Deputy Director and Jane L. Brannan as Attorney III. Director Borg also discussed Ed Reed's upcoming promotion from Attorney I/II to Attorney III.

Director Borg gave a report regarding his role at the United Nation's Committee on Drugs and Crime as a U.S. Delegate. Director Borg then gave a NASAA update and announced that he has been encouraged to run for president for year 2007 (beginning September 2006). The Commission gave its unanimous support for Director Borg's candidacy and cited the benefits to the State. Director Borg then distributed the NASAA Annual Report, which prominently featured Alabama Securities Commission activity in several places.

At 10:52 a.m., Chairman Kushner motioned to go into executive session to discuss the status of pending litigation. The Commission came out of executive session at 11:00 a.m.

In other business and as a follow up to a Commission discussion from the Commission's last meeting in March, Mr. Garrett discussed approaching the State Personnel Department through the Attorney General's Office to create an Attorney IV S position. The Commission gave its approval and support for Mr. Garrett to pursue this inquiry. No further business was discussed and the meeting was adjourned at 11:10 a.m.



HAROLD B. KUSHNER
CHAIRMAN



JOSEPH P. BORG



JOSEPH P. BORG
Director

SUSAN B. ANDERSON
Deputy Director/General Counsel

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Commissioner of Insurance

TYRONE C. MEANS
Attorney at Law

DANIEL C. HARDMAN
Certified Public Accountant

ALABAMA SECURITIES COMMISSION MEETING OF MARCH 9, 2005

The Alabama Securities Commission held a quarterly meeting on March 9, 2005, at 11:30 a.m. in the conference room located in the Alabama Securities Commission offices 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. Daniel Hardman, CPA
Hon. Walter A. Bell, Commissioner of Insurance
Hon. Tyrone Means, Attorney
Hon. Trabo Reed, Acting Superintendent of Banks
Hon. Bill Garrett, Assistant Attorney General (Representing the Attorney General)

Commission Members Absent Were:

Hon. J. Wray Pearce, Vice-Chairman

Staff Members Present Were:

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

Chairman Kushner called the meeting to order at 11:35 a.m. As the first order of business, Chairman Kushner requested the Commissioners to review the agenda for the meeting and the agenda was approved without dissent. Chairman Kushner then requested the Commissioners to review the Minutes of the November 23, 2004 meeting, and the Minutes were unanimously approved, with no objections. Chairman Kushner then turned the meeting over to Director Borg.

Director Borg advised the Commission that he has been contacted by the United Nations, and invited to attend a conference hosted by the United Nation's Committee on Drug and Crime. The meeting will occur in Vienna, Austria, and the United Nation's Committee would like Director Borg's input on corporate and securities related frauds. Director Borg will be attending as a U. S. delegate to the U.N. The costs of this trip will be paid by NASAA.

Director Borg then provided the Commissioners with the February monthly report of the operations of the Commission. Director Borg provided the Commissioners with information concerning the receipts and disbursements of the Commission, as well as a personnel report and the registration and enforcement statistics. A general discussion then ensued concerning a number of Commission matters which have occurred during the last several months, including the indictment of Mr. Frank Ray Johnson, an individual this Commission has previously indicted and successfully prosecuted.

Under new business, Director Borg advised the Commissioners that the auditors have completed their bi-annual property audit of the Commission, and found that the Commission staff was able to account for 100% of all equipment assigned to it. State Auditor Beth Chapman wrote a congratulatory letter to Director Borg and particularly commended Mrs. Renee Sanders, the Commission's property manager, for this result. Director Borg next advised the Commissioners that he had recently forwarded to the Governor's Office, at the Governor's

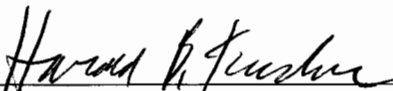
request, a list of all current Commissioners and the expiration dates of each Commissioners' current term. A brief discussion ensued.

Director Borg then provided the Commissioners with an update concerning the status of the new Uniform Alabama Securities Act, which is currently before the current legislative session. The only major objection that has arisen concerning the Act has to do with the definition of "variable annuity", and the fact that the ACLI is adamantly opposed to allowing the Commission to exercise jurisdiction over variable annuities. Historically, the Commission has regulated the sale of variable annuity contracts, even if issued by an insurance company, if the contract contained any security element. Director Borg advised the Commission that, after some confusion, the Senate Committee passed the Uniform Act as submitted by the Commission, and that it is currently in the House of Representatives. Director Borg and Commissioner Bell have drafted a joint letter from the Securities Commission and the Insurance Department supporting the Uniform Act, and this letter has been delivered to the Committee. However, Director Borg advised that it is uncertain whether the House will pass the bill due to the heavy opposition from the ACLI.

The Commission was then provided with an update on the Commission's case against Terry Harris, and at the recent trial, Mr. Harris pled guilty to one felony. Deputy Director Anderson advised that a press release has come to the Commission's attention today in which Mr. Harris states that he is withdrawing his guilty plea and is making a number of accusations against the judge and his attorneys. Chairman Kushner called for, and the Commission agreed, to enter into executive session to discuss pending and new litigation.

The Commission adjourned from executive session, and Chairman Kushner opened the floor for discussions concerning the issue of obtaining a pay increase for Director Borg, during which the discussion expanded to include Deputy Director Anderson. A number of issues were

discussed, and the Director was advised to investigate the best way to proceed in an attempt to increase these salaries. The Commission meeting was adjourned at 12:30 p.m.



HAROLD B. KUSHNER
CHAIRMAN



JOSEPH P. BORG



JOSEPH P. BORG
Director

SUSAN B. ANDERSON
Deputy Director/General Counsel

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ALABAMA SECURITIES COMMISSION MEETING OF NOVEMBER 23, 2004

The Alabama Securities Commission held a quarterly meeting on November 23, 2004, at 10:00 a.m. in the conference room located in the Alabama Securities Commission offices 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. J. Wray Pearce, CPA, Vice-Chairman
Hon. Daniel Hardman, CPA
Hon. Tyrone Means, Attorney
Hon. Bill Garrett, Assistant Attorney General (Representing the Attorney General)

Commission Members Absent But Present By Telephone:

Hon. Harold B. Kushner, Attorney, Chairman

Commission Members Absent Were:

Hon. Anthony Humphries, Superintendent of Banks
Hon. Walter A. Bell, Commissioner of Revenue

Staff Members Present Were:

Joseph P. Borg, Director
Christie Rhodes, Executive Assistant
Renee Sanders, Senior Accountant

Vice-Chairman Pearce called the meeting to order at 10:02 a.m. As the first order of business, Vice-Chairman Pearce requested the Commissioners to review the agenda for the

meeting. Commissioner Means moved to approve the agenda and Commissioner Hardman seconded the motion. The motion carried unanimously. Vice-Chairman Pearce then requested the Commission to review and approve the minutes of the August 23, 2004 meeting.

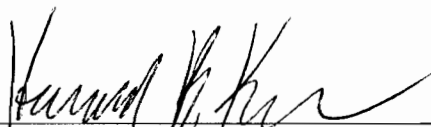
Commissioner Means moved to approve the minutes and Commissioner Hardman seconded the motion. The motion carried unanimously.

Vice-Chairman Pearce then turned the meeting over to Director Borg to provide the Commission with a director's report. Director Borg presented the Commissioners with the October Monthly Report of the operations of the Commission. Director Borg provided the Commissioners with information concerning the receipts and disbursements of the Commission, as well as a Personnel Report and the Registration and Enforcement Statistics. A general discussion ensued concerning the budget of the Commission, and Director Borg advised the Commission that budget hearings were scheduled with the Finance Director and the Legislature in December and January, and that he would like several Commissioners to attend these meetings. He further advised that the staff is preparing an extensive presentation for the Legislature. Director Borg also reported on the number of personal engagements he has made during the last several months, as well as engagements made by other members of the ASC staff.


Under old business, Director Borg directed the Commissioners' attention to the Operations Plan for Fiscal Year 2004-2005. This plan has previously been provided to the Commissioners, with the exception of Section E, which is a new strategic plan summary. Director Borg then directed the Commissioners' attention to a number of Rule revisions that have previously been provided to the Commissioners, but have now been through the publication process, and will become effective in January, 2005. Director Borg then provided the Commissioners with an update on a number of on-going and pending court cases.

Under new business, Director Borg advised the Commissioners that a favorable order has been rendered in the Jordan v. Seigelman lawsuit, and that the Montgomery Circuit Court has dismissed the case as against all defendants. The time within which to appeal this order has not expired and it is possible the case could be appealed. Finally, the terms of the Commissioners and the fact that certain terms were about to expire were briefly discussed.

Commissioner Hardman moved to adjourn the meeting, and Honorable Bill Garrett seconded the motion. The motion carried unanimously, and the Commission Meeting was adjourned at approximately 10:45 a.m.



HAROLD B. KUSHNER
CHAIRMAN



JOSEPH P. BORG

APA-3
11/96

CERTIFICATION OF ADMINISTRATIVE RULES
FILED WITH THE LEGISLATIVE REFERENCE SERVICE
JERRY L. BASSETT, DIRECTOR

(Pursuant to Code of Alabama 1975, §41-22-6, as amended).

I certify that the attached is/are correct copy/copies of rule/s as promulgated and adopted on the 19 day of November, 2004, and filed with the agency secretary on the 19 day of November, 2004.

AGENCY NAME: Alabama Securities Commission

Amendment New Repeal (Mark appropriate space)

Rule No. 830 - X - 3 .05
(If amended rule, give specific paragraph, subparagraphs, etc., being amended)

Rule Title: Statement of Financial Condition

ACTION TAKEN: State whether the rule was adopted with or without changes from the proposal due to written or oral comments:

- Action taken without changes to proposed rule.
- No comment on proposed rule.

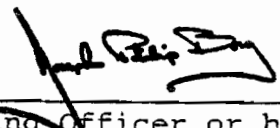
NOTICE OF INTENDED ACTION PUBLISHED IN VOLUME 22,
ISSUE NO. 12, AAM, DATED September 30, 2004.

Statutory Rulemaking Authority: Code of Alabama 1975, Section 8-6-23

(Date Filed)
(For LRS Use Only)

REC'D & FILED

NOV 19 2004



Certifying Officer or his or her
Deputy

LEGISLATIVE REF SERVICE

(NOTE: In accordance with §41-22-6(b), as amended, a proposed rule is required to be certified within 90 days after completion of the notice.

830-X-3-.05 Statement Of Financial Condition.

(1) An applicant filing a new application for registration as a dealer or investment adviser shall file a balance sheet prepared in accordance with generally accepted accounting principles, dated not more than ninety days prior to the date of filing. Such balance sheet shall be in compliance with Rule 830-X-3-.05(4) or audited in accordance with generally accepted auditing standards accompanied by an unqualified opinion of an independent certified public accountant registered with the Alabama State Board of Public Accountancy or a similar board of the state in which the certifying accountant resides.

(2) If an applicant is registered with the United States Securities and Exchange Commission, National Association of Securities Dealers, Inc., or a recognized stock exchange, the filing with the Commission of financial reports prepared in accordance with the rules and requirements of that organization shall satisfy the requirements of this rule; however, should such a report be submitted, it shall be accompanied by a balance sheet attested to by an officer of the applicant, unless said report contains an opinion as set forth in paragraph (1) of this rule.

(3)(a) Except as otherwise ordered by the Commission, all persons required to be registered as investment advisers in this state shall file a balance sheet audited in accordance with generally accepted auditing standards accompanied by an unqualified opinion of an independent certified public accountant registered with the Alabama State Board of Public Accountancy or a similar board of the state in which the certifying accountant resides, within sixty (60) days after the close of the registrant's fiscal period.

(b) For the purposes of satisfying the provisions of Code of Alabama 1975, §8-6-3(g), relating to the filing of yearly audited financial statements of broker-dealers, the filing of financial reports with the U.S. Securities and Exchange Commission ("SEC") pursuant to SEC Rule 17a-5 (17 C.F.R. 240.17a-5 (1991)) as amended will be deemed to satisfy the provisions of the section.

(c) All persons required to be registered as investment advisers or dealers in this state shall file with the Commission, within 15 days of a written request

of the Commission staff, their most recent financial statements audited in accordance with generally accepted auditing standards accompanied by an unqualified opinion of an independent certified public accountant registered with the Alabama State Board of Public Accountancy or a similar board of the state in which the certifying accountant resides.

(d) Any financial statements submitted to the Commission staff for the purposes of satisfying a request made pursuant to subdivision (3)(c) of this rule must accurately represent the financial condition of the dealer or investment adviser as of a date within twelve months of the date of such request.

(4) Attached to every balance sheet or financial statement which may be required to be submitted to the Commission shall be an oath or affirmation that such statement is true and correct to the best knowledge, information, and belief, after a diligent inquiry, of the person making such oath or affirmation. The oath or affirmation shall be made before a person authorized to administer such oath or affirmation. If the dealer or investment adviser is a sole proprietorship, the oath or affirmation shall be made by the proprietor; if a partnership, by a general partner; if a corporation, by a duly authorized officer; and if a trust, by a trustee.

(5) Securities in which an applicant has an interest disclosed in the balance sheet or financial statement shall be listed in a separate schedule and valued at cost. Market value of such securities shall be shown parenthetically as of a date within thirty (30) days of the date of filing any application.

Author: Alabama Securities Commission

Statutory Authority: Code of Ala. 1975, §8-6-23.

History: Filed September 30, 1982. **Readopted:** Filed November 9, 1983. **Emergency rule** filed December 22, 1983. **Amended:** Filed September 28, 1990. **Amended:** November 19, 2004. **Ed. Note:** Formerly Rule 830-X-3-.03.

APA-3
11/96

**CERTIFICATION OF ADMINISTRATIVE RULES
FILED WITH THE LEGISLATIVE REFERENCE SERVICE
JERRY L. BASSETT, DIRECTOR**

(Pursuant to Code of Alabama 1975, §41-22-6, as amended).

I certify that the attached is/are correct copy/copies of rule/s as promulgated and adopted on the 19 day of November, 2004, and filed with the agency secretary on the 19 day of November, 2004.

AGENCY NAME: Alabama Securities Commission

Amendment New Repeal (Mark appropriate space)

Rule No. 830 - X - 3 - .14 (m)
(If amended rule, give specific paragraph, subparagraphs, etc., being amended)

Rule Title: Records Required of Registered Dealers

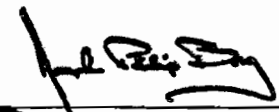
ACTION TAKEN: State whether the rule was adopted with or without changes from the proposal due to written or oral comments:

Action taken without changes to proposed rule.
No comment on proposed rule.

NOTICE OF INTENDED ACTION PUBLISHED IN VOLUME 22,
ISSUE NO. 12, AAM, DATED September 30, 2004.

Statutory Rulemaking Authority: Code of Alabama 1975, Section 8-6-23

(Date Filed)
(For LRS Use Only)



Certifying Officer or his or her
Deputy

(NOTE: In accordance with §41-22-6(b), as amended, a proposed rule is required to be certified within 90 days after completion of the notice.

830-X-3-.14 Records Required Of Registered Dealers.

(1) Every dealer registered in this state, except as otherwise provided by this rule, shall make and keep current the following books and records relating to its business as provided herein:

(a) Blotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all receipts and disbursements of cash and all other debits and credits. Such records shall show the account for which each such transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date, and the name or other designation of the person from whom purchased or received or to whom sold or delivered.

(b) Ledgers (or other records) reflecting all assets and liabilities, income and expenses and capital accounts.

(c) Ledger accounts (or other records) itemizing separately as to each cash and margin account of every customer and of such dealer and partners thereof, all purchases, sales, receipts, and deliveries of securities for such account and all other debits and credits to such account.

(d) Ledgers (or other records) reflecting the following:

1. Securities in transfer;
2. Dividends and interest received;
3. Securities borrowed and securities loaned;
4. Monies borrowed and monies loaned (together with a record of the collateral therefor and any substitutions in such collateral);
5. Securities failed to receive and failed to deliver.

(e) A securities record or ledger reflecting separately for each security as of the clearance dates all "long" or "short" positions (including securities in safekeeping) carried by such dealer for its account or

for the account of its customers or partners showing the location of all securities "long" and the offsetting position to all securities "short" and in all cases the name and designation of the account in which each position is carried.

(f) A memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such memorandum shall show the terms and conditions of the order or instructions and of any modification or cancellation thereof, the account for which entered, the time of entry, the price at which executed and, to the extent feasible, the time of execution or cancellation. Orders entered pursuant to the exercise of discretionary power by such dealer, or any employee thereof, shall be so designated. The term "instruction" shall be deemed to include instructions between partners and employees of a dealer. The term "time of entry" shall be deemed to mean the time when such dealer transmits the order or instruction for execution or, if it is not so transmitted, the time when it is received.

(g) A memorandum of each purchase and sale of securities for the account of such dealer showing the price and, to the extent feasible, the time of execution; and, in addition, where such purchase or sale is with a customer other than a dealer, a memorandum of each order received, showing the time of receipt, the terms and conditions of the order, and the account in which it was entered.

(h) Copies of confirmation of all purchases and sales of securities and copies of notices of all other debits and credits for securities, cash, and other items for the accounts of customers and partners of such dealers.

(i) A record in respect to each cash and margin account with such dealer containing the name and address of the beneficial owner of such account and, in the case of a margin account, the signature of such owner; provided, that in the case of a joint account or an account of a corporation, such records are required only in respect to the person or persons authorized to transact business for such account.

(j) A record of all puts, calls, spreads, straddles, and other options which such dealer has granted or guaranteed, containing at least an identification of the security and the number of units involved.

(k) A record of the proof of money balances of all ledger accounts in the form of trial balances. Such trial balances shall be prepared currently at least once a month.

(l) An application for employment executed by each associated person of such dealer, which application shall be approved in writing by an authorized representative of such dealer and shall contain at least the following information with respect to such person:

1. Name, address, social security number and the starting date of employment or other association with the dealer;

2. Date of birth;

3. The educational institutions attended and whether or not graduated therefrom;

4. A complete consecutive statement of all business connections for at least the preceding seven (7) years, including reasons for leaving each prior employment, and whether the employment was part-time or full-time;

5. A record of any denial of membership of registration, and of any disciplinary action taken or sanction imposed, upon such associated person by any federal or state agency, or by any national securities exchange or national securities association, including any finding that such associated person was a cause of any disciplinary action or had violated any law;

6. A record of any denial, suspension, expulsion or revocation: of membership in any national securities association, securities exchange, or registration with any state, federal or governmental agency, with which such associated person was associated in any capacity when such action was taken;

7. A record of any permanent or temporary injunction entered against him or any member of a national securities association or stock exchange, or dealer with which such associated person was associated in any capacity at the time such injunction was entered;

8. A record of any arrests, indictments or convictions for any felony or any misdemeanor, except minor traffic offenses, of which such associated person has been the subject;

9. A record of any other name or names by which such associated person has been known or has used; provided, however, that if such associated person has been registered as a registered representative of such dealer with, or such associated person's employment has been approved by the National Association of Securities Dealers, Inc., or the American Stock Exchange, the Boston Stock Exchange, the Midwest Stock Exchange, the New York Stock Exchange, the Pacific Coast Stock Exchange, or the Philadelphia-Baltimore-Washington Stock Exchange, then retention of a full, correct, and complete copy of any and all applications for such registration or approval shall be deemed to satisfy the requirements of this subparagraph (1).

(m) Unless otherwise provided by order of the Commission, each registered dealer shall make, maintain and preserve books and records in compliance with U.S. Securities and Exchange Commission Rules 17a-3 (17 C.F.R. 240.17a-3 (1991)), 17a-4 (17 C.F.R. 240.17a-4 (1991)), 15c2-6 (17 C.F.R. 240.15c2-6 (1991)) and 15c2-11 (17 C.F.R. 240.15c2-11 (1991)) as amended, and specifically, but without limiting the foregoing, all filings dealing with fingerprint cards and criminal records.

(2) This rule shall not be deemed to require a member of a national securities exchange to make or keep such records of transactions cleared for a member by another member as are customarily made and kept by the clearing member.

(3) Every issuer selling its own securities shall make and keep current the following books and records relating to his business:

(a) Ledger, journals (or other records) reflecting all assets and liabilities, income and expenses, and capital accounts properly maintained in accordance with general accounting principles.

(b) Stock Certificate books.

(c) Stockholders ledger or other record reflecting alphabetically the names and addresses of all stockholders, stock certificates issued to each, dates paid, and full details as to transfers or cancellations.

(d) Copies of all promotional and/or sales materials used in connection with the sales of all securities as distributed.

(e) Copies of all confirmations of sales of securities.

(f) A record of any arrests, indictments, or convictions for any felony or any misdemeanor, except minor traffic offenses, of which any of its principal officers has been the subject.

(4) A dealer registered in this state who maintains and preserves records in accordance with the provisions of the Securities Exchange Act of 1934, as amended, shall not be subject to the requirements of paragraphs (1) and (3) of this rule.

(5) All registered issuers or dealers shall maintain in this state the books and records referred to in this rule unless otherwise approved by the Commission. Any issuers or dealers who are approved to keep such records physically outside this state shall make such records available to the Commission, at a time and place designated by the Commission, for inspection upon request.

(6) All records required to be kept hereunder shall be in such form as may conveniently be examined by the Commission or its staff without the necessity of employing mechanical methods of reproduction or inspection.

Author: Alabama Securities Commission

Statutory Authority: Code of Ala. 1975, §8-6-23.

History: Filed September 30, 1982. **Readopted:** Filed November 9, 1983. **Amended:** Filed September 28, 1990. **Amended:** November 19, 2004. **Ed. Note:** Formerly Rule No. 830-X-3-.12.



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

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Certified Public Accountant

In memory of Susan Blalock Anderson (1953-2005),
Deputy Director and General Counsel to the
Alabama Securities Commission.

A dedicated public servant whose outstanding service,
vision, and loyalty will truly be missed.

- 1979: Juris Doctorate from Sanford University, Birmingham, AL (Summa Cum Laude with a class ranking of number one)
- 1979: She began her legal career with the Birmingham law firm of Sirote & Permutt, P.C. representing corporate clients in litigation matters.
- 1982: She became a partner of Sirote & Permutt, P.C. and received Martindale-Hubbell's AV rating - the highest rating in the legal profession.
- 1983-1985: She was an Adjunct Professor at Cumberland School of Law, teaching legal writing and research.
- 1994: She became General Counsel and Deputy Attorney General to the Alabama Securities Commission. In 1998, she was appointed to the position of Deputy Director in addition to her position as General Counsel of the Commission.
- She was admitted to practice law in Alabama, the Ninth and the Fifth Circuit Courts of Appeal, and the United States Supreme Court. She was also an active member of the American Bar Association, the Alabama Bar Association, the Birmingham Bar Association, and the Montgomery County Bar Association.
- She was actively involved in the First United Methodist Church of Montgomery and served on the Alabama Eye & Tissue Bank, Board of Directors, 1986-1988.
- She is survived by her husband James Anderson of Montgomery, Alabama and her three children.