

STATE GRAND JURY OF SOUTH CAROLINA

STATE OF SOUTH CAROLINA

vs.

RONALD J. SHEPPARD,

Defendant.

Case No. **2005GS 47 20**

**Indictment for Securities Fraud,  
Insurance Fraud, Bank Fraud,  
Forgery, Obtaining Goods Under  
False Pretenses, Breach of Trust,  
Perjury, and Conspiracy**

**FILED**  
NOV 16 2005  
CLERK LISA C. DUNBAR,  
STATE GRAND JURY

At a session of the State Grand Jury of South Carolina, convened in Columbia, South Carolina, on November 17, 2005, the State Grand Jurors present upon their oath and charge as follows:

**Background and Summary**

1. Carolina Investors, Inc. (Carolina Investors) was a South Carolina Corporation whose executive offices were located in Pickens, South Carolina. Carolina Investors had branch offices in Pickens, Greenville, and Anderson counties.
2. Carolina Investors was formed in 1963 by a Pickens, South Carolina businessman, who owned and operated a chain of perpetual care cemeteries. Carolina Investors' initial function was to finance the sale of cemetery plots through the annual sale of one year subordinated debentures and notes to the general public.
3. Subsequently, Carolina Investors engaged in other types of lending in South Carolina, including sub-prime home mortgage lending; small construction loans; sub-prime automobile loans; and sub-prime loans for the purchase of appliances. Carolina Investors formed two subsidiaries, The Loan Pro\$, Inc.

("Loan Pro\$"), and Premier Financial Services, Inc. ("Premier"), in 1987 and 1989 respectively, to conduct its automobile and appliance finance businesses.

4. In May 1991, Carolina Investors was acquired by National Railway Utilization Corporation ("NRUC"). In August 1991, NRUC changed its name to Emergent Group, Inc. ("Emergent").
5. Under Emergent, Carolina Investors continued its retail home mortgage business and the financing of automobile and appliance purchases. Carolina Investors also expanded into the wholesale mortgage business which involved funding, selling, and servicing sub-prime first and second home mortgages originated by loan brokers.
6. In June 1995, Emergent began to restructure its subsidiaries. As part of the restructuring, the stock of Loan Pro\$ and Premier was transferred to Emergent. In June 1995, Emergent borrowed \$15,000,000 from Carolina Investors and formed a new entity, Emergent Mortgage Corporation ("EMC"), to conduct and expand the wholesale and retail mortgage operations.
7. The formation of EMC marked the beginning of the inter-company debt between Carolina Investors and its parent corporation. It was also at this point that Carolina Investors ceased substantially all of its external lending activities.
8. Contemporaneous with the formation of EMC, Emergent undertook many of Carolina Investors' internal administrative functions, including the

accounting. As a result, Carolina Investors ceased to be a stand-alone business and its operations were devoted almost exclusively to the sale of debt instruments to raise funds that were transferred to Emergent and its various subsidiaries. Emergent's debt increased from approximately \$304,000 in 1995 to approximately \$242.2 million by the end of 2002.

9. Beginning in 1998, Emergent began suffering substantial operating losses. As a result, it sold all of the assets of its subsidiaries except for EMC and Carolina Investors. In March 1998, the retail mortgage business of Emergent, referred to as EMC, changed its name to HomeGold, Incorporated ("HomeGold"). Emergent, the parent corporation, changed its name to HomeGold Financial, Incorporated ("HomeGold Financial") in July 1998.
10. Likewise in 1998, HomeGold began to buy back bonds it had sold in 1997 in a \$125,000,000 offering. During the years 1998-2001, HomeGold was able to repurchase the bonds at approximately 37% - 60% of face value, reflecting concern in the bond market that HomeGold's financial condition would prevent it from paying the bonds when due. Carolina Investors, nevertheless, continued to sell its debt securities to the public at 100% face value and to upstream virtually all funds to HomeGold.
11. HomeGold's losses continued in 1999, and HomeGold formulated a plan to merge with another company. The apparent intent was to merge with a company that possessed substantial experience in the mortgage origination industry. Two merger attempts failed after the due diligence efforts of the then CFO, Kevin Mast and then CEO, Keith Giddens, revealed negative



financial information regarding the merger targets. On May 9, 2000, HomeSense Financial Corporation and affiliated companies ("HomeSense"), were merged into HomeGold, Inc. Defendant Ronald J. Sheppard was HomeSense's primary shareholder. Upon consummation of the merger, Defendant Ronald J. Sheppard became the Chief Executive Officer and a director of HomeGold Financial. Defendant Ronald J. Sheppard also became a director of both HomeGold and Carolina Investors. HomeGold, however, continued to report losses in 2000, 2001 and 2002.

12. As HomeGold's substantial operating losses continued, the indebtedness of HomeGold to Carolina Investors also substantially increased.
13. In or about April 2001, the Defendant Ronald J. Sheppard, decided to relocate the HomeGold headquarters from Pelham Road in Greenville, South Carolina to Lexington County, South Carolina.
14. Despite the massive losses, continuously unprofitable operations, continuing financial instability of HomeGold and the increasing inter-company debt, in April 2002, Carolina Investors issued a prospectus in connection with the sale to the public of \$180,000,000 of Series 2003 Floating Rate Notes and \$40,000,000 of Series H 6% Subordinated Debentures. The prospectus contained a going concern qualification, as well as an impairment of the inter-company debt owed by HomeGold/HomeGold Financial to Carolina Investors. The certified public accountants, Elliott Davis LLC (Elliott Davis), who were auditing HomeGold and Carolina Investors, issued a qualification to Carolina Investors' financial statement to explain that the auditors had



substantial doubt as to whether Carolina Investors would be able to stay in business as a going concern. In addition, the auditors required Carolina Investors to deduct an impairment allowance from the value of the loans it had made to HomeGold because, in the auditors' opinion, it was probable that Carolina Investors would be unable to collect the entire amount owed by HomeGold.

15. Notwithstanding the conclusions of the auditors, Carolina Investors continued to sell its securities to the public and all available cash was upstreamed to the parent corporation, seemingly without regard to the doubtful ability of the parent corporation to repay the outstanding obligations. In fact, Carolina Investors sold to the public over \$74,000,000 of debt securities between April 1 and December 31, 2002, and over \$16,000,000 from January 1 through March 21, 2003.
16. On March 21, 2003, Carolina Investors closed its doors to the public, and thousands of investors were unable to obtain the monies they had invested in Carolina Investors.

**COUNT ONE**  
**Securities Fraud**  
**(Violation S.C. Code Section 35-1-1210(3)**  
**and Section 35-1-1590(1))**

17. The allegations contained in paragraphs one (1) through sixteen (16) are repeated and realleged as if set forth verbatim herein.
18. Defendant Ronald J. Sheppard, and others, both known and unknown to the State Grand Jury, did engage in acts, practices, or courses of business which

operated or would operate as a fraud or deceit upon a "person" as defined in South Carolina Code Section 35-1-20, in many ways, including, but not limited to the following:

#### **MEANS AND METHODS**

19. On May 9, 2000, HomeSense and affiliated companies were merged into HomeGold. Defendant Ronald J. Sheppard, HomeSense's primary shareholder, became Chief Executive Officer and a director of HomeGold Financial, and a director of both HomeGold and Carolina Investors.
20. Defendant Ronald J. Sheppard, as CEO and a director of HomeGold, and other individuals at HomeGold, both known and unknown to the State Grand Jury, did in Lexington County, in connection with the offer, sale or purchase of a security, either directly or indirectly, engage in a fraudulent course of business from approximately May 2000 until HomeGold's ultimate demise in March 2003, which operated as a fraud or deceit upon numerous persons, or individuals, corporations, partnerships, associations, joint-stock companies, trusts where the interests of the beneficiaries are evidenced by a security, unincorporated organizations, governments or political subdivisions of a government, in violation of S.C. Code Section 35-1-1210(3) to wit: Beginning in approximately 1998, HomeGold Financial began to suffer substantial operating losses. These losses continued until HomeGold filed for protection pursuant to Chapter 11 of the Bankruptcy Code. These operating losses were funded primarily by upstreaming funds from Carolina Investors as

a “loan”. As this inter-company debt grew, HomeGold’s ability to repay the “loan” became increasingly less likely. It was necessary for those individuals at HomeGold to keep this fact hidden from certain members of the Carolina Investors’ Board of Directors, namely Don Cook Bobo and Danny Ray Sharpe, government regulators, and the purchasers of Carolina Investors’ subordinated notes and debentures. Defendant Ronald J. Sheppard, and others at HomeGold and Carolina Investors, engaged in a course of business in which they intentionally withheld the true financial condition of the company and its ability to repay the debt to Carolina Investors, and ultimately, Carolina Investors’ ability to repay its note holders.

21. These actions were part of a course of business and a deliberate attempt to perpetrate a fraud which caused a financial loss to a number of investors, some of whom lost more than twenty thousand dollars (\$20,000).
22. Defendant Ronald J. Sheppard and others exploited the corporate structure of HomeGold to control the flow of information between the HomeGold Board of Directors and directors Don Cook Bobo and Danny Ray Sharpe of the Carolina Investors’ Board of Directors, and even further, to the holders of Carolina Investors’ subordinated notes and debentures.
23. During the period of the offense, the Defendant Ronald J. Sheppard and others, with the intent to participate in, and advance the financial affairs of themselves and HomeGold, engaged in a fraudulent course of business and are criminally liable for criminal acts including but not limited to as follows:



### Terms of Merger for Defendant Sheppard

24. The allegations contained in paragraphs one (1) through twenty three (23) are repeated and realleged as if set forth verbatim herein.
25. Defendant Ronald J. Sheppard's fraudulent conduct, which perpetrated and perpetuated the fraud, began in approximately 2000 during the course of the merger between HomeSense and HomeGold. Defendant Ronald J. Sheppard and others, both known and unknown to the State Grand Jury, used the merger and its underlying details to further the fraud in many ways, including but not limited to the following:
  26. Pursuant to the terms of the merger, Defendant Ronald J. Sheppard, for his interest in HomeSense, received, among other things, a \$5.7 million non-recourse loan in the form of a \$4 million cash advance along with HomeGold Financial assuming \$1.7 million worth of personal debt.
  27. Pursuant to the terms of the merger, Defendant Ronald J. Sheppard received 6,072,370 shares of the common stock and all 10,000,000 shares of the preferred stock. In addition, Defendant Ronald J. Sheppard received options to purchase 825,423 shares of common stock at an exercise price of \$1.75 per share as part of his employment agreement with HomeGold.
  28. The loan addressed herein was secured only by the HomeGold stock that Defendant Ronald J. Sheppard acquired at the consummation of the merger. HomeGold loaned the money to Defendant Ronald J. Sheppard at an interest rate of approximately 7.5%. The dividends from the stock addressed above essentially equaled Defendant Ronald J. Sheppard's obligation to make

interest payments on the note. Defendant Ronald J. Sheppard convinced HomeGold to structure the note to look like a loan, and not income, in an effort to avoid paying income taxes on the proceeds of the financial transaction. However, as it was a non-recourse note and the dividends from the stock paid for the interest on the loan, it was essentially a \$5.7 million payment.

29. Nevertheless, in the proxy statement soliciting approval by the HomeGold Financial shareholders, Defendant Ronald J. Sheppard's \$5.7 million note was reported as an asset for HomeGold Financial. This, however, was not correct. As it was a non-recourse note, it was unlikely that it would be paid back by Defendant Ronald J. Sheppard, and therefore was essentially a \$5.7 million overstatement of the equity of HomeGold at the time of the merger.
30. The non-recourse promissory note matured on or about May 9, 2001. The loan is still outstanding as it was not paid in 2001, 2002, 2003, 2004 or 2005. In fact, no payments were ever made under the terms specified in the loan.
31. Subsequent to the merger, Defendant Ronald J. Sheppard made statements to other individuals that he had no intention of paying back the loan due to it being of a non-recourse nature.
32. Additionally, on or about May 9, 2000, or at least contemporaneous with the merger of HomeGold and HomeSense, as part of the merger agreement, Defendant Ronald J. Sheppard and representatives from HomeGold entered into a Mutual Indemnity Agreement. This indemnified both HomeGold and Defendant Ronald J. Sheppard from losses incurred as a result of a breach of

certain warranties associated with the merger. Set forth therein is a provision providing that in the event the total equity (i.e. assets less total liabilities) of HomeSense at the closing of the merger did not equal at least \$2,373,233, as determined by generally accepted accounting principles, then Defendant Ronald J. Sheppard would have to immediately pay to HomeGold, in cash, the amount of the deficiency.

33. Thereafter, on January 30, 2001, HomeGold Financial and Defendant Ronald J. Sheppard entered into an agreement which cancelled the mutual indemnity agreement addressed above. The agreement states that it would be in the best interest of all parties, as well as the shareholders of HomeGold, to cancel the mutual indemnity agreement. However, this was not part of the agreement that was presented to the shareholders, and this transaction actually created a negative net worth in terms of the agreement relating to the money the Defendant Ronald J. Sheppard would have to pay to HomeGold.
34. The effect of the January 30, 2001, agreement was that it cancelled Defendant Sheppard's obligation to pay to HomeGold the amount of the deficiency in equity pursuant to the mutual indemnity agreement. This agreement was not presented to the shareholders prior to its execution, and more importantly, it was not in the shareholders' best interest for Defendant Ronald J. Sheppard not to provide the cash to make up the deficiency.



## WAREHOUSE LINES OF CREDIT

35. The allegations set forth in Paragraphs one (1) through thirty four (34) are repeated and realleged as if set forth herein.
36. As stated above, HomeGold Financial, along with its subsidiary HomeGold, was a specialty finance company engaged in the business of originating, marketing, selling, and servicing sub-prime first and second lien residential mortgage loan products.
37. In order to fund these mortgages, HomeGold relied upon warehouse lines of credit from numerous lenders. HomeGold's ability to maintain warehouse lines of credit was essential to keeping HomeGold a viable entity and maintaining the appearance of a financially strong company. One such warehouse lender was CIT of New York.
38. In or about July of 2000, Defendant Ronald J. Sheppard and other representatives from HomeGold went to a meeting at the offices of CIT in New York. CIT had requested the meeting due to the precarious financial position of HomeGold.
39. The representatives from CIT informed HomeGold that it would be immediately reducing the warehouse line of credit to \$100,000,000 and then to \$50,000,000 and would gradually close the line of credit by the year's end.
40. CIT's reasoning for this was that there was a looming inter-company debt. Specifically, it was relayed to HomeGold officials that CIT did not want to be liable to the debenture holders of Carolina Investors based upon the nature of

the debt, to whom the debt was owed, and HomeGold's ability to repay the loan.

41. As of this meeting in or about July of 2000, it was readily apparent to not only HomeGold directors and employees, but also to its creditors, that the inter-company debt was an insurmountable issue. Defendant Ronald J. Sheppard, by his own admission, had direct knowledge of this fact.
42. As a result of losing this source of funding for the mortgages, HomeGold was forced to find funding elsewhere. The readily available source was to keep upstreaming funds from Carolina Investors and therefore, Carolina Investors acted like HomeGold's own line of credit.
43. The fact that HomeGold was using these funds from Carolina Investors on a regular basis, and the fact that HomeGold could not repay those funds, had to be kept from certain individuals at Carolina Investors, namely Don Cook Bobo and Danny Ray Sharpe, government regulators, the investment counselors and most importantly, from the holders and potential purchasers of Carolina Investors' notes and debentures.

#### **INTER-COMPANY DEBT**

44. The allegations contained in paragraphs one (1) through forty three (43) are repeated and realleged as if set forth verbatim herein.
45. Defendant Ronald J. Sheppard, and others, both known and unknown to the State Grand Jury, as part of the course of business perpetrated and perpetuated

the fraud using the inter-company debt in many ways, including but not limited to the following:

46. As addressed above, the use of the funds from Carolina Investors and the fact that HomeGold could not pay back that sum, had to be kept from certain individuals such as Carolina Investors' directors Don Cook Bobo and Danny Ray Sharpe, government regulators, and holders and potential customers of Carolina Investors' subordinated notes and debentures. HomeGold, and its alter-ego, Carolina Investors, needed to appear financially sound.
47. In order to operate, HomeGold needed to maintain the appearance of a certain financial position to retain its mortgage lending licenses in a number of states. These licensing agencies required the submission of annual audited financial statements. If the audited financial statement showed that HomeGold was insolvent, its license(s) would not have been renewed. Without these licenses, HomeGold would not be able to conduct its business.
48. Prior to 2000, HomeGold Financial, and its predecessor companies, submitted consolidated financial statements to these licensing authorities rather than a separate statement of HomeGold, which was the actual licensee. As of December 31, 2000, this presented a problem because a consolidated financial report would have shown HomeGold Financial to have been insolvent, in that it would have had a negative net worth.
49. In an attempt to ensure a "positive" financial status and in response to repeated operating losses, the Boards of HomeGold and Carolina Investors approved a series of internal financial transactions.



50. These transactions had no true effect on the overall financial condition of the companies, but the transactions were further part of the course of business designed to impact the financial statements of HomeGold and to convince various state regulatory agencies that HomeGold was solvent. By convincing the state agencies of the financial stability of HomeGold, the company was allowed to keep its licensing, and as a result, continue to operate and continue to upstream money from Carolina Investors and the purchasers of Carolina Investors' subordinated notes and debentures.
51. The financial transactions were as follows:
- a. As of December 31, 2000, HomeGold Financial assumed all of the debts owed by HomeGold to Carolina Investors, which totaled approximately \$100,840,449.
  - b. HomeGold Financial, of which Defendant Sheppard was the CEO and a director, executed a revolving promissory note dated December 31, 2000, payable to Carolina Investors in the amount of \$125,000,000 and with a maturity date of December 31, 2005, to cover not only the debt assumed from HomeGold, but also any necessary future advances from Carolina Investors to HomeGold.
  - c. HomeGold Financial recorded this transaction as a contribution to the capital of HomeGold through an Assumption of Debt and Capital Contribution Agreement (Assumption Agreement).

- d. Pursuant to the Assumption Agreement, HomeGold technically guaranteed the repayment to Carolina Investors of the amounts assumed by HomeGold Financial.
  - e. On or about January 2, 2001, HomeGold executed a secured revolving promissory note payable to Carolina Investors in the amount of \$75,000,000, which was payable on December 31, 2005.
  - f. In order to secure the guaranty mentioned above, and the revolving promissory note, HomeGold granted Carolina Investors a security interest in certain property. These security interests were not perfected.
  - g. The assets that allegedly secured these interests were certain accounts receivable, and HomeGold's used equipment located in South Carolina, which had very little actual value.
52. As of March 29, 2001, HomeGold Financial entered into a three party agreement whereby HomeGold's indebtedness to Carolina Investors was assumed by HomeGold Financial, and HomeGold's liability was limited to guaranteeing HomeGold Financial's indebtedness to Carolina Investors. Therefore, because HomeGold did not directly owe this money to Carolina Investors, it was not necessary for it to list the debt as a liability on the balance sheet. It was only required that it be listed as a footnote.

53. Having HomeGold Financial become primarily liable on the loan from Carolina Investors instead of HomeGold, should not have resulted in such a dramatic change in the financial statements for HomeGold because the obligations had not materially changed. HomeGold Financial had no significant assets other than stock in HomeGold and Carolina Investors. These financial manipulations evidence a course of business conduct aimed at converting a liability, which had been on HomeGold's balance sheet, to an asset in order to mislead not only state licensing agencies and government regulators, but ultimately, the holders of Carolina Investors' subordinated notes and debentures.
54. The internal financial transactions set forth above removed approximately \$100,000,000 of debt from HomeGold. This gave HomeGold the appearance of solvency. This series of financial transactions was an intentional manipulation of the appearance and financial status of HomeGold's equity, which was positive as a result of the transaction.
55. This same conduct was repeated in 2001, and was on the books to occur again for the end of the year 2002, but did not occur because HomeGold Financial and its related entities closed their doors in March 2003.



## Valuations

56. The allegations set forth in paragraphs one (1) through fifty five (55) are repeated and realleged as if set forth verbatim herein.
57. Based upon the failure of HomeGold to meet projections throughout 2001, individuals at the auditing firm of Elliot Davis requested that a valuation be conducted for the HomeGold retail mortgage division.
58. HomeGold management sent information to CBIZ Valuation Counselors, a company located in New Jersey, which performed a valuation of the division. The valuation was based upon an income statement and other documents prepared internally by HomeGold. CBIZ was not provided with a balance sheet for that portion of the business. Further, HomeGold management provided CBIZ with a multi-year projection of operations covering the mortgage production business. These projections were unrealistic based upon HomeGold's past performance.
59. This valuation excluded costs relating to corporate infrastructure and administration, as well as various areas of mortgage production and support. CBIZ accepted the documents provided by HomeGold without further investigation as proper representations of HomeGold's operations. CBIZ did not independently investigate the accuracy or completeness of the data, which was disclosed and disclaimed in the valuation when it was sent to HomeGold on March 8, 2002.
60. Additionally, it was explicitly detailed by CBIZ that this valuation was to be used by HomeGold for internal purposes only, for its business planning, and

neither the valuation, nor its contents, should be referred to or quoted in any registration statement, prospectus, offering memorandum, sales brochure, other appraisal, loan, or other agreement or document given to third parties without CBIZ's prior approval. Based upon information and belief, CBIZ did not give permission for this to be used in any manner set out above.

61. This evaluation was sent to Elliot Davis, which rejected this valuation and told HomeGold management to obtain a new appraisal.
62. The Defendant, Ronald J. Sheppard and others, used this valuation to continue to represent that HomeGold was a viable company and to continue a course of business aimed at misleading not only the State licensing agencies, government regulators, certain members of the Board of Directors of Carolina Investors, namely Don Cook Bobo and Danny Ray Sharpe, and government regulators, but ultimately holders of Carolina Investors' subordinated notes and debentures.
63. Subsequently, another valuation was prepared by Deloitte & Touche which was also based upon income statements prepared internally by HomeGold. Deloitte & Touche was not provided with a balance sheet for that portion of the business. Further, HomeGold management provided Deloitte & Touche with a multi-year projection of operations covering the mortgage production business. HomeGold did not provide a projection for 2003. Again, these projections were unrealistic based upon HomeGold's past performance.
64. This valuation excluded costs relating to corporate infrastructure and administration, as well as various areas of mortgage production and support.

Deloitte & Touche also accepted the documents by HomeGold without additional investigation as proper representations of HomeGold's operations. Deloitte & Touche did not independently investigate the accuracy or completeness of the data, which was put in the valuation when it was sent to HomeGold on April 2, 2002.

65. Additionally, it was explicitly detailed by Deloitte & Touche that this valuation was to be used for internal purposes only, for business planning, and that the valuation and its contents should not be referred to or quoted in any registration statement, prospectus, offering memorandum, sales brochure, other appraisal, loan or other agreement or document given to third parties without Deloitte & Touche's prior approval. Based upon information and belief, Deloitte & Touche did not give permission for this to be used in any manner set out above. Deloitte & Touche specifically detailed that the purpose of this valuation was for financial reporting purposes regarding impairment of a loan from Carolina Investors, and not to be used for any other purpose or given to a third party.
66. Defendant Ronald J. Sheppard used this valuation to continue to represent that HomeGold was a viable company and to continue a course of business aimed at misleading the State licensing agencies, government regulators, certain members of the Board of Directors of Carolina Investors, namely Don Cook Bobo and Danny Ray Sharpe, and ultimately the holders of Carolina Investors' subordinated notes and debentures.



67. During the Summer and Fall of 2002, HomeGold attempted to actively market for sale the retail mortgage operations of HomeGold while simultaneously retaining Bankruptcy counsel to prepare a disaster plan, which included some form of receivership for Carolina Investors. In addition, the Chief Financial Officer of HomeGold, Kevin Martin, resigned in part due to his belief that the sale of securities through Carolina Investors should cease immediately because repayment of the debt to the investors was no longer possible. A copy of Mr. Martin's resignation letter was provided to all officers and directors of HomeGold, including Defendant Ronald J. Sheppard.

#### **EMMCO TRANSACTION**

68. The allegations contained in paragraphs one (1) through sixty seven (67) are repeated and realleged as if set forth verbatim herein.
69. After the loss of warehouse credit lines, from CIT and other entities, HomeGold reached the conclusion that it needed to sell its retail mortgage division and it began to actively seek potential buyers. Defendant Ronald J. Sheppard and others, both known and unknown to the State Grand Jury, used the EMMCO transaction to perpetrate and perpetuate the fraud in a number of ways, including but not limited to the following:
70. On November 6, 2002, after repeated attempts to sell the retail mortgage division, Defendant Ronald J. Sheppard presented a proposal to the HomeGold Financial Board of Directors whereby he would resign in his role

as an officer and director of HomeGold and purchase the retail mortgage division. Because of Defendant Ronald J. Sheppard's allegedly extensive contacts in the industry, he represented that he could obtain approximately \$100 million warehouse lines of credit secured in his name. Moreover, Defendant Ronald J. Sheppard indicated that he would not use HomeGold's name because of the inability of HomeGold to secure similar financing. Defendant Ronald J. Sheppard and his company EMMCO were then supposed to pay a percentage of any profits back to HomeGold.

71. On December 31, 2002, after not being able to find a purchaser willing to buy the retail mortgage division for a suitable amount, HomeGold consummated the sale of the retail mortgage division and related assets to EMMCO, LLC (EMMCO) and R-Doc, LLC (R-Doc), which were South Carolina Limited Liability Companies formed by Defendant Ronald J. Sheppard. Defendant Ronald J. Sheppard's consideration paid for these assets amounted to little more than an interest in the newly formed company and a hoped for distribution of future profits.
72. Specifically, Defendant Ronald J. Sheppard purchased the retail mortgage division for \$150,000 in cash and a "capped earn out", which would have required Defendant Ronald J. Sheppard to pay money back to HomeGold out of the profits he earned through EMMCO. Additionally, HomeGold Financial loaned \$5 million to R-Doc and sold to R-Doc an office location in Lexington, South Carolina. The \$5 million loan was structured as a \$3 million cash payment and \$2 million worth of "in-kind" services, which included

accounting and other services performed by HomeGold for EMMCO. Additionally, other vacant land whose combined net value was approximately \$3,445,000 was given to EMMCO as a part of this transaction. HomeGold received a promissory note in the amount of \$8,445,000, and upon information and belief, Defendant Ronald J. Sheppard has made no payments.

73. The Defendant Ronald J. Sheppard, at the time of the merger, guaranteed that he could obtain warehouse lines of credit based upon his personal financial wealth for approximately one hundred million dollars (\$100,000,000)
74. This transaction was completed without full and proper disclosure to the shareholders of HomeGold. It was done as a further attempt to perpetuate the ongoing fraudulent course of business such that certain members of the Carolina Investors Board of Directors, and holders of Carolina Investors' subordinated notes and debentures, would not fear any type of imminent danger or understand the true precarious financial position of HomeGold and Carolina Investors.
75. As a result of the EMMCO transaction, the ability of HomeGold to repay Carolina Investors and other creditors became dependent solely upon the success of three startup companies: EMMCO, R-DOC and FlexCheck.
76. Subsequent to the EMMCO transaction, HomeGold's operations were generally limited to mortgage servicing. With insubstantial revenues from operations, no payments forthcoming from EMMCO, and an inability to sell sufficient debt instruments to cover losses and redemptions, HomeGold ran



out of funds by March 2003 and filed voluntary Chapter 11 petitions on March 31, 2003. Business operations were terminated shortly thereafter.

### **OTHER ACTS**

77. The allegations contained in paragraphs one (1) through seventy six (76) are repeated and realleged as if set forth verbatim herein.
78. Defendant Ronald J. Sheppard knew from the beginning of his tenure as an officer and director of HomeGold and its related companies, that HomeGold was failing. Based in part on his knowledge of the financial condition of HomeGold and the inter-company debt, Defendant Ronald J. Sheppard and other representatives from HomeGold engaged in a course of business which acted to perpetrate and perpetuate a fraud or deceit upon investors and others by working to hide the structure of the business and its financial position in many ways, including but not limited to the following:
  79. Defendant Ronald J. Sheppard, knew, from as early as July 2000, when he and other representatives of HomeGold learned from CIT that the warehouse credit line was going to be terminated, that the viability of HomeGold and Carolina Investors was questionable. One reason given by CIT was that it was concerned about the looming inter-company debt and HomeGold's ability to repay it. At this point, Defendant Ronald J. Sheppard knew that the inter-company debt was a major issue that was most probably insurmountable.
  80. Beginning in or around May 2000 to around March 2003, Defendant Ronald J. Sheppard participated, directly or indirectly, by his actions, words, or deeds,

and through the direction of officers, directors, and employees of both Carolina Investors and HomeGold, by means of materially false representations and/or omissions of material facts, to induce investors to invest money, or to maintain their investments with Carolina Investors, so that a “run on the money” would not occur which would hinder Carolina Investors’ ability to continue in business and would thwart Carolina Investors’ ability to continue to sell additional securities in order to continue funding the operations of its parent company, HomeGold.

81. Beginning in or around May 2000 until around March 2003, Defendant Ronald J. Sheppard and other participants, held meetings prior to the announcement of quarterly losses to coordinate ways in which to downplay negative information, and put a positive spin on information that would be disseminated to the public through press releases and through direct contact with potential or current investors in Carolina Investors securities and/or HomeGold stock. Through these acts, practices or courses of business, Defendant Ronald J. Sheppard, and others, did knowingly and willfully, in connection with the offer, sale, or purchase of securities, directly or indirectly, make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to investors.
82. Defendant Ronald J. Sheppard, participated, directly or indirectly, from around May 2000 to around March 2003, in the distribution of misleading documents, pamphlets, prospectus, and statements that were provided to

potential investors at Carolina Investors by officers, directors, and employees of Carolina Investors.

83. Defendant Ronald J. Sheppard, and other participants, knowingly and willfully from around May 2000 to around March 2003, after learning of the dissemination of misleading statements and/or documents to investors by officers, directors, and employees of Carolina Investors, continued to employ those responsible for the above-referenced conduct. In many instances, those providing misleading information were given additional compensation in the form of raises and bonuses after the discovery of improper conduct in connection with the offer, sale, or purchase of securities. The improper conduct by the officers, directors, and employees of Carolina Investors in connection with the offer, sale, or purchase of securities was allowed to continue until around March 2003.
84. It was further part of the course of business in defrauding investors that Defendant Ronald J. Sheppard, and other participants, sought to mislead investors about the financial strength of Carolina Investors by advertising Carolina Investors as millions in assets strong, when in fact, the primary income from Carolina Investors was the interest accrued from the inter-company debt, and the largest asset of Carolina Investors was an impaired receivable from HomeGold.
85. Defendant Ronald J. Sheppard, as CEO of HomeGold Financial, knew that the business had a strong potential to fail. Nonetheless, he continued to expend large amounts of funds in a claimed attempt to expand the business. More



importantly, however, was the fact that even though Defendant Ronald J. Sheppard knew the business was failing, he engaged in a course of conduct whereby he treated these companies as his personal bank account, without any regard for the impact these tremendous expenditures had on HomeGold, and ultimately, the holders of Carolina Investors' subordinated notes and debentures.

86. Defendant Ronald J. Sheppard lived an extravagant lifestyle and exhausted funds at a rate unprecedented by other corporate officers and directors at HomeGold or Carolina Investors. Moreover, Defendant Ronald J. Sheppard incurred expenses without the prior approval of the Board of Directors, some of which had to be retroactively approved, to wit:

- a. From approximately May of 2002 to December 2002, Defendant Ronald J. Sheppard incurred approximately \$102,499.80 in expenses payable to a personal fitness trainer; and
- b. At the consummation of the merger between HomeSense and HomeGold, HomeGold effectively purchased the then existing motorhome being used by Defendant Ronald J. Sheppard and from May 2000 until October 2001, Defendant Ronald J. Sheppard caused HomeGold to make loan payments in the amount of approximately \$61,684.33; and
- c. Thereafter, on or about October 31, 2001, Defendant Ronald J. Sheppard caused HomeGold to purchase a 2002 Royale Prevost motorhome with a purchase price of approximately \$885,254.67.

From the time of purchase until approximately April of 2002, HomeGold paid approximately \$52,656.72 in loan payments on this motorhome.

- d.. As addressed herein, on or about March 14, 2002, Defendant Ronald J. Sheppard and others attended a meeting at which time they were advised that the auditors had concluded that there was substantial doubt that the company would continue to exist as a going concern. Nonetheless, on or about March 29, 2002, only two weeks after learning of the questionable viability of the company, Defendant Ronald J. Sheppard submitted a request for reimbursement for the purchase of wallpaper for his office in the amount of approximately \$17,380.00, which had been purchased a number of years earlier.
- e. As addressed herein, on or about March 14, 2002, Defendant Ronald J. Sheppard and others attended a meeting at which time they were advised that the auditors had concluded that there was substantial doubt that the company would exist as a going concern. Nonetheless, on or about March 29, 2002, Defendant Ronald J. Sheppard submitted a request for reimbursement for travel mileage that he incurred as a result of him traveling from Lexington, South Carolina to Greenville, South Carolina immediately prior to, and subsequent to the merger of HomeSense and HomeGold.

- f. Subsequent to the March 14, 2002, meeting wherein going concern language was discussed, Defendant Ronald J. Sheppard borrowed \$200,000 from HomeGold. The purpose behind this loan was that Defendant Ronald J. Sheppard could use this money to purchase a Carolina Investors' subordinated debenture. Defendant Ronald J. Sheppard, and others, thought that it would reflect positively that the CEO of HomeGold believed in Carolina Investors enough to have his own money invested in the company. However, the loan was only secured by the subordinated debenture that he purchased with the funds and was not an investment of his own money.
- g. Subsequent to the March 14, 2002, meeting wherein going concern language was discussed, Defendant Ronald J. Sheppard caused to be purchased a new 2003 Vantare Motorhome paid for by HomeGold but owned by Prevost Montana, LLC, which is a Montana company organized by the Defendant Ronald J. Sheppard. The purchase price of the motorhome was approximately \$1,076,013.90.
- h. Subsequent to the March 14, 2002, meeting wherein going concern language was discussed, on April 30, 2002, Defendant Ronald J. Sheppard borrowed another \$200,000 from HomeGold. This was secured with 1,000,000 shares of HomeGold's common stock owned by Defendant Ronald J. Sheppard.



I. Additionally, while HomeGold Financial's losses continued during the years 2001 and 2002, and the Carolina Investors' debt grew substantially, Defendant Ronald J. Sheppard's compensation averaged approximately \$1.3 million as reported on his W-2 Forms. On May 1, 2002, the HomeGold Financial Board had to retroactively approve an increase in Defendant Ronald J. Sheppard's compensation which he had previously unilaterally authorized.

87. Defendant Ronald J. Sheppard and other participants, after learning that the auditors of HomeGold and Carolina Investors had substantial doubts as to whether Carolina Investors would be able to stay in business as a going concern and that the loan between the two companies would be impaired, met with officers, directors Don Cook Bobo and Danny Ray Sharpe, and employees of Carolina Investors, several of which were investors in Carolina Investors securities, in an effort to downplay negative information concerning the company and put a positive spin on HomeGold's speculative efforts to return to profitability. Defendant Ronald J. Sheppard knew the misleading information shared with the officers, directors and employees of Carolina Investors would be disseminated to potential or current investors in Carolina Investors' securities.

88. It was further part of the course of business to defraud investors that Defendant Ronald J. Sheppard and other participants made efforts to ensure that Don Cook Bobo, a member of the Carolina Investors' Board of Directors,

and largest investor in Carolina Investors' securities, was "kept in the dark" as to the true financial condition of Carolina Investors and HomeGold. Defendant Ronald J. Sheppard and others feared that if Mr. Bobo were to withdraw his investment with Carolina Investors based on accurate information concerning the poor financial condition of both companies, other investors would become greatly concerned and a "run on the money" would occur at the Carolina Investors' branches.

89. It was further part of the course of business to defraud investors that Defendant Ronald J. Sheppard and others, directly or indirectly, engaged in the marketing of loan pools containing loans manipulated to increase their value to potential investors. Defendant Ronald J. Sheppard and others, directly or indirectly, engaged in falsifying credit scores and manipulating mortgage payments to increase the value of loan pools, a security under South Carolina law, which loan pools were marketed to potential investors.
90. Defendant Ronald J. Sheppard did, in Pickens County, in or around November 2001, in the course of business, knowingly and willfully, in connection with the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to certain members of the Carolina Investors Board of Directors, namely Don Cook Bobo and Danny Ray Sharpe.
91. Defendant Ronald J. Sheppard did, in Pickens County, in or around August 2002, in the course of business, knowingly and willfully, in connection with

the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to certain members of the Carolina Investors Board of Directors, namely Don Cook Bobo and Danny Ray Sharpe.

92. Defendant Ronald J. Sheppard did, in Pickens County, in or around November 2001, in the course of business, knowingly and willfully, in connection with the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to certain members of the Carolina Investors' Board of Directors, namely Don Cook Bobo and Danny Ray Sharpe.

93. Defendant Ronald J. Sheppard did, in Pickens County, in or around November 2002, in the course of business, knowingly and willfully, in connection with the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to certain members of the Carolina Investors' Board of Directors, namely Don Cook Bobo and Danny Ray Sharpe.



Ronald J. Sheppard, an employee changed that amount from \$6,000,000.00 to \$11,000,000.00.

98. Of the \$15,700,000 in marketable stocks and bonds, Defendant Ronald J. Sheppard indicated that he had 6,800,000 shares of HomeGold Financial Common Stock that had a market value of \$3,200,000. Additionally, Defendant Ronald J. Sheppard indicated that he had 7,000,000 shares of HomeGold Financial Preferred Stock that had a market value of \$12,500,000.
99. As of November 1, 2002, the date that the application was filled out, the HomeGold Financial Common Stock was trading at \$0.09 per share in the over the counter market. Therefore, Defendant Ronald J. Sheppard's 6,800,000 shares of HomeGold Financial Common Stock were only worth approximately \$612,000, not the \$3,200,000 that he claimed.
100. As of the date that Defendant Ronald J. Sheppard applied for the loan with NBSC, March 7, 2003, the HomeGold Common Stock was trading at \$0.055 per share. Therefore, under that scenario, Defendant Ronald J. Sheppard's 6,800,000 shares of HomeGold Financial Common Stock were only worth approximately \$374,000, not the \$3,200,000 that he claimed.
101. Thereafter, on June 2, 2003, Defendant Ronald J. Sheppard, executed a loan modification agreement with NBSC which modified the prior loan agreement from April 4, 2003. In the loan modification agreement, Defendant Ronald J. Sheppard acknowledged that his financial condition was a material inducement to NBSC's decision to extend the loan to him and that updated

valuations of certain stock holdings had a substantial negative impact on his net worth.

102. This updated valuation came as a result of the Bankruptcy of HomeGold. NBSC was able to determine that Defendant Ronald J. Sheppard misrepresented the value of his assets in an amount of at least \$2.5 million to almost \$3.0 million. This is in direct violation of Section 34-3-110 of the South Carolina Code of Laws (1976) as amended.

**COUNT THREE**  
**Forgery**  
**(Violation of S.C. Code Section 16-13-10)**

103. The allegations contained in paragraphs one (1) through one hundred two (102) are repeated and realleged as if set forth verbatim herein.
104. Ronald J. Sheppard, did in Lexington County, on or about, March 25, 2002, falsely make, forge or counterfeit, cause or procure to be falsely made, forged, or counterfeited; or willfully act or assist in the false making, forging, or counterfeiting of any writing or instrument of writing; and/or utter or publish as true any false, forged, or counterfeited writing or instrument of writing to wit: Ronald J. Sheppard, did present or assist in the presentation of an application for Directors, Officers, and Corporate Liability Insurance Policy that contained false information that he willfully assisted in creating which was presented to Clarendon National Insurance Company. This is in direct violation of Section 16-13-10 of the South Carolina Code of Laws (1976), as amended.

**COUNT FOUR**  
**Forgery**  
**(Violation of S.C. Code Section 16-13-10)**

105. The allegations contained in paragraphs one (1) through one hundred four (104) are repeated and realleged as if set forth verbatim herein.
106. That Ronald J. Sheppard, did in Lexington County, on or about March 25, 2002, falsely make, forge or counterfeit, cause or procure to be falsely made, forged, or counterfeited; or willfully act or assist in the false making, forging, or counterfeiting of any writing or instrument of writing; and/or utter or publish as true any false, forged, or counterfeited writing or instrument of writing to wit: Ronald J. Sheppard, did present or assist in the presentation of an application for an Employment Practices Liability Insurance Policy that contained false information that he willfully assisted in creating which was presented to Clarendon National Insurance Company. This is in direct violation of Section 16-13-10 of the South Carolina Code of Laws (1976), as amended.

**COUNT FIVE**  
**Making a False Statement or Misrepresentation**  
**(Violation of S.C. Code Section 38-55-540)**

107. The allegations contained in paragraphs one (1) through one hundred six (106) are repeated and realleged as if set forth verbatim herein.
108. That Ronald J. Sheppard, did in Lexington County, on or about March 25, 2002, make or cause to be made a false statement or misrepresentation in connection with Clarendon National Insurance Company, with the intent of obtaining an economic advantage benefit in the amount of \$1,000 or more.



To wit: Ronald J. Sheppard made or caused to be made false statements or misrepresentations on an application for a Directors, Officers, and Corporate Liability Policy to Clarendon National Insurance Company.

109. This is in direct violation Section 38-55-540 of the South Carolina Code of Laws (1976), as amended.

**COUNT SIX**

**Making a False Statement or Misrepresentation  
(Violation of S.C. Code Section 38-55-540)**

110. The allegations contained in paragraphs one (1) through one hundred nine (109) are repeated and realleged as if set forth verbatim herein.
111. That Ronald J. Sheppard, did in Lexington County, on or about March 25, 2002, make or cause to be made a false statement or misrepresentation in connection with Clarendon National Insurance Company, with the intent of obtaining an economic advantage benefit in the amount of \$1,000 or more.
- To wit: Ronald J. Sheppard made or caused to be made false statements or misrepresentations on an application for a Employment Practices Liability Policy to Clarendon National Insurance Company.
112. This is in direct violation Section 38-55-540 of the South Carolina Code of Laws (1976), as amended.

**COUNT SEVEN**

**Obtaining Signature or Property by False Pretenses  
(Violation S.C. Code Section 16-13-240(1))**

113. The allegations of paragraphs one (1) through one hundred twelve (112) are repeated and realleged as if set forth verbatim herein.

114. That Defendant Ronald J. Sheppard, did in Greenville County and Lexington County, during the period beginning approximately in 2000 through approximately March of 2003, with the intent to cheat and defraud a number of investors, to obtain money by perpetrating a fraud on investors and other false pretenses in an amount over five thousand dollars (\$5,000), through including but not limited to the following, in direct violation Section 16-13-240(1) of the South Carolina Code of Laws (1976), as amended.
115. On May 9, 2000, HomeSense and affiliated companies were merged into HomeGold. Defendant Ronald J. Sheppard, HomeSense's primary shareholder, became Chief Executive Officer and a director of HomeGold Financial, and a director of both HomeGold and Carolina Investors.
116. Defendant Ronald J. Sheppard, as CEO and a director of HomeGold, and other individuals at HomeGold, both known and unknown to the State Grand Jury, did obtain money under false pretenses, to wit: Beginning in approximately 1998, HomeGold Financial began to suffer substantial operating losses. These losses continued until HomeGold filed for protection pursuant to Chapter 11 of the Bankruptcy Code. These operating losses were funded primarily by upstreaming funds from Carolina Investors as a "loan". As this inter-company debt grew, HomeGold's ability to pay the money back became increasingly less likely. It was necessary for those individuals at HomeGold to keep this fact hidden from certain members of the Carolina Investors' Board of Directors, and from the holders of Carolina Investors' subordinated notes and debentures. Defendant Ronald J. Sheppard, and others

at HomeGold and Carolina Investors intentionally withheld and hid the true financial condition of the company and its ability to repay Carolina Investors, and ultimately, Carolina Investors' ability to repay its note holders.

Defendant Ronald J. Sheppard's involvement began in approximately 2000 during the negotiations of the HomeSense merger with HomeGold, and continued until the end of March 2003 when HomeGold filed for bankruptcy.

117. These actions were a deliberate attempt to perpetrate a fraud which caused a financial loss to a number of investors, some of whom lost more than five thousand dollars (\$5,000).
118. Defendant Ronald J. Sheppard and others exploited the corporate structure of HomeGold to control the flow of information between the HomeGold Board of Directors and the Carolina Investors' Board of Directors and even further, to the holders of Carolina Investors' subordinated notes and debentures.

**COUNT EIGHT**  
**Breach of Trust**  
**(Violation S.C. Code Section 16-13-230(b)(3))**

119. The allegations of paragraphs one (1) through one hundred eighteen (118) are repeated and realleged as if set forth verbatim herein.
120. That Defendant Ronald J. Sheppard, as a fiduciary of HomeGold and Carolina Investors, did in Pickens, Lexington and Greenville counties, from in or about May 2000 until in or about March 2003, having been entrusted by the fiduciaries of Carolina Investors, with the care, keeping, and possession of certain personal property valued at more than Five Thousand Dollars



(\$5,000), with fraudulent intentions or hired or counseled another to convert or appropriate such property to his own use and purposes with the intent to deprive the owner thereof, to wit: Ronald J. Sheppard, during the course of business, accepted upstreamed Carolina Investors' funds from Carolina Investors' fiduciaries and used these funds for his own benefit and purposes. This is in direct violation of Section 16-13-230(b)(3) of the South Carolina Code of Laws (1976), as amended.

**COUNT NINE**

**Perjury**

**(Violation S.C. Code Section 16-9-10(A)(1))**

121. The allegations of paragraphs one (1) through one hundred twenty (120) are repeated and realleged as if set forth verbatim herein.
122. That on or about June 29, 2004, the Defendant Ronald J. Sheppard, did in Richland County willfully give false, misleading, or incomplete testimony while under oath in any court of record, judicial, administrative, or regulatory proceeding in this State. The Defendant, Ronald J. Sheppard, did commit the crime of perjury while under oath at a deposition during the bankruptcy proceedings titled Ralph C. McCullough, II, as Plan Trustee for HomeGold Financial, Inc. and Carolina Investors, v. EMMCO, LLC and EMMCO Credit Corp. No.:8:03-3569-13. This is in direct violation of Section 16-9-10(A)(1) of the South Carolina Code of Laws (1976) as amended.

COUNT TEN  
Conspiracy  
(Violation S.C. Code Section 16-17-410)

123. The allegations of paragraphs one (1) through one twenty two (122) are repeated and realleged as if set forth verbatim herein.
124. Between May 2000 to in or around March 31, 2003, the Defendant Ronald J. Sheppard, did unlawfully and willfully unite, combine, conspire, confederate, agree to or have a tacit agreement between two or more persons, whose names are known and unknown to the State Grand Jury, for the purpose of accomplishing a criminal or unlawful object, or a lawful object by criminal or unlawful means in violation S.C. Code Section 16-17-410 of the South Carolina Code of Laws (1976) as amended.

All against the peace and dignity of the State, and contrary to the statute in such case made and provided.

A TRUE Bill

FOREMAN

*R. D. J. H.*

OFFICE OF THE ATTORNEY GENERAL

*Henry McMaster*

HENRY McMASTER  
ATTORNEY GENERAL

**ATTEST**  
A TRUE COPY  
*[Signature]*  
CLERK, STATE GRAND JURY