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APR 12 2006

LISA C. DUNBAR,
CLERK, STATE GRAND JURY

STATE GRAND JURY OF SOUTH CAROLINA

STATE OF SOUTH CAROLINA

VS.

JOHN M. STERLING, JR.
a/k/a JACK STERLING,

DEFENDANT.

CASE NO. **06GS47 02**

Indictment for

Securities Fraud

S.C. Code Ann. §§
35-1-1210(3)
35-1-160 and
35-1-1590

Criminal Conspiracy

S.C. Code Ann. § 16-17-410

At a session of the State Grand Jury of South Carolina, convened in Columbia, South Carolina, on April 12, 2006, the State Grand Jurors present upon their oath and charge as follows:

COUNT ONE
Securities Fraud
(S.C. Code Ann. § 35-1-1210(3))

At times material to this Indictment:

1. Defendant JOHN M. STERLING, JR. a/k/a JACK STERLING served as a member of Carolina Investors board of directors, resigning in December of 2002. Mr. Sterling also served as an officer and director of Carolina Investors' parent company, HomeGold, serving in several capacities, including chief executive officer and board chairman, resigning as a director on or about March 20, 2003. Defendant Sterling in his various leadership positions exercised control over the business operations of

both HomeGold and Carolina Investors, HomeGold's wholly owned subsidiary, until on or about March 20, 2003.

2. 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. The misconduct described within, at times material to this indictment, occurred in one or more of these counties.
3. HomeGold Financial, Inc. and HomeGold, Inc., collectively referred to as "HomeGold", was a publicly traded South Carolina corporation with offices, at various time periods, in Columbia, Greenville and Lexington, South Carolina, (Richland, Lexington and Greenville counties) and substantially doing business in Pickens, Greenville and Anderson counties through its wholly owned subsidiary, Carolina Investors. The misconduct described within, at times material to this indictment, occurred in one or more of these counties.
4. 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.
5. 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 financing businesses.

6. In May 1991, Carolina Investors was acquired by defendant Sterling and others doing business as National Railway Utilization Corporation ("NRUC"). In August 1991, NRUC changed its name to Emergent Group, Inc. ("Emergent").
7. 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.
8. 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.
9. The formation of EMC marked the beginning of the inter-company loans between Carolina Investors and its parent corporation. It was also at this point that Carolina Investors ceased substantially all of its external lending activities.
10. After Carolina Investors ceased its external lending activities, its operations were devoted almost exclusively to the sale of debt securities to South Carolina investors to raise funds for use by its parent corporation, Emergent, and Emergent's various subsidiaries. Essentially all funds received from investors by Carolina Investors from the sale of its debt securities were routinely transferred to Emergent, and Carolina Investors, no longer raising funds for its own operations, became little more than the funding arm for the parent corporation.
11. 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, EMC, changed its name to HomeGold, Incorporated ("HGI"). Emergent, the parent corporation, changed its name to HomeGold Financial, Incorporated ("HomeGold") in July 1998.
12. 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 for between 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.
 13. HomeGold's losses continued in 1999, and HomeGold formulated a plan to merge with another company. On May 9, 2000, HomeSense Financial Corporation and affiliated companies ("HomeSense"), a privately owned entity located in Lexington, South Carolina was merged into HGI, HomeGold's mortgage business and later locating its corporate offices in Lexington and Richland counties, respectively. HomeGold, however, continued to report losses in 2000, 2001 and 2002.
 14. As HomeGold's substantial operating losses continued, the indebtedness of HomeGold to Carolina Investors, known as the intercompany debt, a security under South Carolina law, also substantially increased.

FINANCIAL MANIPULATION

15. Defendant Sterling, 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:

- a. 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.
- b. 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.
- c. 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.
- d. 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.
- e. 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.

16. 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 was the board chairman and/or 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.
17. 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.
18. 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.

19. 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.
20. 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.
21. Defendant Sterling, and others, both known and unknown to the State Grand Jury, as a part of the course of business to defraud investors, manipulated the financial statements of HomeGold to show a positive net equity in a variety of ways, including but not limited to the following:
 - a. At year end of 1999, HomeGold adjusted the deferred tax asset carried on its financial statements by approximately 7.5 million dollars. The result of the adjustment took HomeGold from a negative net equity position to a positive net equity of approximately 5.8 million dollars as a result.
 - b. During September of 2000, the deferred tax asset was further increased by 10 million dollars in an effort to create a positive net equity for HomeGold. The result of the adjustment took HomeGold from a negative net equity position to a positive net equity of approximately 2.5 million dollars.
 - c. During September of 2001, HomeGold manipulated the method used to

account for prepaid marketing expenses. The aforementioned adjustment resulted in a gain of approximately 2 million dollars on the financial statements of HomeGold. The transaction later had to be reversed.

MEANS AND METHODS OF SECURITIES FRAUD

22. Beginning in or about 1995, to in or about March 20, 2003, in the State of South Carolina, defendant did, in Pickens, Greenville, Richland, Anderson, and Lexington counties of South Carolina, knowingly and willfully, in connection with the offer, sale, or purchase of securities, directly and indirectly, participate and engage in acts, practices, or courses of business which operated or would operate as a fraud upon investors or "persons" as defined within § 35-1-20(12). The fraudulent conduct of defendant Sterling resulted in losses to many investors in amounts greater than 20,000 dollars.
23. 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 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.

24. During 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.
25. In addition, Chief Financial Officer of HomeGold, Kevin Martin, resigned in part due to his firm 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 Sterling on or about August 29, 2002.
26. Notwithstanding the conclusions of Elliott Davis, the unsuccessful efforts to sell the retail mortgage operations of HGI, the retention of bankruptcy counsel by HomeGold, the resignation of Chief Financial Officer Kevin Martin and other HomeGold executives, Carolina Investors continued to sell its securities to the public and upstream the funds to HomeGold. HomeGold continued to spend lavishly and sustain substantial losses. Carolina Investors sold over \$74,000,000.00 of debt securities between April 1 and December 31, 2002 and over \$16,000,000.00 from January 1 through March 21, 2003.
27. Between January 2002 and March 2003, HomeGold also extended approximately \$10,000,000.00 of funding to a startup payday lending company, FlexCheck Holdings, LLC ("FlexCheck"), as part of a \$15,000,000.00 funding commitment.

The funding commitment to FlexCheck was inadequately disclosed in filings with the Securities and Exchange Commission, in proxy statements issued to HomeGold shareholders and in supplements to the Carolina Investors prospectus. The inadequate and misleading disclosures regarding FlexCheck operated as a fraud upon investors in HomeGold and Carolina Investors securities.

28. Additionally, on December 31, 2003, HomeGold consummated the sale of the majority of the assets of its retail mortgage business to EMMCO for \$150,000 cash and a capped earn out. In connection with the purchase of assets by EMMCO, HomeGold loaned \$5,000,000.00, an office location at 113 Reed Avenue in Lexington, South Carolina and certain vacant land at their combined net book value of approximately \$3,445,000.00, as well as certain furniture, fixtures, equipment and other assets to R-DOC, a corporate entity controlled by Ronald J. Sheppard. In return, HGFI received a promissory note in the amount of \$8,445,000.00 upon which no payments have been made.
29. As a result of the EMMCO sales transaction, the ability of HomeGold to repay Carolina Investors and other creditors became dependant solely upon the success of three startup companies: EMMCO, R-DOC and FlexCheck.
30. 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. Many of these investors lost their investments due to the unlawful conduct of defendant Sterling.
31. Subsequent to the EMMCO transaction, HGI's operations were generally limited to mortgage servicing. With insubstantial revenues from operations, no payments

forthcoming from EMMCO, and unable 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.

32. Among the means and methods by which defendant Sterling, and other participants, planned, pursued and carried out a course of business to defraud investors or “persons” were the following:

- a. Beginning in or around 1995, defendant Sterling and other participants did offer illegal, improperly registered or unregistered securities, in violation of federal law claiming an intrastate exemption, while knowingly and willfully using the proceeds of the securities offerings to fund HomeGold’s out of state business operations. By doing so, Sterling and other participants in the course of business avoided proper oversight by the Securities and Exchange Commission from 1995 until on or about March 21, 2003.
- b. Beginning in or around May of 1998 to on or around March of 2003, defendant Sterling 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” did not occur which would hinder Carolina Investors’ ability to continue in business and would thwart Carolina Investors’ ability to continue to sell additional securities to continue funding

the operations of its parent company, HomeGold.

- c. Beginning in May 1998 to in or around March 2003, defendant Sterling 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 in direct contact with potential or current investors in Carolina Investors securities and/or HomeGold securities. Through these acts, practices or courses of business, defendant Sterling, did knowingly and willfully, in connection with the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and/or 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.
- d. Defendant Sterling participated, from 1998 to in or about March of 2003, in the formation of misleading documents, pamphlets, prospectus and statements that were provided to potential and current investors at Carolina Investors by officers, directors and employees of Carolina Investors.
- e. Defendant Sterling and other participants knowingly and willfully, from 1998 to in or about 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 individuals. 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 on or about March 21, 2003.

- f. Defendant Sterling and other participants, in a course of business to defraud investors, promoted the employment of Earle E. Morris, Jr., a former Lieutenant Governor, State Senator and Comptroller General of South Carolina, in an effort to increase investor confidence to avoid a “run on the money” from occurring at Carolina Investors. Mr. Morris was employed to interact with potential and current investors in Carolina Investors securities in an effort to retain funds for use by HomeGold in its business operations. Mr. Morris often provided misleading information and/or omitted 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 numerous investors in Carolina Investors securities. Defendant Sterling and other participants in a course of business to defraud investors had knowledge of the conduct of Mr. Morris.
- g. It was further part of the course of business to defraud investors that misleading statements and information were disseminated to HomeGold shareholders, investors in Carolina Investors and HomeGold securities concerning the structure and terms of the merger between HomeSense, a mortgage company operating in Lexington County, South Carolina, and HomeGold, which was finalized in May of 2000. Included in the terms of the merger was a non-recourse loan in the amount of \$5.7 million dollars to

Ronald J. Sheppard. In the proxy statement soliciting approval by HomeGold shareholders, the loan to Sheppard was reported as an asset for HomeGold. However, as a non-recourse note, the loan was not likely to be paid back and, therefore, was an overstatement of HomeGold's equity at the time of the merger. In fact, no payments were ever made under the terms of the loan. Defendant Sterling, through misleading statements and information concerning the merger, did knowingly and willfully, in connection with the offer, sale or purchase of a security, directly or indirectly, make untrue statements of material fact and/or 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. The misleading statements and disclosures were published in press releases, in public filings with the Securities and Exchange Commission, in public filings with government regulators in South Carolina, in discussions with officers and directors of Carolina Investors, by proxy statements issued to HomeGold shareholders and by other means not otherwise stated.

- h. It was further part of the course of business to defraud investors that defendant Sterling, and other participants, cancelled a mutual indemnity agreement between HomeGold, HomeSense and Ronald J. Sheppard which indemnified HomeGold from losses incurred in the event of a breach of certain warranties associated with the merger. Set forth in the mutual indemnity agreement was 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 Ronald J. Sheppard would have to immediately pay to HomeGold, in cash, the amount of the deficiency. By cancelling the mutual indemnity agreement, defendant Sterling, and other participants, cancelled Sheppard's obligation to pay. This transaction was not presented for shareholder approval, was inadequately disclosed to the Securities and Exchange Commission, as well as state regulators, and operated as a fraud upon the investors in HomeGold and Carolina Investors securities.

- i. Defendant Sterling 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 the loan between the two companies would be impaired, met with officers, directors 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 Sterling 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.
- j. Defendant Sterling 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 the loan between the two companies would be impaired, met with Dwight

Holder, the founder and former majority owner of Carolina Investors, 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 Sterling knew the misleading information shared with Mr. Holder would be shared with potential or current investors in Carolina Investors securities, as many citizens in the upstate region of South Carolina continued to consult Mr. Holder concerning the financial condition of Carolina Investors.

- k. Defendant Sterling 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 the loan between the two companies would be impaired, obtained a Directors, Officers and Corporate liability insurance policy and an Employment Practices liability insurance policy from Clarendon National Insurance Company. It is upon information and belief, that inaccurate, misleading, misrepresented and fraudulent information was submitted by HomeGold officials to obtain insurance coverage on or about March 25, 2002. As the financial condition of HomeGold and Carolina Investors continued to worsen, Clarendon notified HomeGold on or about November 11, 2002 that the aforementioned policies would not be renewed. No further attempt was made to renew the Clarendon policies or to secure additional insurance. The doors to Carolina Investors were closed on March 21, 2003, just one week prior to the expiration of the Clarendon policies on March 28, 2003. An additional

premium of more than \$500,000 dollars was paid to extend the time period under which to file a claim on the Clarendon policies. Various HomeGold and Carolina Investors officers and directors benefitted from the aforementioned policies.

- l. It was further part of the course of business to defraud investors that defendant Sterling and other participants made efforts to ensure that Don Bobo, a member of the Carolina Investors board and largest investor in Carolina Investors securities, was “kept in the dark” as to the true financial condition of Carolina Investors and HomeGold. Mr. Sterling was afraid 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” may occur at Carolina Investors’ branches.
- m. It was further part of the course of business to defraud investors that defendant Sterling and other participants provided false or misleading information or omitted to provide material information necessary to independent companies, CBIZ and Deloitte and Touche, which were requested to perform valuation analyses of HomeGold’s retail mortgage division. As a result of providing misleading information, in the form of unrealistic financial projections, falsely inflated valuations of the retail mortgage division were produced. Further, it was explicitly stated that the valuations were to be used for internal purposes only, for business planning,

and that the valuations 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 prior approval. Based upon information and belief, neither company rendering a valuation gave permission to use the contents of the valuations in any manner as set out above. The grossly inflated valuation of this important HomeGold asset was touted to potential and current investors in Carolina Investors and HomeGold securities, as well as, government regulators in an effort to ease fears concerning the future viability of Carolina Investors and HomeGold and to promote the false hope that Carolina Investors could repay the huge debt owed to the many investors in Carolina Investors securities.

- n. It was further part of the course of business to defraud investors that defendant Sterling and other participants, at a time when Carolina Investors was in poor financial condition and the potential repayment to investors was increasingly unlikely, engaged in the marketing of high interest rates for Carolina Investors securities, when banks were dramatically lowering interest rates, in an effort to attract additional investors. Further, defendant Sterling and other participants increased advertising to promote these rates in an effort to attract unsophisticated investors to buy Carolina Investors securities.
- o. It was further part of the course of business to defraud investors that defendant Sterling and other participants provided misleading information or

omitted 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, concerning the resignations of several officers and directors of HomeGold in public statements, SEC filings, in proxy statements provided to HomeGold shareholders, Carolina Investors' prospectus, supplements to the Carolina Investors prospectus and/or in correspondence with government regulators.

- p. Defendant Sterling and other participants further engaged in a course of business to defraud investors or "persons" by providing false and misleading information or omitting to state material facts to officers and directors of Carolina Investors concerning the security and safety of Carolina Investors' loan to HomeGold, a security under South Carolina law, referred to as the intercompany debt.
- q. It was further a part of a course of business to defraud investors by defendant Sterling and other participants, directly or indirectly to portray Carolina Investors as a company that had been in business continuously since 1963. In actuality, Carolina Investors changed its ownership and business operations in the early 1990's and by 1995 became solely a funding mechanism for their parent company.
- r. It was further part of the course of business to defraud investors that defendant Sterling and other participants misled investors about the true nature of Carolina Investors' business, allowing investors to believe that

Carolina Investors was in the business of making direct loans long after Carolina Investors had ceased its lending practices.

- s. It was further part of the course of business to defraud investors that defendant Sterling and other participants, directly or indirectly, 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 of Carolina Investors was the interest accrued from the inter-company debt and the largest asset of Carolina Investors was an impaired receivable from HomeGold.
 - t. It was further part of the course of business to defraud investors that defendant Sterling and other participants, directly or indirectly, made false or misleading statements or omitted material facts to the South Carolina Securities Commission in order to continue offering securities to South Carolina investors.
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- u. It was further part of the course of business to defraud investors that defendant Sterling and other participants, directly or indirectly, made false or misleading statements or omitted 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 potential or current investors in Carolina Investors or HomeGold securities concerning the EMMCO transaction entered on 12/31/2002 with Ronald J. Sheppard. Said statements were disseminated by HomeGold in press releases, in proxy statements provided

to HomeGold shareholders, filings with the Securities and Exchange Commission, filings and correspondence with the South Carolina Securities Commission and in amendments to the prospectus offered to Carolina Investors' investors and potential investors.

- v. It was further part of the course of business to defraud investors that defendant Sterling and other participants, directly or indirectly, engaged in the marketing of loan pools containing loans manipulated to increase their value to potential investors. Defendant Sterling and other participants, directly or indirectly, engaged in falsifying credit scores and manipulated mortgage payments to increase the value of loan pools, a security under South Carolina law, which loan pools were marketed to potential investors.

COUNT TWO
Securities Fraud
(False Statements In Documents Or Proceedings)
(S.C. Code Ann. § 35-1-160 and 35-1-1590)

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33. The allegations of paragraphs one (1) through thirty-two (32) of this Indictment are realleged as if fully set forth herein.
34. Defendant Sterling and other participants, beginning in or around 1998 and ending in or around March 21, 2003, did make or cause to be made, in documents filed with the securities commissioner or members of his staff, and/or in statements made before the securities commissioner or to members of his staff, which at the time and in light of the circumstances under which they were made false or misleading in material respects regarding concerns of the Securities Commission as to the ability of HomeGold to satisfy the debt owed to Carolina Investors, the operational issues

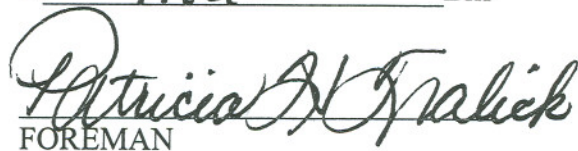
confronting HomeGold's attempt to return to profitability, the continued use of Carolina Investors' monies from the sale of securities, the resignations of HomeGold executives and directors and/or the prospects for HomeGold's sale of the retail mortgage division. Said statements were made and documents were filed in response to formal requests by the Securities Commission and/or in meetings and hearings with the Securities Commission, which were false and misleading in material respects, in violation of South Carolina Code Ann. § 35-1-160 of the South Carolina Code of Laws, 1976, as amended.

COUNT THREE
Criminal Conspiracy
(S.C. Code Ann. § 16-17-410)

35. The allegations of paragraphs one (1) through thirty-four (34) of this Indictment are realleged as if fully set forth herein.
36. That JOHN M. STERLING, JR. a/k/a JACK STERLING did, in Greenville, Pickens, Anderson, Richland and/or Lexington counties between January 1995 to on or about March 21, 2003, unlawfully and willfully unite, combine, conspire, confederate, agree and have a tacit understanding or 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.

Against the peace and dignity of the State and contrary to the statute in such case made and provided.

A TRUE Bill


FOREMAN


HENRY McMASTER (ags)
ATTORNEY GENERAL