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CLERK, STATE GRAND JURY

STATE GRAND JURY OF SOUTH CAROLINA

**Report of the Sixteenth State Grand Jury Concerning its
Investigation of any violation of Chapter 1, Title 35 of the
Uniform Securities Act, or any crime related to securities
fraud or in violation of the securities laws of South Carolina
at Carolina Investors, Inc., HomeGold, Inc. and HomeGold
Financial, Inc. and other Entities.**

June 13, 2006

FORWARD

The State Grand Jury investigates securities fraud pursuant to South Carolina Code Ann. Section 14-7-1630. This legislation was enacted after Carolina Investors, Inc., closed their doors to the public on March 21, 2003, creating a devastating financial impact on the investors in this matter. We believe strongly that the public interest can only be served in this case by the issuance of a report summarizing the Grand Jury investigation of these cases. We understand some of the matters discovered during the investigation will be presented in court during the trial of the defendants we have indicted. While we will not draw any conclusions with regard to evidence against any particular person, we will state our conclusions and recommendations as they relate to the violation of state securities laws and the related crimes uncovered in this investigation. We are aware that the evidence and testimony we have procured will be available to all defendants prior to trial.

BACKGROUND AND SUMMARY

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.

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.

In May 1991, Carolina Investors was acquired by individuals doing business as National Railway Utilization Corporation ("NRUC"). In August 1991, NRUC changed its name to Emergent Group, Inc. ("Emergent").

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.

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, to conduct and expand the wholesale and retail mortgage operations. The formation of Emergent Mortgage Corporation 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.

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 of Carolina Investors from the sale of its debt securities were routinely transferred to Emergent. Carolina Investors no longer raising funds for its own operations, became little more than the funding arm for the parent corporation.

Beginning in 1998, Emergent began suffering substantial operating losses. As a result, it sold

all of the assets of its subsidiaries except for Emergent Mortgage Corporation and Carolina Investors. In March 1998, the retail mortgage business of Emergent, Emergent Mortgage Corporation, changed its name to HomeGold, Incorporated. Emergent, the parent corporation, changed its name to HomeGold Financial, Incorporated (herein after collectively referred to as "HomeGold") in July 1998.

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.

Beginning in May of 1998, several officers of HomeGold and Carolina Investors held meetings prior to any 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 and to potential or current investors. This practice continued until March 2003.

In addition to holding meetings prior to any public announcements regarding quarterly losses, several officers of HomeGold and Carolina Investors discussed ways in which to downplay the negative information and put a positive spin on information that was disseminated to the South Carolina Securities Commission. The information was disseminated in response to inquiries by the South Carolina Securities Commission regarding the financial condition of Carolina Investors.

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 HomeGold. HomeGold later located its corporate offices in Lexington and Richland counties, respectively. HomeGold continued to report losses in 2000, 2001 and 2002. 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.

During the Summer and Fall of 2002, HomeGold attempted to actively market for sale the retail mortgage operations of HomeGold. While these efforts proceeded, with no viable offers, Homegold retained bankruptcy counsel to prepare a disaster plan, which included some form of a receivership for Carolina Investors. Despite all this Carolina Investors continued to sell its securities to the public and upstream the funds. During this same time period HomeGold continued to spend lavishly and sustain substantial losses. Carolina Investors sold 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.

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 the assets by EMMCO, HomeGold loaned \$5,000,000 to R-DOC, R-DOC also received an office located at 113 Reed Avenue in Lexington, South Carolina and certain vacant land, with a combined net book value of approximately \$3,445,000.00. HomeGold received a promissory note in the amount of \$8,445,000 upon which no payments have been made.

On March 21, 2003, Carolina Investors closed its doors to the public, and thousands of investors were unable to obtain monies they had invested in Carolina Investors over the years. Shortly thereafter, HomeGold ran out of funds in March 2003 and filed voluntary Chapter 11

petitions on March 31, 2003.

FINDINGS AND CONCLUSIONS

In June 2003, the General Assembly amended the State Grand Jury statute by expanding the jurisdiction of the State Grand Jury to investigate cases involving any violation of Chapter 1, Title 35 of the Uniform Securities Act, or any crime related to securities fraud or in violation of the securities laws. On June 16, 2003, South Carolina Law Enforcement Division ("SLED") submitted to the State Grand Jury Division, Office of the Attorney General, a case initiation memorandum proposing that an ongoing investigation concerning alleged securities fraud be adopted as a State Grand Jury matter. By way of background, the South Carolina Securities Commission made a referral to SLED for criminal investigation, that some principals of HomeGold, Inc. and Carolina Investors, Inc. may have perpetrated securities fraud by misrepresenting to investors the financial status of these companies. Statutorily required approvals of the Chief of SLED and the Attorney General were forthcoming, and on June 18, 2003, the Attorney General filed a Petition with the Presiding Judge of the State Grand Jury, the Honorable G. Thomas Cooper, Jr., requesting authority to open the matter as a State Grand Jury Investigation. Judge Cooper authorized the investigation by Order dated June 19, 2003.

The Fifteenth State Grand Jury was empaneled on June 18, 2003, and had its first working session in July 2003. This matter first came before the Grand Jury in August 13, 2003. The Fifteenth Grand Jury was extended for a six month term on April 2, 2004, and for an additional six months on December 7, 2004. On March 8, 2005, this matter was transferred to the Sixteenth Grand Jury by order of The Honorable Reginald I. Lloyd. The Sixteenth Grand Jury was empaneled on June 14, 2004. The Sixteenth Grand Jury was extended on May 18, 2005, and again on December

2, 2005, by the Honorable Reginald I. Lloyd.

Work on this investigation continued and six indictments have been returned. There have been 148 witnesses who have testified and statements of additional witnesses have been summarized or made available by case agents with SLED. In addition, the grand juries have issued 205 subpoenas, gathering a vast amount of documents and other evidence, which have been available for our consideration during the course of this investigation. We have explored every lead and followed all investigative avenues. The Grand Jury has thoroughly investigated activities at Carolina Investors, Inc., HomeGold Financial, Inc., and HomeGold, Inc. and other entities. This Grand Jury heard testimony related to allegations of securities fraud by members of Carolina Investors as well as members of the corporate entities of HomeGold and other entities.

This Grand Jury has found probable cause to believe that crimes were committed. The indictments we have issued speak for themselves as to these crimes and are incorporated by reference to this Report. We understand that this Report is within our public duty in matters of public concern. We issue this Report to conclude the State Grand Jury's investigation in this matter. We believe that there are no additional witnesses or documents which should be or need to be subpoenaed in this investigation. We also believe that all individuals as to which probable cause exists who were part of the scheme or securities violations have been indicted.

We, the members of the Sixteenth Grand Jury, do issue this Report this 13th day of June 2006.


FOREPERSON
STATE GRAND JURY