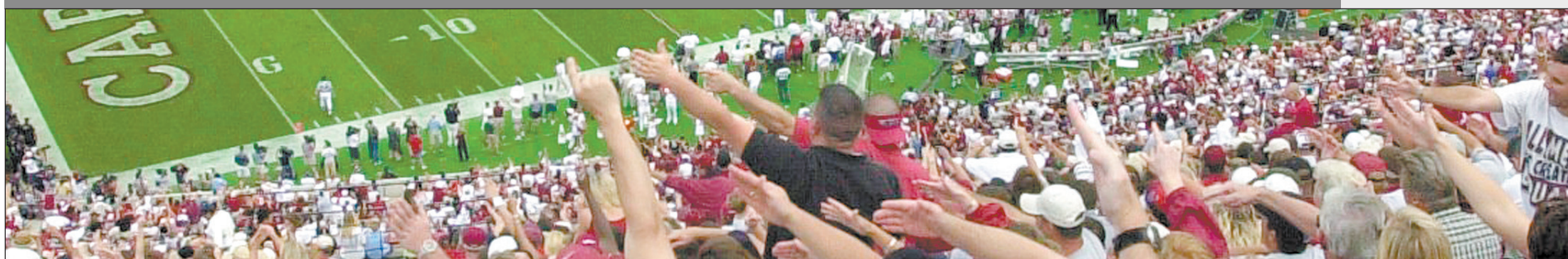




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**SPECIAL
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The State

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Sunday, October 5, 2003

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Atlanta forces Game 5 tonight
The Braves survive a late rally by Chicago and outlast the Cubs 6-4 and square the series. **Sports**



Maryland stops Clemson 21-7
A Whitehurst-to-Hamilton 70-yard touchdown pass is the lone bright spot for the now 3-2 Tigers. **Sunday Sports**



Storytellers of The State

A look at some of our favorite recent stories, with a unique, personal twist. **Special Section**

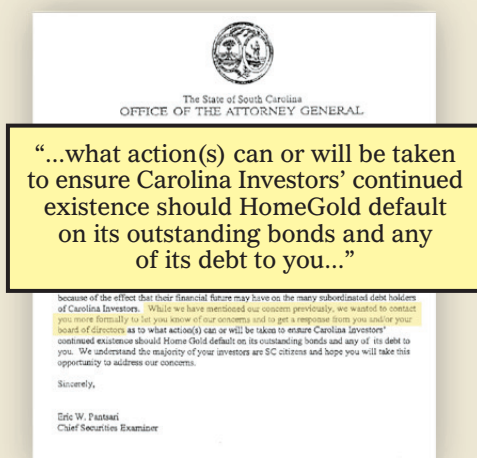
Regulators knew problems of Carolina Investors in '99

A PAPER TRAIL

The S.C. attorney general's office expressed concern about the declining condition of HomeGold and Carolina Investors as early as 1999.

1. DECEMBER 1999

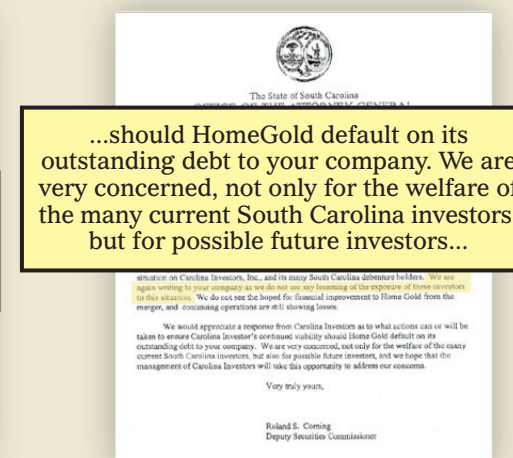
A letter from state regulators to Carolina Investors Inc. president Larry C. Owen expressed concern about HomeGold's finances.


2. JANUARY 2000

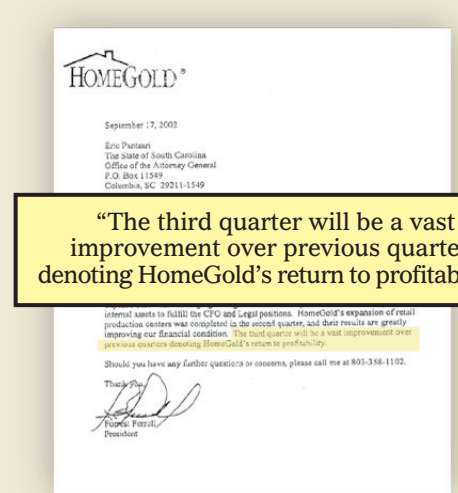
In a letter to state regulators, Owen said gossip and rumors were a bigger concern than HomeGold's finances.


3. AUGUST 2001

A letter from state regulators to Carolina Investors Inc. chairman Earle Morris Jr. reiterated concerns about HomeGold and the welfare of its investors.


4. SEPTEMBER 2002

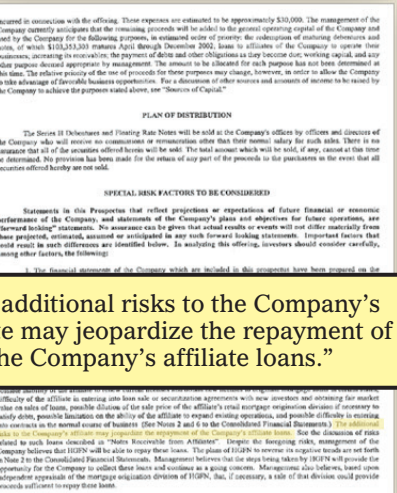
A letter to regulators from HomeGold president Forrest Ferrell stated that the company was closer to profitability. HomeGold lost \$5 million that quarter.


5. MARCH 2002

Throughout the financial decline, Carolina Investors' advertisements offered bonds to South Carolina investors promising strength and handsome returns.


6. APRIL 2002

The fine print in Carolina Investors' corporate prospectus — which some investors say they never saw or didn't read — warned that investors could lose their money.



COMPILED BY CHRIS ROBERTS/THE STATE GRAPHIC BY ROB BARGE/THE STATE

FINDINGS: S.C. REGULATORS WORRIED WHILE INVESTORS SPENT

- By 1999, state regulators were worried Carolina Investors could be in financial trouble. The firm collapsed almost 3½ years later.
- In between the time that regulators first questioned Carolina Investors' future and its collapse, S.C. investors put \$200 million into the firm, money now worth only pennies on the dollar.
- State regulators say they couldn't tell South Carolinians about their concerns with Carolina Investors.
- One lawmaker says S.C. law should be changed to allow regulators to warn investors.
- After Carolina Investors' collapse, regulators looked into five similar companies. All appeared sound, they say. Last week, however, one said it could not repay investors more than \$100 million.

They say law forced them to keep quiet

By R. KEVIN DIETRICH
Staff Writer

State regulators knew Carolina Investors and its parent company, HomeGold Financial, were in precarious financial shape years before both collapsed.

But, those regulators say, state law prevented them from telling the public, including S.C. investors who stand to lose more than \$200 million.

As early as 1999, the state attorney general's office wrote a letter of formal concern to executives at Pickens-based Carolina Investors, according to documents obtained by The State.

In a December 1999 letter, state securities examiner Eric W. Pansari asked Carolina Investors president Larry C. Owen to say "what action(s) can or will be taken to ensure Carolina Investors' continued existence should HomeGold default."

When Pansari wrote his letter, HomeGold owed \$67.6 million to Carolina Investors. After the regulators' letter, Carolina Investors made three securities offerings, putting up for sale to South Carolinians \$565 million in its now-almost-worthless securities.

Today, HomeGold owes Carolina Investors more than \$275 million — money that came from more than 8,000 South Carolina investors.

A Thursday hearing in U.S. Bankruptcy Court may determine how Carolina Investors and HomeGold will be liquidated. That liquidation is expected to repay investors in Carolina Investors just a few pennies for each dollar they put in the company.

The public never learned of

SEE **LENDERS** PAGE **A10**

Family goes the distance to honor fallen soldier

Widow, brother to run Marine marathon for Capt. Daniel McCollum, who died in Pakistan

By LAUREN MARKOE
Staff Writer

Had he lived, Marine Capt. Daniel McCollum would have had a third marathon under his belt by now. Because he didn't, his wife and brother are in the final weeks of training for a race they never planned to run.

Three weeks from today, Jennifer McCollum and Matthew McCollum will converge on Wash-

ington from California and Virginia, respectively, to run the 28th annual Marine Corps Marathon in Daniel's honor.

As all of Irmo knows, McCollum died on Jan. 9, 2002, when the KC-130 fuel transport plane he was co-piloting crashed into a mountain range near the Shamsi air base in southwest Pakistan. An investigation found the crew likely

SEE **MCCOLLUM** PAGE **A11**



DENNIS PORO/SPECIAL TO THE STATE
Jennifer McCollum runs along the shore of San Diego's Mission Bay with her son, Daniel Jr.

Israel might target Arafat in wake of deadly bombing

From Wire Reports

HAIFA, Israel — Israeli military commanders were planning a "harsh" response to Saturday's suicide bombing that killed at least 19 people here, as many Israelis renewed calls for the government to retaliate by targeting Palestinian leader Yasser Arafat.

"This awful attack today is definitely an opportunity to implement the Cabinet decision to get rid of Arafat," Israeli Health Minister Danny Naveh said.

Last month, after two suicide bombings in Jerusalem and central Israel killed 15 on the same day, the Israeli Cabinet decided in principle to "remove" the Palestinian leader from his Ramallah compound because Israel says he encourages terror attacks. Israeli leaders raised the possibility of killing or deporting him should Israel suffer another severe attack.

There was such an attack Saturday, when a female suicide bomber affiliated with the Palestinian militant group Islamic Jihad

destroyed a packed seaside restaurant, killing at least 19 Israelis, including four children, and wounding 55.

Among those killed were a 2-month-old infant, three other children, ages 1, 5 and 6, a newlywed couple and four Arabs who were residents of Israel, medical and police officials said.

Saturday night, as Israeli military commanders met to plan what army chief of staff Moshe Yaalon

SEE **BOMBING** PAGE **A8**



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South Carolina deaths, **B1**

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LET IT RIP **C10** TRAVEL **E16**

WEATHER

A comfortable day
Partly sunny today. High 78,
low 59. A chance of rain
Monday. High 72, low 58.
See Page **A2**



SUNDAY BUSINESS

Lake Murray backup dam
SCANA is expected to spend
\$275 million on a structure that may
never touch a drop of lake water.
See Page **F1**

S.C. LENDERS AND REGULATORS

LENDERS

FROM PAGE A1

regulators' anxieties about Carolina Investors and HomeGold because state officials cannot issue statements about the financial health of companies, S.C. Attorney General Henry McMaster said.

"South Carolina law does not provide for the securities division or any other state entity to gauge the health of a company and say whether individuals should or should not invest," he said.

However, that explanation doesn't sit well with investors who lost hundreds of millions of dollars when Carolina Investors and HomeGold collapsed this spring. "The state should have stepped in and pulled the plug years ago," said Robert Pierce, chairman of a committee made up of those owed money due to Carolina Investors' bankruptcy. "There was enough information available that the state could have done something and prevented the longer range problems than went on for years."

Some legislators agree.

They say it's time to change state law and let the state take action against troubled companies and inform the public before they fail.

"It's going to make it tough for a company with problems because everyone's going to want to bail out," said Rep. Rex Rice, R-Easley, whose district includes hundreds of residents who lost money they invested in Carolina Investors. "But the public ought to have some opportunity to find out what's going on before their money's gone."

LETTERS AND MEETINGS

Responding to a request from The State under the Freedom of Information Act, the attorney general's office turned up more than a half-dozen letters from 1999 to early 2003 between regulators and company officials about the financial health of Carolina Investors and HomeGold.

The letters outline the concerns of state regulators — including whether HomeGold might fail to repay Carolina Investors, which happened ultimately — and responses from executives of the two companies.

Officials with Carolina Investors also sat down with staffers of the state securities division at least once a year. Those meetings were held to review prospectuses — information for potential investors about securities that Carolina Investors offered for sale — according to Earle Morris Jr., chairman of Carolina Investors and a former state comptroller general and lieutenant governor.

Because the notes were sold only to S.C. residents, the federal Securities and Exchange Commission had no oversight. Only state regulators had a say over the notes, which offered investors returns that were much higher than they would receive from insured investments, such as bank deposits.

It wasn't the state regulators' job to approve Carolina Investors' offerings, simply to review them and ensure they accurately disclosed the risk to investors, state officials say.

Among the risks laid out in at least the past three Carolina Investors' prospectuses, including one from 2002: Investments in the company were not insured by any private or public organization, such as the Federal Deposit Insurance Corp., and money raised by Carolina Investors was being loaned to HomeGold.

The risks outlined are typical of those found in many securities

offerings, such as stocks and bonds. It's unclear how many investors received — or read — the fine print, warning them that the above-average returns on their investments carried above-average risk.

McMaster said his office recently reviewed Carolina Investors' prospectus filings from 1999 to 2002 "to see if there was anything we missed."

"And, based on the answers given to us, the information appeared accurate," he said.

On at least one occasion, McMaster said regulators had questions about information in a Carolina Investors offering.

"Those questions were presented to Carolina Investors, and we received answers to those questions," he said. "The prospectuses and the answers given appear accurate on their face, and we had no further reason to question them."

McMaster would not say whether his office now believes any of the information from Carolina Investors was inaccurate.

The state grand jury is investigating the collapse of Carolina Investors and HomeGold. McMaster would not say how long that secret probe will continue.

Carolina Investors, HomeGold and Emmco LLC, the company created by former HomeGold chief executive Ronnie Sheppard earlier this year from many of HomeGold's assets, also are being investigated by federal authorities, including the FBI, Justice Department, and Securities and Exchange Commission.

McMaster took over as attorney general earlier this year from Charlie Condon, who was attorney general during almost all of the time the state securities division was corresponding with Carolina Investors.

Condon, a candidate for the U.S. Senate in next year's Republican primary, said he could not comment on his office's regulation of Carolina Investors, citing the ongoing investigations.

Despite regulators' questions about Carolina Investors, Morris said there was never any talk within the attorney general's office about closing down or restricting the company's activities.

That's because it's not the state's role to intercede, based on S.C. law, McMaster said.

"It would be highly inappropriate for us to say, 'You should invest in Burger King, not Kentucky Fried Chicken,'" he said. "There are financial advisers and brokers who make a living at doing that."

The state attorney general's office didn't receive a single inquiry or complaint about Carolina Investors or HomeGold until they

TRYING TO CRACK DOWN

South Carolina has tougher laws and a beefed-up state securities division after the collapse of Carolina Investors this spring. But the law still does not give state regulators the power to intervene with a potentially failing company, officials say. A look at what the state has done:

■ In June, the S.C. General Assembly expanded the state grand jury's powers, allowing it to investigate cases of possible investment fraud.

It also extended the statute of limitations for fraud cases to three years after the discovery of an untrue statement. In certain circumstances, that time limit was increased to five years.

■ In the past few months, the state also has more than doubled the number of employees devoted to securities issues — to 21 from 10. Among the positions added: an auditor who specializes in investigating crimes and a prosecutor.

■ The securities division's budget also has been tripled, to \$1.5 million. The extra money is coming from increased fees paid by companies and brokers who do securities business in South Carolina.

The securities division oversees securities professionals and certain companies selling investments. It also provides information to investors and handles complaints.

Last year, the securities division oversaw more than 80,000 broker-dealer agents registered in S.C., nearly 8,000 mutual fund filings and 100 registered security offerings.

— R. Kevin Dietrich

collapsed earlier this year, McMaster added.

LOOKING AT OTHERS

After Carolina Investors filed for bankruptcy in April, state officials re-examined disclosure statements from five S.C.-based companies that sell similar securities: Regional Management Corp. of Greenville, First Citizens Corp. of Greenwood, Capital Investment Funding in Easley, Guardian Mortgage in Rock Hill and The Thaxton Group in Lancaster, according to the state attorney general's office.

"On face value, they all looked like they were solvent," said Trey Walker, a spokesman for the attorney general's office.

On Thursday, however, Thaxton closed its doors, saying it could not repay people who bought \$123 million of its securities.

In a Friday filing with the U.S. Securities and Exchange Commission, Thaxton said it would restate its earnings for the first half of the year from a profit to a loss.

The letters from state regulators to Carolina Investors and HomeGold show state officials expressing concerns about Carolina Investors' future.

In response, company officials expressed optimism until earlier this year.

■ In December 1999, state regulator Pantsari wrote Carolina Investors executive Owen concerned about what might happen to Carolina Investors if HomeGold defaulted on its debt.

HomeGold lost \$4.5 million during the first nine months of 1999 after a \$58 million loss in 1998.

Owen responded Carolina Investors' board of directors had been monitoring HomeGold closely and that a default appeared unlikely. Also, he wrote, the risk of further deterioration in HomeGold's business appeared to be decreasing.

"Frankly," Owen wrote, "our biggest concern right now are periodic rumors, which appear to be from idle or malicious gossip."

That was a reference to talk in

the Upstate that Carolina Investors could be in financial trouble.

That speculation proved correct.

HomeGold lost \$30 million in 2000, \$73.4 million the next year and \$76 million in 2002, losses that directly impacted Carolina Investors. During that period, HomeGold's debt to Carolina Investors and investors in it ballooned to nearly \$250 million from \$100 million.

■ In August 2001, state regulators again showed anxiety about HomeGold's financial situation and how it could imperil Carolina Investors.

"We do not see the hoped-for financial improvement to HomeGold," deputy S.C. securities commissioner Roland Corning wrote to Morris.

State officials found no record of a response from Carolina Investors. However, Morris has said he told state officials that he believed HomeGold's business was improving.

After HomeGold collapsed, taking Carolina Investors with it, Morris said he was unaware of HomeGold's actual financial condition.

Carolina Investors did not have a representative on HomeGold's board of directors. And, Morris said, HomeGold had complete control over money taken in by Carolina Investors and loaned to HomeGold.

■ In September 2002, Pantsari wrote Owen and HomeGold chief

executive Sheppard to express concern about the resignations of HomeGold's chief financial officer, Kevin Martin, and general counsel, David Gaffney.

In response, then-HomeGold president Forrest Ferrell said there was no problem and an expansion had greatly improved HomeGold's financial condition. "The third quarter will be a vast improvement over previous quarters," wrote Ferrell, who died earlier this year.

A few months after Ferrell's response, HomeGold's auditor, Elliott Davis, formally expressed its concerns about the publicly traded HomeGold's ability to survive.

In February, the state did ask Carolina Investors to stop sending money to HomeGold. But it said nothing publicly or to investors, who kept pumping money into Carolina Investors until it locked its doors the next month.

Rice, the Upstate legislator, said the state needs to get a better handle on what's going on with struggling companies so that it can protect South Carolinians.

Often, changes are made only after disasters such as the one that will cost investors in Carolina Investors hundreds of millions of dollars, he said.

"It's too bad somebody has to get hurt, but new laws usually come about because something bad has happened, not because there a possibility something could go wrong," Rice said.

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