

Appendix
Vol. III

1 Q ALL OF THAT TESTIMONY WAS UNDER OATH?

2 A YES, IT WAS.

3 Q THE OATH TO TELL THE TRUTH?

4 A YES.

5 Q NOW, GOING BACK TO CAROLINA INVESTORS AND YOUR
6 MEETINGS WITH CAROLINA INVESTORS. IN YOUR TESTIMONY
7 BEFORE, ON DIRECT EXAMINATION YOU TESTIFIED ABOUT A
8 MEETING AFTER THE GOING CONCERN LETTER CAME OUT THAT YOU
9 HELD AND I BELIEVE WITH MR. STERLING AT CAROLINA INVESTORS
10 OFFICE IN PICKENS, CORRECT?

11 A CORRECT, I BELIEVE WITH MR. STERLING BUT I CAN'T
12 REMEMBER.

13 Q AND PREVIOUSLY, YOU TESTIFIED HERE TODAY IT WAS MR.
14 STERLING AND YOURSELF?

15 A I TESTIFIED THAT I DID NOT REMEMBER IF ANYBODY ELSE
16 WAS PRESENT.

17 Q AND YOU CLEARLY TESTIFIED HERE TODAY THAT MR.
18 SHEPPARD WAS NOT PRESENT?

19 A I DON'T RECALL IF MR. SHEPPARD WAS PRESENT. I DON'T
20 THINK I CLEARLY TESTIFIED TO THAT.

21 Q BUT YOU CERTAINLY RECALL CLEARLY TESTIFYING
22 PREVIOUSLY UNDER OATH THAT MR. SHEPPARD WAS PRESENT AT
23 THAT MEETING?

24 A I DON'T RECALL.

25 Q LET ME SEE IF THIS WILL REFRESH YOUR RECOLLECTION. I

1 JUST ASK YOU JUST TO READ TO YOURSELF PAGE 37, BEGINNING
2 AT LINE 20 AND IF YOU NEED TO REFRESH YOUR RECOLLECTION
3 GOING UP. IF YOU DON'T MIND LOOK AT PAGE 36, LINE 18.
4 AND THEN ON PAGE 37, LINE 20 THROUGH 25. JUST READ TO
5 YOURSELF AND LET ME KNOW WHEN YOU ARE DONE.

6 A I HAVE READ IT.

7 Q DOES THAT REFRESH YOUR RECOLLECTION THAT YOU
8 PREVIOUSLY TESTIFIED UNDER OATH THAT MR. SHEPPARD WAS
9 PRESENT AT THIS MEETING?

10 A YES, THAT DOESN'T MAKE IT CLEAR THAT THAT IS THE
11 MEETING THAT THIS IS REFERRING TO. I GUESS, THAT JUST
12 SAYS THAT WE WENT TO CAROLINA INVESTORS FOR A MEETING TO
13 DISCUSS THE PROSPECTUS BUT WE DID THAT ON MORE THAN ONE
14 OCCASION.

15 Q I APOLOGIZE. I DON'T MEAN TO RUSH YOU BUT IF YOU
16 WILL LOOK AT BEGINNING ON LINE 10.

17 A 10. OKAY.

18 Q DOES THAT CLEAR IT UP A LITTLE BETTER?

19 A YES.

20 Q IN YOUR RECOLLECTION?

21 A YES.

22 Q NOW, HAVING REFRESHED YOUR RECOLLECTION DO YOU NOW
23 RECALL TESTIFYING THAT MR. SHEPPARD WAS THERE AT THE
24 MEETING WITH THE EMPLOYEES AND MANAGEMENT OF CAROLINA
25 INVESTORS TO DISCUSS THE GOING CONCERN?

1 A I DO.

2 Q AND WERE YOU WRONG IN YOUR TESTIMONY PREVIOUSLY?

3 A I DON'T KNOW, I BELIEVE I TESTIFIED TODAY THAT I
4 COULDN'T RECALL WHO WAS AT THAT MEETING.

5 Q I BELIEVE YOU TESTIFIED THAT MR. SHEPPARD DIRECTED
6 YOU TO GO UP THERE?

7 A HE DID ABSOLUTELY DIRECT ME TO GO UP THERE.

8 Q AND THAT YOU MET MR. STERLING UP THERE, ISN'T THAT
9 WHAT YOU TESTIFIED TO?

10 A NO, I RECALL THAT I TESTIFIED AND YOU CAN CHECK THE
11 MINUTES, I CANNOT RECALL WHO ALL ATTENDED THAT MEETING FOR
12 HOMEGOLD.

13 Q WELL, YOU CERTAINLY RECALL TELLING THE GRAND JURY ON
14 MAY THE 11TH OF 2005 THAT MR. SHEPPARD WAS THERE, CORRECT?

15 A I DO AFTER READING THAT, YES.

16 Q AND AT THIS MEETING FOR THE EMPLOYEES OF CAROLINA
17 INVESTORS, YOU AND MR. STERLING WERE THERE TO DISCUSS THE
18 GOING CONCERN LANGUAGE IN THE PROSPECTUS, CORRECT?

19 A THAT IS WHAT I WAS THERE TO DISCUSS, YES.

20 Q AND AT THIS MEETING YOU WERE ASKED TO CONTRAST THE
21 TONE AND THE TENOR OF THIS MEETING WITH THE MEETING THAT
22 WAS HELD IN MARCH EARLIER IN THE YEAR BEFORE THE GOING
23 CONCERN LANGUAGE CAME OUT. DO YOU RECALL THAT TESTIMONY?

24 A YES.

25 Q AND THERE WAS SOME CHANGES THAT HAD TRANSPIRED FROM

1 THE MEETING AT THE WYCHE LAWYERS OFFICE TO THE MEETING
2 WITH THE EMPLOYEES AT CAROLINA INVESTORS. AND I JUST WANT
3 TO GO BACK OVER THOSE. ONE WAS, IT WAS SORT OF A DOOMSDAY
4 ENVIRONMENT AT THE WYCHE FIRM, CORRECT?

5 A YES.

6 Q AND THE REASON FOR THAT WAS IS THAT THERE WAS A
7 GENERAL CONSENSUS THAT THE ATTORNEY GENERALS OFFICE WOULD
8 NOT RENEW THE PROSPECTUS OF CAROLINA INVESTORS WITH THE
9 GOING CONCERN LANGUAGE IN THERE. ISN'T THAT CORRECT?

10 A WE WERE CONCERNED THAT THEY WOULD NOT.

11 Q AND AT THIS POINT WITH THE MEETING WITH THE EMPLOYEES
12 OF CAROLINA INVESTORS THE ATTORNEY GENERALS OFFICE HAD
13 ACCEPTED THE REGISTRATION OF THE PROSPECTUS AND AUTHORIZED
14 CAROLINA INVESTORS TO SEND ALL THESE NOTES AND DEBENTURES
15 FOR YET ANOTHER YEAR?

16 A AT THAT POINT THE PROSPECTUS HAD BEEN RENEWED, YES.

17 Q WHICH ALLOWED CAROLINA INVESTORS TO CONTINUE
18 OPERATING?

19 A IT ALLOWED THEM TO SELL DEBENTURES.

20 Q AND THEN, I THINK YOU ALSO MENTIONED THAT THE 10K HAD
21 BEEN FILED AT THIS POINT AND TIME?

22 A WELL, I THINK IT HAD BEEN. I CAN'T RECALL THE EXACT
23 DATE OF THAT MEETING. BUT THE PROSPECTUS HAD CERTAINLY
24 BEEN RENEWED. I ASSUME AT THAT POINT THE 10K HAD ALSO
25 BEEN FILED.

1 Q AND IN ADDITION, I BELIEVE YOU SAID THAT THERE WAS
2 INFORMATION BOTH IN, WELL IN THE 10K AND IN THE PROSPECTUS
3 WHERE THERE WAS GOING CONCERN THAT MANAGEMENT HAD AN
4 OBLIGATION TO GIVE THEIR RESPONSE TO THAT GOING CONCERN?

5 A THAT'S CORRECT.

6 Q AND SO MANAGEMENT PLANS ARE IN AND YOU WERE SHOWN
7 PAGE F11 FOOTNOTE?

8 A IT WAS ON F11.

9 Q AND THAT IS MANAGEMENTS RESPONSE?

10 A THAT IS WHERE THAT IS CONTAINED.

11 Q AND THAT IS THE INFORMATION THAT WAS EMPHASIZED TO
12 THE EMPLOYEES OF CAROLINA INVESTORS?

13 A NOT DURING THAT MEETING.

14 Q IT WAS EMPHASIZED TO MR. OWEN?

15 A I WAS TOLD FORREST FERRELL EMPHASIZED THAT TO MR.
16 OWEN AT A LATER DATE AND WE PROBABLY WENT OVER THAT
17 INFORMATION IN THAT MEETING. BUT WE DID NOT SAY TO MR.
18 OWEN OR TO ANY OF THE PEOPLE THERE, LOOK YOU HAVE GOT TO
19 POINT TO F11 WHEN YOU TALK TO INVESTORS.

20 Q THE MEETING WITH THE EMPLOYEES AND MANAGEMENT OF
21 CAROLINA INVESTORS THAT YOU PARTICIPATED IN, YOU WERE
22 CERTAINLY HONEST AND OPEN WITH THE EMPLOYEES REGARDING
23 FINANCIALS OF HOMEGOLD, CORRECT?

24 A I WAS, YES, I WAS HONEST AND OPEN WITH THEM.

25 Q AND YOU EXPLAINED TO THEM WHAT GOING CONCERN MEANS IN

1 THE FINANCIAL TERMS AND THE REASON THE AUDITORS PLACED ON
2 THEM?

3 A YES.

4 Q AND DID YOU AT ANY POINT AND TIME DURING THAT
5 CONVERSATION IN YOUR DISCUSSIONS WITH THESE EMPLOYEES AND
6 ADVISED THEM THAT IT WAS A RESULT OF ENRON OR WORLD COM OR
7 ANYTHING LIKE THAT?

8 A NO.

9 Q AND IT WAS A RESULT OF THE POOR FINANCIAL CONDITION
10 OF HOMEGOLD, IS THAT CORRECT?

11 A YES.

12 Q NOW, THIS POOR FINANCIAL CONDITION OF HOMEGOLD IS
13 SOMETHING THAT YOU PRESENTED TO THE BOARD OF CAROLINA
14 INVESTORS ON A QUARTERLY BASIS WHEN YOU WERE CFO?

15 A WELL, WE DID DISCUSS THE FINANCIAL CONDITION IN A
16 CURSORY WAY TO THE BOARD OF CAROLINA INVESTORS WHEN WE
17 WENT UP THERE. AT SOME POINT WE STOPPED TAKING THE
18 FINANCIALS WITH US AND REFERRED TO THEIR FILINGS. AND I
19 THINK I TESTIFIED THAT WE SPENT MOST OF THE MEETING
20 TALKING ABOUT THE THINGS WE WERE DOING TO FIX THE
21 BUSINESS. I MEAN THE ASSUMPTION WAS THAT THE BUSINESS WAS
22 NOT DOING WELL.

23 Q AND ON THE BOARD OF CAROLINA INVESTORS EXISTED MR.
24 LARRY OWEN, CORRECT?

25 A YES.

1 Q MR. JACK STERLING?

2 A I DON'T RECALL THAT HE WAS ON THE BOARD BUT HE MAY OF
3 BEEN, YES.

4 Q THERE WAS MR. DON BOBO ON BOARD?

5 A CORRECT.

6 Q AND THEN THERE WAS MR. DANNY SHARPE ON BOARD?

7 A CORRECT.

8 Q AND MR. SHEPPARD?

9 A AGAIN I DON'T RECALL THAT.

10 Q BUT HE WAS PRESENT?

11 A HE WAS PRESENT AT THE MEETINGS?

12 Q YES.

13 A YES, CERTAINLY.

14 Q THE BOARD. AND DURING THESE BOARD MEETINGS THE
15 PURPOSE THAT YOU WERE THERE FOR WAS TO GIVE A FINANCIAL
16 REPORT?

17 A CORRECT.

18 Q AND YOU SAID AT SOME POINT AND TIME THE FULL
19 FINANCIALS OF HOMEGOLD, THEY WERE JUST REFERRED TO, SAID
20 THEY WERE AVAILABLE ON LINE IF YOU WANT TO LOOK AT THEM?

21 A RIGHT AND WE DISCUSSED THEM BRIEFLY AT THE BEGINNING
22 OF EVERY MEETING, THESE QUARTERLY MEETINGS AND THEN WE
23 WENT ON TO TALK ABOUT THE REST OF THE BUSINESS.

24 Q AND AT ANY POINT AND TIME DID YOU REFUSE TO ANSWER A
25 QUESTION FROM EITHER MR. BOBO OR MR. SHARPE ABOUT THE

1 FINANCIAL CONDITION OF THE COMPANY?

2 A NO, I DON'T RECALL THAT I EVER REFUSED TO ANSWER A
3 QUESTION.

4 Q AND WERE YOU THERE AND PREPARED TO ANSWER TO THE
5 FULLEST EXTENT OF YOUR ABILITIES, ANY QUESTIONS THAT THEY
6 MAY HAVE?

7 A I BELIEVE THERE WERE SOME INSTANCES WHEN THEY ASKED
8 QUESTIONS THAT I HAD TO COME BACK TO THEM WITH ANSWERS
9 LATER IF I DIDN'T HAVE THE INFORMATION WITH ME. BUT, YES,
10 FOR THE MOST PART IF THEY ASKED A QUESTION I WAS PREPARED
11 TO ANSWER IT.

12 Q AND IN THESE MEETINGS PARTICULARLY YOU SAID THAT MR.
13 SHEPPARD WOULD GIVE A SUBJECTIVE VIEW OR GOALS THAT YOU
14 WERE HOPING TO REACH, CORRECT?

15 A CORRECT.

16 Q AND THAT THEY WERE HOPING TO TURN THE BUSINESS AROUND
17 TO MAKE A PROFIT, CORRECT?

18 A CORRECT.

19 Q TO PAY OFF THE DEBT TO CAROLINA INVESTORS?

20 A OR TO AT LEAST TO BE IN THE POSITION TO BE ABLE TO
21 PAY IF OFF.

22 Q AND THERE WERE DIFFERENT PLANS, THERE WAS GROWTH
23 MODEL, EXPAND THE BRANCHES TO INCREASE PRODUCTION, TO BE
24 IN A POSITION TO TURN THE CORNER, CORRECT?

25 A THAT WAS ONE OF THE PLANS, YES.

1 Q AND THAT PLAN WAS, WAS THAT THE PLAN, WAS IT NOT?
2 A WE BEGAN TO IMPLEMENT IT.

3 Q AND PRODUCTION NUMBERS INCREASED SUBSTANTIALLY, DID
4 THEY NOT?

5 A I BELIEVE THE PRODUCTION WAS INCREASED FROM WHEN WE
6 ONLY HAD ONE OFFICE OR TWO OFFICES. CERTAINLY THE
7 PRODUCTION NUMBERS INCREASED.

8 Q AND THEY GOT TO THE POINT WHERE THEY WERE REACHING
9 CLOSE TO \$80 MILLION DOLLARS OF MORTGAGE ORIGINATION A
10 MONTH, CORRECT?

11 A THAT MAY, I DON'T REMEMBER EXACTLY WHERE WE WERE
12 HITTING. I KNOW THE EXPENSES WERE INCREASING AT A MUCH
13 FASTER PACE THAN THE PRODUCTION WAS INCREASING. SO, THAT
14 WAS ALWAYS A CONCERN BUT, YES, IT GOT TO A PRETTY HIGH
15 LEVEL AT SOME POINT THERE.

16 Q THERE WAS A LOT OF FIXED EXPENSES THAT WERE JUST
17 EXISTING REGARDLESS OF THE AMOUNT OF THE PRODUCTION FOR
18 HOMEGOLD COMPANY, CORRECT?

19 A YES, IT WAS A CONSIDERABLE AMOUNT OF SPENDING GOING
20 ON THAT WAS GOING ON REGARDLESS OF WHAT OUR PRODUCTION
21 WAS.

22 Q AND LET'S GO THROUGH A LITTLE BIT OF THAT BUT SOME OF
23 THAT, CONSIDERABLE AMOUNT OF SPENDING WAS HAVING THE
24 INFRASTRUCTURE OF ACCOUNTING STAFF THAT IS REQUIRED FOR A
25 PUBLIC CORPORATION?

1 A THAT, YES, THAT WAS A FAIRLY SMALL PART OF IT. BUT,
2 YES, THAT WAS A CERTAIN PART OF IT.

3 Q AND THEN THE LARGE PART WAS THIS INTER-COMPANY DEBT
4 INTEREST BETWEEN CAROLINA INVESTORS AND HOMEGOLD?

5 A I CAN'T REMEMBER WHAT THAT AMOUNTED TO BUT THAT WAS,
6 I WOULDN'T SAY IT WAS A LARGE PART BUT IT WAS THERE TOO.
7 IT WAS GROWING OBVIOUSLY ALL THE TIME.

8 Q AND THEN THERE WAS SOME GUARANTEE \$300 THOUSAND
9 DOLLAR A MONTH TRANSFER OVER TO CAROLINA INVESTORS FOR
10 SOME KIND OF INDEMNIFICATION AGREEMENT.

11 A I VAGUELY RECALL THAT, IN MY MIND THAT WAS AN EXPENSE
12 ON HOMEGOLD'S BOOK AND REVENUE ON CAROLINA INVESTORS
13 BOOKS. AT THE CORPORATE LEVEL IT WAS NOT--

14 Q NOT A BIG NUMBER, RIGHT?

15 A IT WAS ZERO AT THE CORPORATE LEVEL.

16 Q IT SHOWED UP ON THE INCOME STATEMENT OF CAROLINA
17 INVESTORS?

18 A AS A REVENUE, YES.

19 Q AND THAT WAS SOMETHING THAT WAS PUT IN PLACE UNDER
20 MR. MAST?

21 A YEAH, I BELIEVE THAT IS PROBABLY TRUE.

22 Q AND SO IN THESE CAROLINA INVESTORS MEETINGS MR.
23 SHEPPARD IS TALKING, I THINK MR. FERRELL GAVE--

24 A YES, YES.

25 Q REGARD TO THIS?

1 A YES.

2 Q AND THEN THERE WAS A BUSINESS OPPORTUNITY THAT AROSE
3 ON FLEXCHECK, RIGHT?

4 A YES.

5 Q AND THAT WAS GOING TO BE ANOTHER SOURCE OF REVENUE
6 FOR THE COMPANY, CORRECT?

7 A WE HOPED IT WOULD BE, YES.

8 Q AND IN THESE CAROLINA INVESTORS BOARD MEETINGS THERE
9 WERE DISCUSSIONS ABOUT WHAT THE HOPES WERE FOR FLEXCHECK,
10 CORRECT?

11 A YES.

12 Q AND DURING THESE BOARD MEETINGS MR. OWEN WOULD ASK TO
13 THOSE PRESENT WHAT CAN I SAY TO INVESTORS ABOUT THESE
14 MATTERS, WOULD HE NOT?

15 A YES, HE WOULD.

16 Q AND DO YOU RECALL THE INSTRUCTIONS PROVIDED TO HIM,
17 DON'T TELL HIM WE WILL DO--

18 MS. EVANS: OBJECTION, HEARSAY. HE IS SAYING
19 INSTRUCTIONS TO THEM, HE IS NOT SAYING WHO--

20 THE COURT: INDICATE WHO YOU ARE TALKING ABOUT.

21 Q I BELIEVE YOU RECALL MR. STERLING GIVING INSTRUCTIONS
22 TO MR. OWEN REGARDING WHAT HE COULD AND COULDN'T SAY?

23 MS. EVANS: THAT IS HEARSAY UNLESS YOU CAN ESTABLISH
24 MR. STERLING'S STATEMENT.

25 THE COURT: COME ON UP.

1 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
2 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
3 JURY.)

4 THE COURT: THE COURT OVERRULES THE OBJECTION. YOU
5 MAY CONTINUE, MR. GRIFFIN.

6 Q NOW, MR. MAST, YOU RECALL THAT MR. STERLING, IN
7 RESPONSE TO QUESTIONS FROM MR. OWEN, WHAT CAN I TELL
8 INVESTORS, TO GIVE HIM INSTRUCTIONS THAT YOU CAN'T TELL
9 THEM THAT WE WILL DO SOMETHING BUT THAT WE HOPE TO DO
10 SOMETHING, CORRECT?

11 A YES, I THINK THERE WERE TIMES WHEN I REMEMBER LARRY
12 SAYING, CAN I SAY THIS, CAN I SAY THAT WE ARE GOING TO
13 MAKE \$100 THOUSAND DOLLARS THIS QUARTER. AND JACK WOULD
14 SAY, NO, YOU CAN'T SAY THAT YOU ARE GOING TO MAKE \$100
15 THOUSAND DOLLARS. YOU CAN SAY WE HOPE THAT YOU TURN
16 PROFIT BUT YOU CAN'T SAY WE ARE GOING TO MAKE \$100
17 THOUSAND DOLLARS.

18 Q THAT WE HOPE TO DO THIS, THESE ARE OUR PLANS?

19 A WE HOPE AND IN GENERAL TERMS NOT SPECIFIC NUMBERS.
20 DID SOMETIMES CLARIFY IT THAT, TO LARRY. I CAN REMEMBER
21 THAT HAPPENING ONCE OR TWICE, YES.

22 Q IN RESPONSE TO THESE PROJECTIONS THAT, INFORMATION
23 BEING PROVIDED TO LARRY AND OTHER BOARD MEMBERS ABOUT WHAT
24 THE FUTURE PLANS WERE?

25 A YES, HE WAS ASKING WHETHER HE COULD SAY, FOR EXAMPLE,

1 WE ARE GOING TO TURN A \$100 THOUSAND DOLLAR PROFIT IN THE
2 NEXT QUARTER WHICH WAS A STATEMENT MADE BY RONNIE OR
3 FORREST AND JACK WOULD SAY, NO, YOU CANNOT.

4 Q BECAUSE IT WAS CLEAR THESE WERE PROJECTIONS, THESE
5 WERE FOLKS, IF THINGS WORK OUT THAT WILL BE THE HOPE FOR
6 US?

7 A WELL, I BELIEVE IT IS MORE OF AN ISSUE OF FORWARD
8 LOOKING STATEMENTS IN GENERAL WHEN YOU ARE DEALING WITH
9 SECURITIES, HAVE TO BE VERY LIMITED IN WHAT YOU SAY. I
10 MEAN, YOU CAN'T SAY WE ARE GOING TO DO THIS EVEN IF YOU
11 ARE SAYING, WE ARE GOING TO, EVEN IF YOU ARE PRETTY SURE
12 YOU ARE GOING TO DO IT. YOU KNOW, WE ARE GOING TO STAY IN
13 THIS BUSINESS FOR TWO MORE MONTHS. WELL, YOU CAN'T REALLY
14 SAY THIS IS WHAT WE ARE GOING TO DO. YOU HAVE TO COUCH
15 FORWARD LOOKING STATEMENTS IN EXPECTATION LANGUAGE RATHER
16 THAN DEFINITE, THIS IS WHAT WE ARE GOING TO DO.

17 Q AND THESE WERE FORWARD LOOKING STATEMENTS?

18 A THEY WERE.

19 Q AND YOU MENTIONED FORWARD LOOKING STATEMENTS IN
20 SECURITIES, YOU WERE INVOLVED IN DRAFTING A NUMBER OF
21 PRESS RELEASES AND ASSISTING IN THE DRAFT OF PRESS
22 RELEASES?

23 A I ASSISTED IN THE DRAFTING, YES.

24 Q AND IN THOSE PRESS RELEASES, MANY OF THOSE HAVE THE
25 FORWARD LOOKING STATEMENTS IN THEM AS WELL, DID THEY NOT?

1 A RIGHT.

2 Q AND THOSE FORWARD LOOKING STATEMENTS, THEY WERE IN
3 THE PRESS RELEASES THAT WENT OUT WITH THE CAVEAT OF A SAFE
4 HARBOR LANGUAGE IN THE PRESS RELEASE, CORRECT?

5 A CORRECT.

6 Q LET'S TALK ABOUT, A LITTLE BIT MORE ABOUT THE
7 STRUCTURE OF HOMEGOLD. MR. SHEPPARD WAS THE CEO, NO
8 QUESTION ABOUT IT, CORRECT?

9 A OF HOMEGOLD FINANCIAL, YES.

10 Q BUT IT WAS A PUBLICLY TRADED COMPANY AND THERE WERE
11 CONTROLS IN PLACE FOR THE REPORTING OF THE FINANCIALS OF
12 THE COMPANY, RIGHT?

13 A WHAT DO YOU MEAN BY CONTROLS.

14 Q THE FIRST THING THAT I MEAN BY CONTROL IS THERE WAS A
15 REQUIREMENT THAT THERE BE A CHIEF FINANCIAL OFFICER,
16 CORRECT?

17 A CORRECT.

18 Q AND THAT WAS YOU?

19 A YES.

20 Q THERE WAS A REQUIREMENT THAT THERE BE AN AUDIT
21 COMMITTEE OF THE BOARD OF DIRECTORS, CORRECT?

22 A CORRECT.

23 Q AUDIT COMMITTEE OF THE BOARD OF DIRECTORS, WHEN YOU
24 WERE THERE CONSISTED OF MR. PHILPOTT?

25 A MR. PHILPOTT, I DON'T RECALL WHO ELSE WAS ON IT.

- 1 Q MR. TEE HOOPER, PERHAPS?
- 2 A THAT IS POSSIBLE.
- 3 Q MR. STERLING, PERHAPS?
- 4 A PERHAPS.
- 5 Q AND THEN THOSE CONTROLS CONSIST OF AND THE
- 6 REQUIREMENT THAT THERE BE A OUTSIDE AUDITOR, IN THIS
- 7 INSTANCE ELLIOTT DAVIS?
- 8 A CORRECT.
- 9 Q AND THAT ELLIOTT DAVIS FIRM REPORTS TO, TECHNICALLY
- 10 TO THE AUDITOR, IS THAT CORRECT?
- 11 A CORRECT.
- 12 Q AND THAT THE OFFICERS OF THE COMPANY AND MR. SHEPPARD
- 13 BEING ONE, THEY REPORT TO THE BOARD OF DIRECTORS OF THE
- 14 COMPANY, IS THAT CORRECT?
- 15 A CORRECT.
- 16 Q AND THAT THE BOARD GETS TO VOTE ON CERTAIN MAJOR
- 17 ISSUES PERTAINING TO THE COMPANY?
- 18 A YES.
- 19 Q AND I THINK YOU, AND SOME OTHER ISSUES WHERE THERE IS
- 20 AN INTERESTED PARTY TRANSACTION THAT YOU WENT OVER, THIS
- 21 LEAPHART ROAD THING?
- 22 A CORRECT.
- 23 Q AND EVERY BOARD MEMBER SIGNED THAT DOCUMENT?
- 24 A THAT'S CORRECT.
- 25 Q AND SO MR. SHEPPARD COULD NOT TRANSFER LEAPHART ROAD

1 TO HIMSELF WITHOUT OBTAINING BOARD APPROVAL?

2 A TECHNICALLY NO.

3 Q AND SO WE KEEP TALKING ABOUT, THIS IS RONNIE'S
4 COMPANY, RONNIE'S WAY. BUT IT IS RONNIE IN THE CONTEXT OF
5 A CORPORATE STRUCTURE, FAIR?

6 A NO, NO. NOT FAIR. HE OVERRODE ALMOST ANY CONTROL
7 THAT HE PUT ON THERE. FOR EXAMPLE, THE BOARD HE NAMED OR
8 HE WAS ALLOWED TO NAME THREE OF THE SEVEN BOARD MEMBERS
9 AND HE WAS ALLOWED TO PROPOSE THE FORTH OF SEVEN. HE
10 ESSENTIALLY CONTROLLED THE BOARD. THAT IS THE TERM OF THE
11 MERGER. HE ALSO CONTROLLED, HE OWNED SOMETHING LIKE FORTY
12 PERCENT OF THE STOCK AND THE BOARD MEMBERS ENOUGH TO MAKE
13 UP A MAJORITY OF THE STOCK. SO, IN A STOCKHOLDER
14 TRANSACTION, THE VOTING OF THE STOCKHOLDERS, THERE WAS NO
15 ISSUE OF WHO WAS GOING TO WIN THAT.

16 Q DO YOU KNOW OF THE VOTING?

17 A VOTING AGREEMENT OF THE STOCK?

18 Q YES, SIR.

19 A I AM NOT CERTAIN ABOUT THE VOTING AGREEMENT.

20 Q YOU ARE NOT AWARE THAT THERE WAS A VOTING AGREEMENT
21 IN PLACE AT THE TIME OF THE MERGER THAT LIMITED MR.
22 SHEPPARD'S ABILITY TO VOTE HIS OWN SHARE OF THE STOCK.
23 YOU ARE NOT AWARE OF THAT?

24 A I AM NOT AWARE OF THAT. BUT, SO, IN REALITY WHAT
25 HAPPENED AT HOMEGOLD WAS, RONNIE ACTED, IF OUR INSIDE

1 COUNSEL DAVID GAFFNEY FELT THAT HE HAD ACTED IN A WAY THAT
2 SHOULD HAVE REQUIRED THE AUTHORIZATION OF THE BOARD HE DID
3 NOT OBTAIN, WE WOULD GO AND GET THE AUTHORIZATION OF THE
4 BOARD WHICH WAS AS FAR AS I KNEW NEVER, THEY NEVER DIDN'T
5 AUTHORIZE SOMETHING.

6 Q LET'S TALK ABOUT WHO WAS ON THE BOARD. WE HAD
7 HOMEGOLD FINANCIAL, INC., WE HAD CHAIRMAN OF THE BOARD WAS
8 MR. STERLING, CORRECT?

9 A CORRECT.

10 Q AND THAT IS WHO YOU REPORTED TO PRIMARILY?

11 A NO, I NEVER REPORTED TO JACK.

12 Q THEN WE HAVE MR. TEE HOOPER AND HE WAS ON THE BOARD,
13 WAS HE NOT?

14 A YES, HE WAS.

15 Q AND MR. PHILPOTT, HE WAS ON THE BOARD?

16 A YES, HE WAS.

17 Q AND MR. STERLING AND MR. PHILPOTT AND MR. HOOPER HAD
18 BEEN ON THE BOARD, WELL, PREVIOUS TO THE MERGER?

19 A NOT AWARE OF THEIR TENURE.

20 Q AND THEN MR. JAN SIROTA WAS ON THE BOARD, WAS HE NOT?

21 A FOR A PERIOD OF TIME, YES.

22 Q AND HE WAS AFFILIATED WITH RAYMOND JAMES, AN
23 INVESTMENT FIRM. WITH REGARD TO OTHER CONTROLS, THE
24 ELLIOTT DAVIS OUTSIDE ACCOUNTING FIRM AND THEY HAD PRETTY
25 MUCH A VITO OF WHAT WOULD GO IN THE FINANCIALS. WHETHER

1 IT, REQUIRING THE FINANCIALS TO BE REPORTED WITH
2 ACCORDANCE WITH THE GENERAL ACCEPTANCE ACCOUNTING
3 PRINCIPLES?

4 A WELL, I GUESS YOU COULD MAKE THAT CASE FOR THE 10K'S.
5 THEY HAD NO SUCH AUTHORITY OVER THE Q'S. THEY HAD TO GIVE
6 THEIR CONSENT TO OUR FILING OF THE K'S. SO, I BELIEVE ON
7 THE K'S YOU COULD SAY THEY HAD VITO POWER BY SAYING THEY
8 COULD WITHHOLD THEIR CONSENT. AND THAT WOULD OF RAISED A
9 LOT OF QUESTIONS AT THE VERY LEAST THAT THEY HAD WITHHELD
10 THEIR CONSENT FOR OUR FILING.

11 Q WHAT WERE THE OPTIONS, EITHER FIRE THE FIRM?

12 A CORRECT.

13 Q OR ACCEPT THEIR ADJUSTMENTS?

14 A CORRECT.

15 Q THAT WAS REALLY THE ONLY TWO OPTIONS?

16 A YES, I BELIEVE, IF WE WANTED TO MAINTAIN OUR SEC
17 COMPANY STATUS.

18 Q I BELIEVE YOU TESTIFIED EARLIER THAT THE OPTION OF
19 FIRING THE FIRMS IS REALLY NOT AN OPTION?

20 A WELL, I WAS SPEAKING SPECIFICALLY OF THE GOING
21 CONCERN ISSUE THAT WAS RAISED WITHIN DAYS OF FILING THE
22 10K AND THAT INSTANCE FIRING THEM WAS PROBABLY NOT
23 FEASIBLE BECAUSE OF THE TIME CONSTRAINT. BUT CERTAINLY
24 FIRING YOUR ACCOUNTANT, IN A NORMAL COURSE OF BUSINESS IS
25 NOT IMPOSSIBLE.

1 Q BUT IT WOULD HAVE TO BE REPORTED?

2 A AN 8K WOULD HAVE TO BE FILED.

3 Q AND THE REASONS WOULD HAVE TO BE GIVEN?

4 A CORRECT.

5 Q AND WHENEVER AT HOMEGOLD THERE WERE AGREEMENTS
6 BETWEEN CAROLINA INVESTORS AND HOMEGOLD, THE ENTITIES,
7 THOSE AGREEMENTS WERE DRAFTED BY AN OUTSIDE LAW FIRM,
8 CORRECT?

9 A EITHER AN OUTSIDE LAW FIRM OR AN IN-HOUSE COUNSEL.

10 Q MR. GAFFNEY?

11 A CORRECT.

12 Q AND MR. LONG?

13 A CORRECT.

14 Q AND SO THE LAWYERS, SO ANOTHER SET OF CONTROLS WERE
15 THE IN-HOUSE LAWYERS?

16 A YES, THEY DIDN'T REALLY INVOLVE THEMSELVES. WHAT I
17 AM SPEAKING TO ARE THE ACCOUNTING^{1.} CONTROLS, THEY DIDN'T
18 REALLY INVOLVE THEMSELVES IN THE ACCOUNTING CONTROLS THAT
19 MUCH BUT I SUPPOSE IN A WAY YOU WOULD CALL THEM A LEVEL OF
20 CONTROL IF THEY WERE OPERATING AS A NORMAL CORPORATE
21 LAWYER WOULD.

22 Q AND THEN THERE WAS A SET OF OUTSIDE LAWYERS THAT WERE
23 REQUIRED MAINTAINING BEING A PUBLIC COMPANY, CORRECT?

24 A CORRECT.

25 Q AND THEN THEY HAD THE ISSUE WITH REGARDING

1 SECURITIES, FILINGS, BOTH WITH SOUTH CAROLINA SECURITIES
2 COMMISSION AND THE SEC?

3 A I BELIEVE THAT IS CORRECT.

4 Q AND ALTHOUGH YOU CLEARLY TESTIFIED THAT MR. SHEPPARD
5 HAD A VERY STRONG PERSONALITY AND HAS A WAY OF GETTING HIS
6 WAY AS FAR AS LEADING UP THE FINANCIAL TEAM, IS THAT FAIR?

7 A YES, IT IS.

8 Q AND OVER THE COURSE OF YOUR EMPLOYMENT MR. SHEPPARD
9 BUTTED HEADS QUITE FREQUENTLY WITH THE ACCOUNTING
10 DEPARTMENT, CORRECT?

11 A THAT IS CORRECT.

12 Q AND YOU WERE THE CHIEF FINANCIAL OFFICER SO YOU WERE
13 AT THE TOP OF THE PYRAMID OF THE ACCOUNTING DEPARTMENT
14 DURING YOUR TENURE?

15 A CORRECT.

16 Q AND YOU ENGAGED IN THESE CONVERSATIONS WITH MR.
17 SHEPPARD OF THE ACCOUNTING ENTRIES?

18 A YES.

19 Q AND I THINK YOU TESTIFIED, HAD HE NOT BEEN THERE OR
20 THE ACCOUNTING DEPARTMENT AND ELLIOTT DAVIS NOT BEEN THERE
21 THAT PERHAPS THINGS WOULD OF BEEN RECORDED DIFFERENTLY IN
22 THE PUBLIC COMPANY, THAT WAS YOUR BELIEF?

23 A I DO BELIEVE THAT, YES.

24 Q BUT THOSE CONTROLS WERE IN PLACE AND EVERYTHING THAT
25 WENT UNDER YOUR TUTELAGE, UNDER YOUR AUTHORITY WAS IN YOUR

1 VIEW AS A CPA OF THAT GENERALLY ACCEPTED ACCOUNTING
2 PRINCIPLES, CORRECT?

3 A I BELIEVE EVERYTHING THAT WAS FILED PUBLICLY WAS
4 WITHIN GAP.

5 Q AND EVEN THOUGH IN THE THIRD QUARTER OF 2001 THERE
6 WAS A CHANGE IN THE ACCOUNTING TREATMENT OF THESE PREPAID
7 MARKETING EXPENSES. YOU HAD COME TO THE CONCLUSION, BASED
8 UPON YOUR RESEARCH, THAT STRETCHING THE LIFE OUT OF 24
9 MONTHS, THAT GENERALLY ACCEPTED ACCOUNTING PRINCIPLE?

10 A IT WAS BASED ON MY RESEARCH BUT ALSO BASED ON THE
11 ASSERTIONS OF MANAGEMENT AS TO THE, AND WHEN I REFER TO
12 MANAGEMENT I AM TALKING ABOUT RONNIE AND KAREN AND IN THIS
13 CASE TODD LAKE WHO IS THE MARKETING DIRECTOR WHO RONNIE
14 ENLISTED TO STRETCH OUT THAT MARKETING ASSET. BOTH
15 OUTSIDE AUDITORS AND INTERNAL ACCOUNTING PEOPLE RELY ON
16 THINGS THAT ARE TOLD FROM THEIR MANAGEMENT. NOW, I HAD
17 REASON TO BE SKEPTICAL OF WHAT RONNIE WAS TELLING ME BASED
18 ON MY PRIOR TESTIMONY. BUT, YOU KNOW, AFTER BEING TOLD
19 THAT THESE MARKETING ASSETS AND THIS IS THE WAY THIS
20 WORKS, BY TODD LAKE, BY RONNIE, BY KAREN, THIS IS THE WAY
21 THIS WORKS, THIS IS WHAT WE BELIEVE. THIS IS WHAT IS
22 GOING TO ENABLE US TO DO FOR A FINANCIAL STANDPOINT. I
23 BELIEVE THE 24 MONTHS WAS REASONABLE. ELLIOTT DAVIS
24 DIDN'T SHARE MY BELIEF BUT THEY DIDN'T HAVE TO CONSENT TO
25 THAT AND THEY WEREN'T INVOLVED IN THE SAME DISCUSSIONS.

1 IT WAS A VERY SHORT TIME LATER WHEN I UNDERSTOOD THAT THE
2 MARKETING ASSET, AS THEY DESCRIBED IT, WAS NOT GOING TO
3 PROVIDE THE BENEFIT THAT THEY TOLD ME IT WOULD. SO, I
4 CAME TO THE SAME CONCLUSION THAT ELLIOTT DAVIS HAD ALREADY
5 COME TO WHICH WAS THAT MARKETING ASSET COULDN'T BE
6 STRETCHED OUT EVEN IN 24 MONTHS.

7 Q WELL, THE ULTIMATE RESULT IS STRETCHED FROM 6 MONTHS
8 TO 12 MONTHS?

9 A THE ULTIMATE RESULT WAS IT WAS CUT FROM 24.

10 Q STARTED AT 6 MONTHS, CORRECT?

11 A AND WENT TO 24.

12 Q AND THEN BACK TO 12?

13 A AND THEN IT WAS CUT BACK TO 12, YES.

14 Q SO, THAT IS WHERE THE MEDIUM WAS REACHED AT 12
15 MONTHS?

16 A FOR THE 10K I BELIEVE IT WAS 12 MONTHS.

17 Q AND THEN THE THIRD QUARTER, THE EFFECT THOUGH IN THE
18 THIRD QUARTER THAT THE 24 MONTHS THAT IT PRODUCED A
19 PROFIT, CORRECT?

20 A CORRECT.

21 Q AND YOU MENTIONED EARLIER THAT THEY, IT DOES SHOW UP
22 IN THE 10Q FOR 9/30/2001, THERE IS AN EXPLANATION OF A 10Q
23 REGARDING A CHANGE IN THE ACCOUNTING TREATMENT, CORRECT?

24 A YES.

25 Q AND IN THAT EXPLANATION IT GIVES THE DOLLAR AMOUNT OF

1 THE EFFECT OF THE ACCOUNTING PRINCIPLE CHANGE OF \$2.1
2 MILLION DOLLARS?

3 A YES, THE OVERALL EFFECT IN THE NOTE WAS \$3.3 MILLION,
4 \$2.1 OF WHAT WAS, TOO MUCH OF AN EFFECT WOULD CHANGE AN
5 ACCOUNTING PRINCIPLE. AND THE REMAINDER WAS, I THINK,
6 DURING THE CURRENT PERIOD I CAN'T SEE FROM THIS FOOTNOTE
7 HOW HE HANDLED IT. I DON'T RECALL.

8 Q BUT IN THE FINANCIALS ON THIS, IT WAS DISCLOSED, THE
9 ACCOUNTING ADJUSTMENT THAT MADE IT, THE DIFFERENCE?

10 A THAT'S RIGHT.

11 Q I WANT TO SHOW YOU WHAT IS MARKED AS DEFENDANT'S
12 EXHIBIT NUMBER 10. DO YOU RECOGNIZE THAT AS A PRESS
13 RELEASE OF HOMEGOLD?

14 A THAT IS WHAT IT LOOKS LIKE, YES.

15 Q DATED NOVEMBER THE 14TH OF 2001?

16 A CORRECT.

17 Q AND YOU ASSISTED IN THE PREPARATION OF PRESS RELEASES
18 AT HOMEGOLD AND THIS ONE IN PARTICULAR?

19 A I BELIEVE I PROBABLY DID, YES.

20 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO MOVE
21 DEFENDANT'S EXHIBIT NUMBER 10 INTO EVIDENCE.

22 THE COURT: ANY OBJECTION?

23 MS. EVANS: NO OBJECTION, YOUR HONOR.

24 THE COURT: DEFENDANT'S 10 IS ADMITTED.

25

1 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 10 WAS ADMITTED
2 INTO EVIDENCE.)

3 Q NOW, THIS PRESS RELEASE IS DATED NOVEMBER THE 14TH OF
4 2001, CORRECT?

5 A CORRECT.

6 Q AND THIS PRESS RELEASE REPORTS ON THE THIRD QUARTER
7 EARNINGS OF 2001, DOES IT NOT?

8 A IT DOES.

9 Q AND THIS PRESS RELEASE IS DISSEMINATED, HOW ARE PRESS
10 RELEASES DISSEMINATED, DO YOU RECALL?

11 A WELL, THE SERVICE WE USED WAS A PR NEWswire. I
12 REMEMBER WE HAD SOME OPTIONS AS TO HOW THEY WERE RELEASED,
13 I CAN'T RECALL WHAT OPTIONS WE CHOSE BUT I BELIEVE THEY
14 WERE AUTOMATICALLY RELEASED TO SOUTH CAROLINA NEWSPAPERS
15 AND MAYBE SELECTIVELY THEY CHOSE OTHER NEWSPAPERS TO
16 RELEASE THEM TOO, MAYBE BUSINESS RELATED NEWSPAPERS. I
17 DON'T RECALL AND THEN IN GENERAL THEY ARE PUT OUT ON THE
18 PR NEWswire WEBSITE WHERE ANYBODY, ANY NEWSPAPER THAT
19 SUBSCRIBES CAN OBTAIN.

20 Q AND BEFORE THE PRESS RELEASES WENT OUT, AS A GENERAL
21 PRINCIPLE, REVIEWED BY OUTSIDE COUNSEL?

22 A I THINK GENERALLY WE TRY TO HAVE, YES, OUTSIDE
23 COUNSEL LOOKING, I DON'T KNOW IF WE HAD THEM LOOK AT THIS
24 ONE. I DON'T KNOW.

25 Q AND THIS PRESS RELEASE, IT REPORTS THE RESULTS OF THE

1 REPORT INCLUDING THE HOMEGOLD REPORTED A NET INCOME OF
2 \$330 THOUSAND DOLLARS FOR THE QUARTER, RIGHT?

3 A THAT'S CORRECT.

4 Q AND GO ON AND PLEASE READ TO THE JURY THE FOLLOWING
5 SENTENCE AFTER THAT.

6 A NET INCOME INCLUDED A BENEFIT FROM A CHANGE IN
7 ACCOUNTING PRINCIPLE UNDERTAKEN TO MORE ACCURATELY REFLECT
8 THE EXPECTED FUTURE BENEFIT OF ITS PROPRIETY LEADS DATA
9 BASE.

10 Q AND SO IN THE PUBLIC PRONOUNCEMENT OF THE PRESS
11 RELEASE THERE IS REFERENCE MADE TO THIS ACCOUNTING CHANGE
12 WE ARE TALKING ABOUT, CORRECT?

13 A THERE IS.

14 THE COURT: MR. GRIFFIN, ARE YOU AT A BREAKING POINT?
15 MR. GRIFFIN: YES, SIR.

16 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
17 WE WILL BREAK FOR LUNCH AT THIS TIME. I TOLD YOU I WOULD
18 LET YOU GET OUT OF THE COURT HOUSE FOR A WHILE. WE WILL
19 START BACK AT 2:00. SO, HAVE LUNCH AND BE BACK IN YOUR
20 JURY ROOM AT 2:00 AND PLEASE DON'T DISCUSS THE CASE. YOU
21 CAN LEAVE YOUR NOTE PADS THERE AND WE WILL GATHER THEM UP
22 FOR YOU. EVERYONE ELSE STAY SEATED, PLEASE.

23 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
24 A LUNCH BREAK.)

25 THE COURT: DON'T DISCUSS YOUR TESTIMONY DURING THE

1 LUNCH BREAK, PLEASE. WE WILL START BACK AT 2:00 AND
2 ANYTHING WE NEED TO PUT ON THE RECORD CONCERNING WHAT WE
3 HAD AT THE BENCH WE WILL TAKE CARE OF THAT BEFORE WE START
4 BACK.

5 (WHEREUPON, A LUNCH BREAK WAS TAKEN.)

6 THE COURT: ALL RIGHT, ANYTHING BEFORE WE GET
7 STARTED.

8 MR. GRIFFIN: YOUR HONOR, I HAVE A MEMO OF LAW
9 ADDRESSING THE SCOPE OF EXPERT TESTIMONY IN SECURITIES
10 CASES. NOTHING IS GOING TO COME UP TODAY OR TOMORROW,
11 JUST SOMETHING FOR YOU TO READ IN CASE YOU GET BORED IN
12 CHARLESTON, YOUR HONOR. IN MR. MARTIN'S DIRECT
13 EXAMINATION, YOUR HONOR, I DID OBJECT TO A HEARSAY. THE
14 QUESTION WAS, DID MR. SHEPPARD TELL MR. FERRELL, SAY
15 SOMETHING TO MR. OWEN AND THERE IS HEARSAY ALTHOUGH THE
16 QUESTION TECHNICALLY WAS NOT CALLED FOR HEARSAY. BUT THE
17 ANSWER WAS, MR. FERRELL TOLD MR. OWEN SOMETHING AND I
18 CANNOT ATTRIBUTE THAT CONVERSATION, MR. SHEPPARD. TO THE
19 EXTENT WE WOULD MOVE TO STRIKE THAT AT THIS POINT, YOUR
20 HONOR.

21 THE COURT: THE STATE, ANY RESPONSE?

22 MS. EVANS: YOUR HONOR, WHEN I FIRST WAS LISTENING, I
23 WAS UNDER THE ASSUMPTION THAT HE DID HEAR MR. SHEPPARD SAY
24 THAT. BUT I WOULD LIKE TO SAY THAT AND OUR OBJECTION OF
25 MR. GRIFFIN'S COMMENT WAS THAT I BELIEVE THROUGH THE LAST

1 DAY AND A HALF THAT WE HAVE ESTABLISHED THE EXISTENCE, YOU
2 HAVE ALLOWED US TO GET INTO STATEMENTS OF LARRY OWEN AS
3 COCONSPIRATOR OF STATEMENTS IN FURTHERANCE OF CONSPIRACY
4 BECAUSE HE PLEAD GUILTY TO THAT. I THINK THROUGH THE LAST
5 THREE CFO'S AND THE TESTIMONY REGARDING KAREN MILLER,
6 FORREST FERRELL AND ACTING IN CONCERT WITH THE DEFENDANT
7 THAT WE COULD GET INTO SOME LIMITED STATEMENTS OF WHAT
8 THEY HAVE SAID AS COCONSPIRATORS STATEMENTS IN FURTHERANCE
9 OF THE CONSPIRACY. IT HAS BEEN TESTIFIED TO THAT THEY
10 REPORTED DIRECTLY TO HIM, TOOK THEIR MARCHING ORDERS FROM
11 HIM SO I THINK IT IS PERFECTLY ADMISSIBLE AS A
12 COCONSPIRATOR STATEMENT IN FURTHERANCE OF THE CONSPIRACY.
13 AT THIS POINT I THINK WE HAVE ESTABLISHED EVIDENCE FOR THE
14 CONSPIRACY THROUGH AT LEAST MR. GOSNELL, MS. JOHNSON AND
15 THE TESTIMONY OF MR. MARTIN IN COMBINATION WITH SEVERAL
16 OTHER WITNESSES LAST WEEK.

17 THE COURT: MR. GRIFFIN.

18 MR. GRIFFIN: YOUR HONOR, IF THE TESTIMONY IS, I HAVE
19 HEARD MR. FERRELL INSTRUCT MR. OWEN TO DO SOMETHING AND I
20 LIVE BY THAT, THAT AN INSTRUCTION IS NOT HEARSAY. BUT IF
21 IT IS, MR. FERRELL TOLD ME THAT MR. SHEPPARD WANTED ME TO
22 TELL MR. FERRELL OR MR. OWEN SOMETHING THEN I THINK THAT
23 WOULD BE HEARSAY. THAT WOULD BE THE ONLY ADDITIONAL
24 ARGUMENT.

25 THE COURT: THIS IS WHAT I AM GOING TO DO. WHEN THE

1 QUESTION WAS ASKED AND THE OBJECTION WAS MADE ON THE
2 GROUNDS THAT IT WAS HEARSAY, I OVERRULED THE OBJECTION ON
3 THE GROUNDS OF ANY STATEMENTS MADE BY THE DEFENDANT. THE
4 ANSWER TO THE QUESTION INDICATED THAT HE HAD NOT HEARD THE
5 DEFENDANT SAY ANYTHING BUT THAT THIS WAS WHAT HE OVERHEARD
6 MR. STERLING TELL MEMBERS OF THE CAROLINA INVESTORS--

7 MS. EVANS: I THINK WE ARE GETTING CONFUSED. MY
8 OBJECTION TO MR. GRIFFIN, HE SAID THAT HE HEARD FORREST
9 FERRELL, MR. OWEN TO SHOW HIM THE PROJECTIONS, THE
10 STATEMENT WE ARE TALKING ABOUT.

11 THE COURT: I WAS TALKING ABOUT THE SAME THING.

12 MS. EVANS: YOU SAID MR. SHEPPARD, I AM SORRY MR.
13 STERLING. YOU SAID MR. STERLING.

14 THE COURT: WAS THE QUESTION NOT, DID YOU HEAR MR.
15 SHEPPARD TELL MR. STERLING WHAT TO TELL THESE OTHER
16 PEOPLE?

17 MS. EVANS: NO, MY QUESTION WAS, DID YOU HEAR MR.
18 SHEPPARD INSTRUCT FORREST FERRELL WHAT TO TELL LARRY OWEN.

19 THE COURT: I THOUGHT THAT IS WHAT I JUST ASKED.

20 MS. EVANS: YOU SAID STERLING INSTEAD OF FORREST
21 FERRELL.

22 THE COURT: OKAY, I AM SORRY, FORREST FERRELL.
23 ANYWAY, I OVERRULE THE OBJECTION BUT THEN WHEN THE ANSWER
24 CAME THE WITNESS TESTIFIED TO WHAT HE HAD HEARD MR.
25 FERRELL TELL PEOPLE AND THEN HE SAID I DID NOT, I DON'T

1 RECALL HEARING THE DEFENDANT TELL MR. FERRELL TO TELL
2 THOSE FOLKS THAT. AT THAT POINT AND TIME THE REASON FOR
3 THE COURT'S OVERRULING THE OBJECTION SORT OF DISAPPEARED.
4 NOW, HAVING HEARD THE ARGUMENTS, THERE WAS TESTIMONY AS TO
5 THE INSTRUCTIONS THAT WERE GIVEN. FOR THAT REASON I AM
6 NOT GOING TO CHANGE IT.

7 MR. GRIFFIN: YES, SIR.

8 THE COURT: ANYTHING ELSE WE NEED TO TAKE CARE OF?

9 MS. EVANS: I WOULD LIKE A CLARIFICATION. I OBJECTED
10 TO MR. GRIFFIN ASKING THIS WITNESS WHAT MR. STERLING SAID.

11 THE COURT: RIGHT.

12 MS. EVANS: AND IF HE WAS OFFERING IT FOR A
13 COCONSPIRATOR STATEMENT IN FURTHERANCE OF THE CONSPIRACY
14 WE WOULD AGREE THAT STATEMENT WAS ADMISSIBLE. MR. GRIFFIN
15 DID SAY, HOWEVER ON THE BENCH THAT INSTRUCTIONS ARE NOT
16 HEARSAY AND I JUST WOULD LIKE TO KNOW THE BASIS--

17 THE COURT: THE BASIS WAS IT WAS NOT OFFERED FOR THE
18 TRUTH OF THE MATTER ASSERTED. THAT IS WHY I OVERRULED THE
19 STATE'S OBJECTION FOR THAT.

20 MS. EVANS: OKAY.

21 THE COURT: ANYTHING ELSE?

22 MR. GRIFFIN: NO, YOUR HONOR.

23 THE COURT: LET'S GET THE JURY BACK IN AND IF THE
24 WITNESS WILL COME BACK ON THE STAND.

25 COURT REPORTER: JUDGE JOHNSON, CAN I ASK ABOUT

1 STATE'S EXHIBIT NUMBER 63 I HAVE GOT FOR IDENTIFICATION.

2 MS. EVANS: I DID PUBLISH IT TO THE JURY. I CAN WAIT
3 TO REDIRECT IF NECESSARY. IT WAS MR. MARTIN'S RESIGNATION
4 LETTER THAT WAS PUBLISHED TO THE JURY, I JUST FORGOT TO
5 ASK THE COURT--

6 THE COURT: MY NOTES WERE THAT IT WAS FOR
7 IDENTIFICATION ONLY. ANY OBJECTION TO IT NOW BEING
8 ADMITTED?

9 MR. GRIFFIN: NO, YOUR HONOR.

10 THE COURT: STATE'S 63 THEN IS NOW IN EVIDENCE.

11 MS. EVANS: THANK YOU, YOUR HONOR.

12 (WHEREUPON, STATE'S EXHIBIT NO. 63 WAS ADMITTED INTO
13 EVIDENCE.)

14 THE COURT: LADIES AND GENTLEMEN, WE WILL CONTINUE
15 WITH CROSS-EXAMINATION. MR. GRIFFIN, YOU MAY CONTINUE
16 YOUR EXAMINATION.

17 MR. GRIFFIN: THANK YOU, YOUR HONOR.

18 CONTINUE CROSS-EXAMINATION

19 BY MR. GRIFFIN:

20 Q MR. MARTIN, I WANT TO GO BACK AND COVER SOME TOPICS
21 THAT YOU ADDRESSED IN YOUR DIRECT EXAMINATION. AND THE
22 FIRST IS, WHEN YOU AGREED TO ACCEPT THE POSITION AS CHIEF
23 FINANCIAL OFFICER OF HOMEGOLD YOU DESCRIBED YOU WANTED TO
24 HAVE A MEETING WITH MR. SHEPPARD TO BE SURE THAT HE
25 UNDERSTOOD YOUR POSITION, THAT YOU WERE GOING TO FOLLOW

1 YOUR LEGAL AND ETHIC OBLIGATIONS AS CFO OF THE COMPANY,
2 CORRECT.

3 A ACTUALLY THAT CAME UP IN THE MEETING WHEN HE OFFERED
4 ME THE JOB.

5 Q AND YOU WANTED ASSURANCES FROM HIM THAT YOU WERE
6 GOING TO BE ALLOWED TO REPORT IN ACCORDANCE WITH THE
7 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES?

8 A YES, I THINK THAT WAS THE SUBSTANCE OF THE
9 CONVERSATION.

10 Q AND YOU RECEIVED THOSE ASSURANCES FROM HIM DURING
11 THAT CONVERSATION?

12 A YES.

13 Q AND YOU DESCRIBED DURING THE COURSE OF EVENTS THAT
14 THERE WERE CERTAIN TRANSACTIONS THAT WERE BEING RECORDED
15 OR THAT MR. SHEPPARD HAD REQUESTED THAT THEY BE RECORDED
16 IN A MANNER THAT HIS PREVIOUS ACCOUNTANTS AND AUDITORS HAD
17 DONE WHEN HE WAS BACK AT HOMESENSE FOR RECOGNITION OF
18 INCOME, RIGHT?

19 A TO AN EXTENT THAT HE WAS ASKING FOR THAT AND HE WAS
20 ALSO ASKING ME TO GO BEYOND THAT AND RECOGNIZE THAT EVEN
21 THOSE AUDITORS WERE NOT ALLOWING.

22 Q I JUST WANT TO ASK YOU ABOUT THE RECORDING OF INCOME
23 AND YOU GAVE A VERY GOOD EXPLANATION ABOUT THE FRONT END
24 MONEY. BUT THERE WERE REPORTS THAT WERE GENERATED
25 INTERNALLY FOR MANAGEMENT PURPOSES ONLY AT HOMEGOLD THAT

1 YOU TESTIFIED ABOUT, CORRECT?

2 A WELL, YES. ANY MONTH END WE WOULD HAVE FINANCIALS
3 THAT WE WOULD GENERATE TO SHOW THE RESULTS OF OPERATIONS.

4 Q AND THOSE INTERNAL MANAGEMENT REPORTS WERE, WERE
5 THOSE DONE JUST FOR MANAGEMENT, THE VALUATION, THOSE WERE
6 NOT REPORTED PUBLICLY?

7 A THEY WERE NOT REPORTED TO THE SEC. I DON'T KNOW TO
8 THE EXTENT THEY WERE USED OUTSIDE THE WALLS OF OUR OFFICE.

9 Q AND THEY WERE NOT REPORTED TO THE SECURITIES
10 COMMISSION AT THE ATTORNEY GENERALS OFFICE?

11 A CORRECT.

12 Q NOW, THE, WHEN YOU TOOK OVER AS CFO AND AFTER HAVING
13 CONVERSATIONS WITH MR. SHEPPARD, THE DEFERRED TAX ASSET
14 WAS ON THE BOOKS OF HOMEGOLD OF ROUGHLY \$22 MILLION
15 DOLLARS, CORRECT?

16 A I BELIEVE THAT IS CORRECT, YES.

17 Q AND YOU HAD PREVIOUSLY WRITTEN, I THINK, SOME
18 POSITION PAPERS FOR MS. JOHNSON ON WHETHER THAT NOL SHOULD
19 BE WRITTEN UP AT ALL?

20 A CORRECT. IT IS A SIMILAR POSITION PAPER AS THE TWO I
21 WROTE FOR THE GOING CONCERN. ONE COMING OUT IN FAVOR OF
22 INCREASING THE TAX ASSET AND ONE COMING OUT OPPOSED TO
23 INCREASING THE TAX ASSET.

24 Q AND IN YOUR EVALUATION YOUR ASSESSMENT THAT THE ONE
25 IN YOUR MIND WAS ONE THAT OPPOSED INCREASING THE ASSET?

1 A THAT'S CORRECT.

2 Q NOW, ONCE YOU BECAME CFO OF HOMEGOLD THAT AMOUNT WAS
3 ALREADY IN THE FINANCIALS AND IT HAD BEEN AUDITED BY
4 ELLIOTT DAVIS, CORRECT?

5 A THAT IS CORRECT, YES.

6 Q AND YOU BECAME COMFORTABLE WITH THE DEFERRED TAX
7 ASSET VALUE IN YOUR POSITION AS CFO BECAUSE IT HAD BEEN
8 PREVIOUSLY BEEN APPROVED BY ELLIOTT DAVIS AND THE WYCHE
9 LAW FIRM?

10 A THAT MAY OF PLAYED INTO IT, YES, I THINK PRIMARILY I
11 WAS, WELL THAT CERTAINLY PLAYED INTO IT. I WAS PRIMARILY
12 RELYING ON PROJECTIONS AND STATEMENTS MADE BY THE
13 DEFENDANT AMONG OTHER PEOPLE ABOUT THE FUTURE OF THE
14 BUSINESS WHICH MADE ME, I WOULD SAY COMFORTABLE, MAYBE A
15 LITTLE BIT TOO STRONG. BUT MADE ME COME TO THE CONCLUSION
16 THAT IT WAS WITHIN THE SCOPE OF GAP.

17 Q AT THAT POINT AND TIME THE ACCOUNTING FIRM HAD GIVEN
18 UNQUALIFIED AUDIT?

19 A AT THAT POINT, YES, THAT WAS IN THE PAST AT THAT
20 POINT, YES.

21 Q NOW, KEEP TALKING ABOUT THESE PROJECTIONS BY THE
22 DEFENDANT. LET'S TALK A LITTLE BIT MORE ABOUT THAT. THE
23 PROJECTIONS ARE WHEN YOU ARE WORKING FOR THE NOL
24 VALUATIONS. YOU GOT INFORMATION FROM TWO SOURCES, DID YOU
25 NOT. ONE SOURCE WAS AS TO REVENUES, LOAN PRODUCTION AND

1 THAT CAME FROM MR. SHEPPARD AND MR. PARK WHO WAS THE HEAD
2 OF PRODUCTION IN GREENVILLE, CORRECT?

3 A CORRECT.

4 Q AND THEN YOU GOT EXPENSE NUMBERS FROM MEETING WITH
5 MR. STERLING IN GETTING INFORMATION FROM THAT SIDE OF THE
6 ACCOUNTING HOUSE ON WHAT THE GENERAL, GNA, GENERAL
7 ADMINISTRATIVE, I DON'T KNOW WHAT IT IS.

8 A I THINK THAT IS, THE EXPENSE INFORMATION IS
9 HISTORICAL INFORMATION. THIS IS HOW MUCH IT COST US
10 HISTORICALLY TO PRODUCE A LOAN, FOR EXAMPLE, THIS IS HOW
11 MUCH IT COST US HISTORICALLY TO MAINTAIN THE ACCOUNTING
12 DEPARTMENT. BEING A NEW EMPLOYEE I DIDN'T KNOW WHERE TO
13 GO FOR A LOT OF THAT INFORMATION SO I DID, JACK STERLING
14 DID ASSIST ME IN DIRECTING ME TO WHERE TO FIND THAT
15 INFORMATION. HE DID NOT PROVIDE ME, FOR THE MOST PART HE
16 DID NOT PROVIDE ME WITH INFORMATION, HE DIRECTED ME TO
17 WHERE TO FIND THAT HISTORICAL INFORMATION ON THE COST AND
18 THE EXPENSES.

19 Q AND DURING THIS PERIOD OF TIME, WHEN YOU ARE MAKING
20 THE PROJECTIONS THAT YOU ARE RELYING UPON AND DOING THE
21 ANALYSIS FOR THE NOL, NET OPERATING LOSS AS WELL AS GOING
22 CONCERN ANALYSIS, THAT IS WHEN THE ACCOUNTING DEPARTMENT
23 IS IN GREENVILLE, CORRECT?

24 A AT THAT POINT THE ACCOUNTING DEPARTMENT IS IN
25 GREENVILLE.

1 Q AND YOU ARE TALKING ABOUT SUMMER, EARLY FALL OF 2000?

2 A YES, I STARTED IN AUGUST SO IT WOULD OF BEEN SOME
3 TIME AFTER AUGUST.

4 Q AND MR. SHEPPARD IN MAY OF 2000?

5 A CORRECT.

6 Q AND SO THE PROJECTIONS THAT WE ARE TALKING ABOUT FOR
7 THE NOL THAT WAS WRITTEN UP BETWEEN \$2 MILLION DOLLARS
8 WERE BASED UPON INFORMATION THAT HAD BEEN DEVELOPED
9 THROUGH THIS PROCESS THAT YOU DESCRIBED, WORKING OUT OF
10 THE ACCOUNTING OFFICE IN GREENVILLE?

11 A WELL, WHAT DRIVES A PROJECTION LIKE THAT IS
12 PRODUCTION INFORMATION. WE START WITH PRODUCTION AND THEN
13 THAT TELLS US, YOU KNOW, IF IT COST YOU X DOLLARS TO
14 PRODUCE A LOAN AND THEY TELL YOU THEY ARE GOING TO PRODUCE
15 A THOUSAND LOANS THEN IT IS EASY THEN, WHAT DRIVES THAT
16 BUDGET, THAT FORECAST IS PRODUCTION INFORMATION. THAT
17 PRODUCTION INFORMATION WAS COMING FROM RONNIE AND TONY.

18 Q MR. PARK?

19 A CORRECT.

20 Q TONY PARK. NOW, THERE, SO THESE PROJECTIONS THAT WE
21 ARE TALKING ABOUT FOR THESE ACCOUNTING ADJUSTMENTS, THAT
22 WAS THE FALL OF 2000. I WANT TO MOVE FAST FORWARD NOW TO
23 LATE 2001, EARLY 2002 WHEN YOU TESTIFIED ABOUT BUSINESS
24 VALUATIONS CONDUCTED BY CBIZ AND DELOITTE AND TOUCHE. AM
25 I CORRECT IN MY TIME PERIOD, DECEMBER OF '01, JANUARY OF

1 '02?

2 A AS I RECALL AND I MAY BE WRONG ABOUT THIS. I DON'T
3 BELIEVE WE STARTED THE CBIZ VALUATION UNTIL AT LEAST
4 FEBRUARY BUT POSSIBLY INTO MARCH. I MEAN IT WAS PRETTY
5 LATE IN THE GAME WHEN THEY TOLD US THAT WE WERE GOING TO
6 NEED VALUATIONS TO SUPPORT THE IMPAIRMENT. I COULD BE
7 WRONG ABOUT THAT. I CAN'T REMEMBER THE DATE OF THAT
8 ENGAGEMENT LETTER ON THAT CBIZ VALUATION. I AM PRETTY
9 SURE IT IS A LITTLE LATER THAN FALL OF '01.

10 Q OKAY. WELL, SO THE FIRST OF THE YEAR OF '02?

11 A FIRST OF THE YEAR, SOMEWHERE IN THERE, YES.

12 Q AND THEN THE PROJECTIONS THAT YOU RECEIVED THEN,
13 AGAIN YOU ATTRIBUTED THOSE TO MR. SHEPPARD BUT THAT WAS A
14 EFFORT FROM, I MEAN?

15 A IT IS MOSTLY MR. SHEPPARD. I CAN'T REMEMBER IF PAUL
16 BANNIGER WAS THERE YET BUT AT SOME POINT HE CONTRIBUTED TO
17 SOME OF THOSE PRODUCTION NUMBERS TOO.

18 Q AND THERE ARE TWO SET OF NUMBERS WITH REGARD TO THESE
19 PROJECTIONS. ONE IS THE HISTORICAL SET OF NUMBERS, WHAT
20 ARE WE DOING TODAY AND WHAT HAVE WE BEEN DOING FOR THE
21 LAST TWO YEARS, CORRECT.

22 A THAT IS USUALLY THE EXPENSE SIDE OF THE EQUATION.

23 Q DO YOU RECALL ON THE PRODUCTION SIDE OF THE EQUATION
24 THAT INFORMATION WAS HISTORICAL INFORMATION GIVEN TO THE
25 BUSINESS EVALUATORS?

1 A YES, ALL OF THE INFORMATION, ALL OF OUR HISTORICAL
2 INFORMATION WAS GIVEN TO THE VALUATION PEOPLE.

3 Q AND THAT HISTORICAL INFORMATION, WHAT ARE WE DOING
4 TODAY AND WHAT HAVE WE BEEN DOING THE LAST TWO YEARS, THAT
5 WAS DERIVED FROM MR. BANNIGER?

6 A HISTORICAL INFORMATION?

7 Q YES.

8 A NO, THAT WAS REALITY, THAT IS WHAT WE ACTUALLY
9 ACHIEVED HISTORICALLY.

10 Q AND THEN THE PRODUCTION OF WHAT DO WE EXPECT TO DO IN
11 THE FUTURE, THOSE NUMBERS ACCORDING TO YOUR TESTIMONY
12 DERIVED FROM MR. SHEPPARD?

13 A CORRECT.

14 Q WITHOUT ANY INPUT FROM ANYBODY?

15 A WELL, LIKE I SAID, IT IS POSSIBLE THAT PAUL BANNIGER
16 WAS HERE BY THAT TIME. ARE YOU TALKING ABOUT FOR THE
17 VALUATIONS?

18 Q FOR THE CBIZ VALUATION.

19 A AT THAT TIME OF THE VALUATIONS IT IS POSSIBLE THAT
20 PAUL WOULD OF CONTRIBUTED TO THOSE.

21 Q NOW, FOR THE CBIZ VALUATION YOU DEALT WITH A WOMAN
22 NAMED CATHY BERNARD, DID YOU NOT?

23 A CORRECT.

24 Q AND YOU WERE THE APPOINTING PERSON, YOU PROVIDED HER
25 THE HISTORICAL DATA AND THE PROJECTIONS?

1 A YES.

2 Q AND WHEN YOU PROVIDED HER WITH THE PROJECTIONS YOU
3 SAID, THESE ARE EXTREMELY OPTIMISTIC PROJECTIONS, DID YOU
4 NOT?

5 A I PROBABLY USED LANGUAGE LIKE THAT, YES.

6 Q AND YOU CAUTIONED HER THAT THESE PROJECTIONS SHOULD
7 BE TAKEN BASICALLY AS THEY ARE, JUST PROJECTIONS OF POST
8 AND ACCOMPLISH SOMETHING OF THE FUTURE?

9 A YES, I PROBABLY COUCHED IT IN THAT WAY.

10 Q YOU WERE WATERING THESE PROJECTIONS DOWN IN YOUR
11 CONVERSATION WITH HER, DID YOU NOT?

12 A WHAT DO YOU MEAN BY WATERED DOWN.

13 Q I MEAN YOU PUT A DOSE OF REALITY ON THESE?

14 A WELL, WHAT THE DOSE OF REALITY IS IS THE HISTORICAL
15 NUMBERS. I MEAN, YOU SEE HISTORICAL NUMBERS OF WHAT WE
16 ARE PROJECTING AND THEN YOU SEE PROJECTIONS, HISTORICAL
17 NUMBERS OF WHAT WE ACTUALLY ACHIEVED AND THEN YOU SEE
18 PROJECTIONS THAT ARE, YOU KNOW, MUCH BETTER. I DIDN'T
19 NEED TO PROVIDE MUCH REALITY BUT I DID REMIND HER THAT
20 THESE WERE PROJECTIONS.

21 Q AND PRIOR TO THIS DATE HOMEGOLD HAD NOT HAD ANY
22 PREVIOUS BUSINESS RELATIONSHIP WITH CBIZ, IS THAT CORRECT?

23 A THAT IS CORRECT.

24 Q MR. SHEPPARD HAD NOT HAD PREVIOUS BUSINESS
25 RELATIONSHIP WITH ANYONE AT CBIZ?

1 A NOT THAT I AM AWARE OF.

2 Q I THINK YOU ARE THE ONE THAT LOCATED THE CBIZ
3 COMPANY?

4 A I CAN'T RECALL IF SOMEBODY GAVE ME THE NAME OF THE
5 COMPANY. I SOMEHOW FOUND THEM, RATHER SOMEBODY GAVE ME
6 THE NAME, I DON'T KNOW. BUT I CALLED THEM AND HAD NEVER
7 TALKED TO CATHY OR ANYBODY THERE BEFORE.

8 Q BUT THAT, AND YOU ENGAGED THEM TO COME DOWN TO DO
9 THIS BUSINESS VALUATION BECAUSE ELLIOTT DAVIS HAD
10 REQUESTED IT OR IN CONJUNCTION WITH THIS IMPAIRMENT ISSUE?

11 A THAT IS CORRECT.

12 Q AND AFTER THAT PROCESS WAS COMPLETED CBIZ CAME IN
13 WITH A, I THINK YOU TESTIFIED WITH A VALUATION OF \$170
14 MILLION DOLLARS?

15 A I BELIEVE THAT IS SIGNIFICANT.

16 Q NOW, WHAT CBIZ WAS EVALUATING OR PUTTING A VALUE ON
17 WAS NOT HOMEGOLD, INC., THAT WHOLE CORPORATION THAT IS THE
18 SUBSIDIARY, WERE THEY?

19 A THEY WERE VALUATING THE, I THINK WHAT WE CALLED IT
20 WAS THE HOMEGOLD MORTGAGE ORIGINATION DIVISION. SO THAT
21 WOULD NOT OF INCLUDED SOME OF THE OVERHEAD COST.

22 Q SO, THE ENTITY ALTHOUGH IT WAS NOT A LEGAL SEPARATE
23 ENTITY THAT WAS BEING VALUATED, CORRECT?

24 A CORRECT.

25 Q IT WAS A DIVISION WITHIN THE LEGAL ENTITY OF

1 HOMEGOLD, INC., RIGHT?

2 A I BELIEVE SO, YES.

3 Q AND THE NUMBERS THAT WERE PROVIDED TO HER WERE, THE
4 HISTORICAL NUMBERS WERE THE TRUE COST OF WHAT IT HAD COST
5 TO OPERATE THAT DIVISION UP UNTIL THE MORNING OF THE
6 VALUATION?

7 A CORRECT.

8 Q AND THEN THE PROJECTIONS WERE PROVIDED AS TO WHAT
9 THAT DIVISION HOPED TO DO IN THE FUTURE?

10 A CORRECT.

11 Q AND AT THIS POINT AND TIME THERE HAD BEEN A
12 TREMENDOUS EXPANSION, NOT TREMENDOUS IS PROBABLY NOT
13 CORRECT. A NUMBER OF BRANCHES HAD BEEN OPENED AROUND THE
14 COUNTRY?

15 A THAT IS RIGHT.

16 Q AND EVEN AS FAR OUT HEADING TOWARDS THE WEST COAST?

17 A CORRECT.

18 Q AND ONCE THAT VALUATION CAME IN AND WAS PRESENTED TO
19 ELLIOTT DAVIS AND THEY DID NOT ACCEPT IT?

20 A THAT'S CORRECT.

21 Q AND YOU FOUND THAT SOMEWHAT OF A SURPRISE BECAUSE YOU
22 THOUGHT THAT THE METHODOLOGY AND THE WAY THAT YOU WENT
23 ABOUT DOING THINGS AND THE NUMBER THAT WAS REACHED WAS A
24 FAIR PROCESS?

25 A I BELIEVE SO, I MEAN I AM NOT A VALUATION EXPERT, I

1 FELT WE HAD DONE AND DESCRIBED THE VALUATION WE HAD, WERE
2 LOOKING FOR. I THOUGHT WE HAD DESCRIBED THE WAY ELLIOTT
3 DAVIS DESCRIBED IT TO US.

4 Q AND YOU WERE WORKING THROUGH THE PROCESS AND YOU WERE
5 COMFORTABLE WITH HOW THE GIVE AND TAKE YOU HAD WITH MS.
6 BERNARD AND THE IN PRODUCT YOU WERE COMFORTABLE WITH?

7 A COMFORTABLE, YES. I WAS SURPRISED AT IT BUT I WAS
8 COMFORTABLE WITH IT BECAUSE, AGAIN, I AM NOT A VALUATION
9 EXPERT. I FELT LIKE THE PROCESS WE WENT THROUGH WITH
10 CATHY AND DESCRIBING WHAT THE PROJECTIONS MEANT WERE, MADE
11 IT A GOOD VALUATION.

12 Q AND THEN THE NEXT ROUND AFTER ELLIOTT DAVIS REJECTED
13 THE CBIZ VALUATION WAS DELOITTE AND TOUCHE CAME IN AND DID
14 A SUBSEQUENT VALUATION?

15 A YES.

16 Q AND AGAIN YOU WERE THE CONTACT PERSON WITH A GUY
17 NAMED KEVIN SMITH WITH DELOITTE AND TOUCHE?

18 A I WAS THE ORIGINAL CONTACT PERSON.

19 Q BUT YOU PRETTY MUCH AFTER THAT PASSED HIM OFF TO
20 ELLIOTT DAVIS' OWN PEOPLE.

21 A WHAT I DID, YES, I GAVE HIM THE SAME PROJECTIONS THAT
22 I HAD GIVEN CBIZ. AND I SAID, LOOK, BECAUSE WE ARE NOT
23 EQUIPPED HERE TO SUPERVISE A VALUATION, JOHN MARKEL FROM
24 ELLIOTT DAVIS WANTS TO GIVE YOU SOME OF HIS INPUT ON WHAT
25 IT SHOULD LOOK LIKE AND HOW YOU SHOULD APPROACH IT.

1 APPARENTLY THERE ARE SEVERAL DIFFERENT KINDS OF VALUATIONS
2 YOU CAN DO AND I AM NOT AWARE OF ALL OF THE DIFFERENCES
3 AND HE WAS MORE INVOLVED.

4 Q AND YOU SAY, HERE IS THE HISTORICAL DATA AND THEN
5 HERE IS THE PROJECTIONS?

6 A THE SAME INFORMATION I GAVE TO BOTH.

7 Q ONCE AGAIN YOU THREW A DOSE OF REALITY OF THE
8 PROJECTIONS FOR MR. SMITH?

9 A I DON'T KNOW IF I DID SO MUCH WITH HIM, I DIDN'T DEAL
10 WITH HIM NEARLY AS MUCH. I THINK, I PROBABLY PRETTY MUCH
11 LET THE STATEMENTS SPEAK FOR THEMSELVES AT THAT POINT,
12 JUST THE NUMBERS THAT I HAD GAVE THEM, THE HISTORICAL DATA
13 VERSUS THE PROJECTIONS. I MAY OF SAID SOMETHING LIKE, YOU
14 KNOW, THE PROJECTIONS ARE OPTIMISTIC BUT I DON'T KNOW THAT
15 I SAID MUCH MORE THAN THAT.

16 Q AND THROUGH THAT PROCESS THE SECOND VALUATION CAME IN
17 AT ROUGHLY AT \$130, \$140 MILLION DOLLARS?

18 A IT WAS A RANGE AND I CAN'T RECALL THE RANGE BUT WE
19 ENDED UP IN THE \$135, \$136 RANGE.

20 Q AND ONCE AGAIN THE PROCESS THAT YOU WENT THROUGH, THE
21 PRODUCT THAT WAS ACHIEVED, YOU THOUGHT THE WHOLE PROCESS
22 WAS FAIR?

23 A I BELIEVE SO, YES.

24 Q AND THE NUMBERS, DID THEY COME IN LINE WITH YOUR
25 EXPECTATIONS OR DID YOU EVEN HAVE AN EXPECTATION AS TO

1 WHAT THAT DIVISION WAS WORTH?

2 A I REMEMBER BEING STILL SURPRISED AT HOW HIGH THE
3 NUMBER WAS. I MEAN, AFTER THE FIRST ONE I WAS LESS
4 SURPRISED BECAUSE THE FIRST ONE, I THINK IT WAS A LARGER
5 VALUE THAN ANY OF US THOUGHT WOULD BE. THE SECOND ONE
6 CAME IN AND I DIDN'T KNOW WHAT TO EXPECT EXACTLY AFTER,
7 YOU KNOW, AFTER DEALING WITH JOHN MARKEL BUT IT ENDED UP,
8 WE WERE ALL PRETTY PLEASED WITH IT, THE VALUE, IT WAS
9 PRETTY HIGH, IT WAS HIGHER THAN WE HOPED.

10 Q AND AT THAT POINT AND TIME, AND I GUESS AT, WHEN THE
11 DELOITTE AND TOUCHE VALUE HAD COME BACK IT HAD ALREADY
12 BEEN TERMED THAT ELLIOTT DAVIS WAS GOING TO PUT A GOING
13 CONCERN IN THE FINANCIALS. THAT WORD HAD BEEN GIVEN IN
14 THE MARCH MEETING, CORRECT?

15 A YES, I DON'T THINK WE WERE PREPARING THE VALUATION TO
16 ADDRESS THE GOING CONCERN ISSUE AS MUCH AS THE IMPAIRMENT.

17 Q THE IMPAIRMENT OF THE LOAN FROM CAROLINA INVESTORS TO
18 HOMEGOLD?

19 A CORRECT, YES, THAT IS RIGHT.

20 Q AND THE \$130, \$140 RANGE CAME IN PRETTY CLOSE TO THE
21 OUTSTANDING BALANCE OF THE LOAN ON THE BOOKS AS OF
22 12/31/2000?

23 A YES, AS I RECALL IT WAS A \$6 OR \$7 MILLION DOLLAR
24 DIFFERENCE BUT CLOSER THAN WHAT WE WERE EXPECTING.

25 Q AND I THINK, DO YOU RECALL THE NUMBER BEING ROUGHLY

1 \$144 MILLION?

2 A THAT IS WHAT I RECALL.

3 Q AND SO, THE IMPAIRMENT WAS ABOUT \$6 AND A HALF
4 MILLION DOLLARS?

5 A SOMETHING LIKE THAT, YES.

6 Q NOW, WITH THESE TWO APPRAISALS IN HAND, WASN'T A
7 DECISION MADE WITHIN UPPER MANAGEMENT, WITH THE BOARDS
8 APPROVAL TO GO OUT AND TRY TO MARKET THE RETAIL MORTGAGE
9 DIVISION, TO SELL IT?

10 A YES, WE ULTIMATELY MADE THAT DECISION, YES.

11 Q AND THAT WAS A DECISION THAT MR. SHEPPARD DIDN'T MAKE
12 BUT A DECISION THAT WAS MADE BY THE BOARD OF DIRECTORS OF
13 HOMEGOLD FINANCIAL?

14 A WELL, CERTAINLY, ULTIMATELY ANY KIND OF SELL WOULD
15 EVENTUALLY HAVE TO BE APPROVED BY THE BOARD. I DON'T
16 RECALL THAT WE HAD DISCUSSIONS WITH THE BOARD ABOUT THE
17 IDEA OF SELLING IT. WE MAY HAVE, ³WE PROBABLY DID, WHETHER
18 THEY APPROVED IT OR JUST SAID, YES, SEE WHAT YOU CAN GET.
19 I DON'T RECALL.

20 Q DO YOU RECALL THAT THE FIRM OF PHILPOTT AND WARNER,
21 PERHAPS, BEING RETAINED?

22 A YES.

23 Q AND MR. PHILPOTT WAS ON BOARD?

24 A CORRECT.

25 Q AND HE HAD AN INVESTMENT FIRM IN CHARLOTTE, CORRECT?

1 A CORRECT.

2 Q AND YOU ARE FAMILIAR WITH THE BOARD VOTED TO RETAIN
3 MR. PHILPOTT'S FIRM TO MARKET THE RETAIL MORTGAGE
4 DIVISION?

5 A I AM NOT SAYING THAT DIDN'T HAPPEN, I JUST DON'T
6 REMEMBER.

7 Q MR. PHILPOTT WAS ALSO THE ONE THAT WAS ON THE AUDIT
8 COMMITTEE?

9 A CORRECT.

10 Q AND HE PREPARED A BROCHURE, A BOOKLET, TO SET ABOUT,
11 TO MARKET THE SELL OF THE RETAIL MORTGAGE DIVISION?

12 A CORRECT.

13 Q AND STARTED MAKING, CONTACTING HIS SOURCES?

14 A RIGHT.

15 Q AND THEN MR. SHEPPARD, HE HAD ALSO HAD SOME CONTACTS
16 AND HE HAD HAD SOME DISCUSSIONS AND YOU MENTIONED IMPAC?

17 A RIGHT.

18 Q AND IMPAC IS A BANK, MORTGAGE COMPANY ON THE WEST
19 COAST?

20 A I BELIEVE IT IS A DIVISION OF A BANK, I CAN'T
21 REMEMBER EXACTLY HOW IT IS SET UP BUT I THINK IMPAC IS A
22 MORTGAGE DIVISION.

23 Q AND THE, BUT OTHER COMPANIES CAME IN TO TAKE A LOOK
24 AS WELL. WELLS FARGO CAME IN, DID THEY NOT?

25 A WELLS FARGO IS THE ONLY ONE I RECALL, YES, THEY DID

1 COME IN.

2 Q BUT WELLS FARGO IS A VERY, VERY LARGE BANK, IS IT
3 NOT?

4 A CORRECT.

5 Q DO YOU RECALL A COMPANY CALLED FREEMONT?

6 A FREEMONT, I DON'T REMEMBER THEM.

7 Q DO YOU RECALL BEING PRESENT IN SOME OF THESE INITIAL
8 DISCUSSIONS WITH AN INDIVIDUAL BY THE NAME OF MARK BISHOP
9 WITH IMPAC?

10 A YES.

11 Q AND DO YOU RECALL SOME OF THE NUMBERS, PRELIMINARILY
12 BEFORE THEY BEGAN PUTTING PEN TO PAPER AND OFFER. BUT
13 OFFERS THAT HE WAS MAKING OF SUBSTANTIAL SUMS OF CASH UP
14 FRONT?

15 A I BELIEVE, YES, I THINK BEFORE HE SAW THE PAPERWORK,
16 BEFORE HE SAW THE HISTORICAL INFORMATION AND PROJECTIONS.
17 I CAN'T REMEMBER THE NUMBERS BUT ~~HE~~^{HE} DO BELIEVE HE WAS
18 TALKING ABOUT BEING INTERESTED AND BEING INTERESTED IN
19 PAYING SOMETHING SIGNIFICANT FOR IT.

20 Q LIKE \$60 OR \$70 MILLION UP FRONT?

21 A IT IS POSSIBLE THOSE ARE THE NUMBERS, I DON'T REALLY
22 REMEMBER BUT IT IS POSSIBLE.

23 Q IN ADDITION GOING THROUGH YOUR DIRECT TESTIMONY
24 EARLIER YOU TALKED ABOUT TRANSFERRING ASSETS FROM THE
25 BOOKS OF HOMEGOLD OVER TO CAROLINA INVESTORS. NOW, THAT

1 MOVING, TRANSFERRING THE ASSETS TO REDUCE THE DEBT STARTED
2 WELL BEFORE YOU EVER GOT TO HOMEGOLD, DID IT NOT?

3 A WELL, THERE WAS SOME MOVEMENT OF ASSETS BEFORE I GOT
4 THERE, YES.

5 Q AND THERE WAS A \$59 MILLION DOLLAR MORTGAGE
6 SECURITIZATION POOL TO MOVE OVER BEFORE YOU GOT THERE?

7 A THAT IS WHAT I HEARD YESTERDAY, I WASN'T--

8 MS. EVANS: YOUR HONOR, I OBJECT.

9 MR. GRIFFIN: HE DOESN'T KNOW.

10 THE COURT: HE DOESN'T KNOW, SUSTAINED.

11 Q SO, YOU DON'T KNOW?

12 A I DON'T KNOW.

13 Q OKAY.

14 A I DON'T REMEMBER.

15 Q YOU WORKED AT HOMEGOLD UP THROUGH AUGUST OF 2002?

16 A CORRECT.

17 Q AND I JUST WANT TO BE SURE ~~WE~~ HAVE ALL. WHEN THE
18 GOING CONCERN QUALIFICATION WAS PLACED INTO THE
19 FINANCIALS, THAT CAUSED A DOMINO EFFECT, IF YOU WILL, ON
20 THE WRITE DOWN OF A LOT OF ASSETS ON THE BOOKS OF
21 HOMEGOLD, CORRECT?

22 A WELL, I AM TRYING TO REMEMBER. THE OBVIOUS ASSET
23 THAT WOULD HAVE TO BE LOOKED AT WOULD BE THE LOAN TO
24 CAROLINA INVESTORS BECAUSE IF YOU ARE SAYING THE BUSINESS
25 ISN'T GOING TO BE AROUND FOR ANOTHER TWELVE MONTHS THEN

1 THE REPAYMENT OF THE \$144 MILLION DOLLAR LOAN IS
2 QUESTIONABLE AND THAT IS WHY THE VALUATION BECAME
3 IMPORTANT. I AM TRYING TO REMEMBER, THE TAX ASSET.

4 Q AND THE \$22 MILLION DOLLAR ASSET?

5 A THE TAX ASSET WOULD HAVE TO BE REDUCED IF NOT
6 ELIMINATED, I MEAN FULLY RESERVED AND IT WAS.

7 Q YOU SAY FULLY RESERVED, IT MEANS THAT YOU ARE TAKING
8 A \$22 MILLION DOLLAR ASSET AND NOW IT IS ZERO?

9 A CORRECT.

10 Q AND THAT IS A LOSS FOR THAT QUARTER FOR THAT YEAR?

11 A YES, THERE IS AN ACCOUNTING LOSS THERE.

12 Q AND THE REASON FOR THAT IS BECAUSE THE AUDITORS AND
13 IT IS THEIR JUDGMENT, WE THINK THERE ARE CONCERNS ABOUT
14 THIS COMPANY SURVIVING A YEAR?

15 A WELL, NO, I WOULDN'T SAY THAT. IT IS THE AUDITOR'S
16 JUDGMENT WHETHER TO SAY THIS IS A GOING CONCERN OR NOT.
17 BUT AS A MANAGEMENT GROUP WE COULDN'T SAY WE HAVE GOT A
18 TAX ASSET THAT WE ARE GOING TO EARN OVER THE NEXT HOWEVER
19 LONG, WE ARE GOING TO EARN \$22 MILLION DOLLARS OR MORE.
20 YOU COULDN'T REALLY VERY WELL SAY THAT WHEN THERE ARE
21 QUESTIONS FROM SERIOUS PEOPLE ABOUT WHETHER WE ARE GOING
22 TO BE IN BUSINESS AT THE END OF THE YEAR. SO, WE HAD TO
23 LOOK AT THAT ASSET AND SAY IT IS NOT, IT IS NOT, WE ARE
24 NOT GOING TO REALIZE THAT ASSET.

25 Q AND THEN ANOTHER ASSET THAT HAD TO BE FULLY RESERVED,

1 I GUESS AS GOODWILL?

2 A YES, IT WAS PROBABLY FULLY RESERVED.

3 Q ROUGHLY \$20 MILLION DOLLARS?

4 A AGAIN, I DON'T RECALL THE NUMBERS ON THAT. I REALIZE
5 WE HAD TO ADDRESS A LOT OF THESE ASSETS TO WRITE THEM DOWN
6 TO WHAT WAS THE MARKET VALUE BASICALLY AT THAT TIME.

7 Q AND I BELIEVE YOU DESCRIBED EARLIER THERE WAS A
8 MEETING IN OCTOBER OF 2001 WHERE ELLIOTT DAVIS WENT
9 THROUGH THIS POWERPOINT PRESENTATION AND YOU WERE PRESENT
10 AND MR. SMITH WAS PRESENT AND SOME OTHERS WERE PRESENT.
11 AND THE IMPAIRMENT AND THE GOING CONCERN, THEY WERE PUT ON
12 THE TABLE AT THAT POINT AND TIME?

13 A YOU ARE TALKING ABOUT THE OCTOBER BOARD MEETING, THE
14 OCTOBER AUDIT MEETING WHERE WE LOOKED AT THE NOTEBOOK?

15 Q RIGHT.

16 A YES.

17 Q AND ISN'T IT FAIR THAT ELLIOTT DAVIS' POSITION IN THE
18 SPRING OF 2000, SAYING WE ARE GOING TO PUT GOING CONCERN
19 AND MARCH CAME SOMEWHAT AS A SURPRISE TO YOU?

20 A WHEN WE WERE TOLD AT THE MARCH MEETING THAT IT WAS
21 GOING TO HAPPEN IT WAS A LITTLE BIT OF A SURPRISE
22 BECAUSE--

23 Q IT REALLY WASN'T ADDRESSED THAT MUCH IN THE OCTOBER
24 MEETING, WAS IT?

25 A IT WAS ADDRESSED, YES, IT WAS ADDRESSED. BUT THE WAY

1 IT WAS PRESENTED IN THE OCTOBER MEETING WAS, HERE ARE
2 ISSUES WE NEED TO TALK ABOUT AND ADDRESS DURING THE AUDIT.
3 THESE ARE QUESTIONS WE HAVE, YOU KNOW, ARE WE GOING TO
4 NEED TO GIVE YOU A GOING CONCERN, ARE WE GOING TO NEED TO
5 WRITE DOWN THE, IMPAIR THE ASSET. AND WE DID ADDRESS MOST
6 OF THOSE THROUGHOUT THE AUDIT. NOW, PERHAPS BECAUSE THE
7 GOING CONCERN ISSUE IS NOT AN ISSUE WITH MANAGEMENT, THAT
8 IS PURELY A DECISION OF THE AUDITORS. THEY DID NOT
9 DISCUSS THAT MUCH WITH US THROUGHOUT THE COURSE OF THE
10 AUDIT. AND SO IN MY MIND AND PROBABLY, WELL I CAN'T SPEAK
11 TO WHAT ANYONE ELSE THOUGHT. IN MY MIND I JUST THOUGHT,
12 WELL, MAYBE THEY JUST DECIDED IT WAS OKAY. SO, THAT IS
13 WHY IN MARCH I WAS A LITTLE BIT SURPRISED AND I BELIEVE
14 OTHER PEOPLE WERE SURPRISED BECAUSE OF THEIR REACTIONS.
15 Q AND THEN YOU TALKED ON DIRECT EXAMINATION ABOUT THE
16 NUMBER OF CONVERSATIONS YOU HAD WITH MR. SHEPPARD ABOUT
17 THE DEBT, ABOUT THE ABILITY TO PAY BACK CAROLINA INVESTORS
18 AND ONE CONVERSATION IN PARTICULAR WHEN YOU WERE ALONE
19 WITH HIM RIDING IN A CAR. I WANT TO ASK YOU TO PUT THAT
20 IN CONTEXT OF THE MARCH MEETING, WERE THESE CONVERSATIONS
21 BEFORE OR AFTER THE MARCH MEETING?

22 A I BELIEVE THAT WAS IN THE SUMMER SO IT WOULD OF BEEN
23 AFTER.

24 Q OF 2002?

25 A YES.

1 Q BUT YOU HAD MULTIPLE CONVERSATIONS WITH MR. SHEPPARD?

2 A WE HAD MORE, YES, WE HAD A FEW I WOULD SAY.

3 Q AND IN THESE CONVERSATIONS IS IT FAIR TO SAY THAT,
4 FROM YOUR TESTIMONY EARLIER THAT YOU GOT THE IMPRESSION
5 THAT MR. SHEPPARD DIDN'T FEEL AN ETHICAL OBLIGATION TO
6 REPAY THESE INVESTORS?

7 A I WOULD SAY THAT IS ACCURATE.

8 Q BUT IN THE SAME CONVERSATIONS YOU CAME TO THE
9 CONCLUSION THAT HE FELT HE HAD A LEGAL RESPONSIBILITY TO
10 REPAY THESE INVESTORS, CORRECT?

11 A I DON'T KNOW IF ANYTHING IN THOSE CONVERSATIONS EVER
12 LED ME TO THAT CONCLUSION. I KNOW HE, I THINK HE
13 UNDERSTOOD THAT HE HAD A LEGAL OBLIGATION TO REPAY THEM
14 BECAUSE WE PREPARED A PERFORMANCE SHOWING US REPAYING THE
15 DEBT THAT WE WOULD TAKE TO CAROLINA INVESTORS BOARD
16 MEETINGS. SO, AT LEAST HE KNEW, I ASSUME HE KNEW THERE
17 WAS A LEGAL OBLIGATION.

18 Q BUT BASED ON HIS CONVERSATIONS IT IS MORE THAN THAT
19 HE ACKNOWLEDGED AND THAT YOU FELT FROM YOUR CONVERSATIONS
20 WITH HIM THAT HE UNDERSTOOD AND THAT HE BELIEVED AND
21 ACCEPTED THE LEGAL RESPONSIBILITY TO REPAY THE INVESTORS?

22 A WELL, I THINK YOU ARE MAYBE TOO MUCH INTO THOSE
23 CONVERSATIONS. I DON'T RECALL SAYING IN MY TESTIMONY AND
24 I DON'T RECALL HEARING HIM SAY THAT HE KNEW HE HAD A LEGAL
25 OBLIGATION TO PAY THEM AND THAT HE WAS ACCEPTING THAT.

1 YOU MAY CORRECT ME ON THAT BUT I DON'T RECALL SAYING THAT.
2 I RECALL HIM SAYING, DURING MY RESIGNATION THAT HE KNEW
3 THAT WE WERE NOT GOING TO BE ABLE TO REPAY THEM AND THAT
4 HE WAS LOOKING TO GET OUT ALSO. SO, I KNOW HE RECOGNIZED
5 THAT HE HAD A LEGAL OBLIGATION THAT HE WAS TRYING TO GET
6 AROUND BUT I DON'T KNOW THAT DURING THOSE CONVERSATIONS,
7 CORRECT ME AND THAT IS FINE.

8 Q WHAT I WOULD LIKE TO DO IS SHOW YOU TO SEE IF THIS
9 REFRESHES YOUR RECOLLECTION TESTIMONY FROM YOUR SEC
10 TESTIMONY BEGINNING--

11 MS. EVANS: YOUR HONOR, CAN WE APPROACH?

12 THE COURT: SURE.

13 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
14 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
15 JURY.)

16 Q HAVE YOU HAD A CHANCE TO REFRESH YOUR RECOLLECTION
17 FROM THAT TESTIMONY?

18 A YES, I WOULD STILL SAY, I GAVE THAT TESTIMONY ABOUT
19 TWO YEARS AGO, I HAD CONVERSATIONS WITH RONNIE THREE YEARS
20 AGO, FOUR YEARS AGO. SO MY POINT IS, I DON'T REMEMBER HIM
21 SAYING THAT HE REMEMBERED HAVING A LEGAL OBLIGATION.

22 Q BUT MY QUESTION IS, FROM THESE CONVERSATIONS THAT YOU
23 HAD WITH HIM, YOU CAME TO THE CONCLUSION THAT HE BELIEVED
24 HE HAD A LEGAL OBLIGATION?

25 A I AM NOT SAYING THAT. YOU ARE DIRECTING ME TO THAT

1 TESTIMONY BUT I AM NOT, I AM TELLING YOU I DON'T REMEMBER
2 EVER HEARING HIM SAY HE HAD A LEGAL OBLIGATION.

3 MR. GRIFFIN: I WOULD LIKE TO MARK THIS FOR
4 IDENTIFICATION, DEFENDANT'S NUMBER 11.

5 THE COURT: NUMBER 11 FOR IDENTIFICATION ONLY.

6 MR. GRIFFIN: YES, SIR.

7 MS. EVANS: I WOULD LIKE TO KNOW WHAT PAGE HE IS
8 REFERRING TO.

9 THE COURT: PARDON ME.

10 MS. EVANS: THERE ARE TWO DIFFERENT DATES, I AM
11 ASKING HIM WHICH ONE HE IS REFERRING TO.

12 MR. GRIFFIN: PAGE 75.

13 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 11 WAS MARKED FOR
14 IDENTIFICATION ONLY.)

15 Q NOW, DO YOU RECALL GIVING SWORN TESTIMONY ON MARCH
16 31ST OF 2005 BEFORE THE SECURITY EXCHANGE COMMISSION
17 LAWYERS, YES?

18 A YES.

19 Q AND YOU SWORE TO TELL THE TRUTH, THE WHOLE TRUTH AND
20 NOTHING BUT THE TRUTH?

21 A YES.

22 Q AND IN THIS TESTIMONY WERE YOU ASKED WHAT
23 CONVERSATIONS DID YOU HAVE WITH OTHER PEOPLE THAT LED YOU
24 TO BELIEVE THAT OTHER PEOPLE FELT THE SAME WAY YOU DID.
25 AND YOU DESCRIBED A CONVERSATION WITH MR. STERLING AND

1 THEN I WOULD ASK YOU TO READ YOUR ANSWER UNDER OATH
2 BEGINNING AT PAGE 75, LINE 1.

3 MS. EVANS: YOUR HONOR, HE HAD ONLY MARKED THIS FOR
4 IDENTIFICATION PURPOSES, HE CAN'T READ IT, HE CAN REFRESH
5 HIS MEMORY.

6 MR. GRIFFIN: SWORN TESTIMONY HAS BEEN GIVEN BY THE
7 STATE.

8 THE COURT: YA'LL COME UP AND LET ME TALK TO YOU.

9 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
10 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
11 JURY.)

12 THE COURT: I SUSTAIN TO THE FORM OF THE QUESTION.

13 Q LET ME REPHRASE THE QUESTION. HAVE YOU HAD A CHANCE
14 TO REFRESH YOUR RECOLLECTION?

15 A YES.

16 Q NOW, DO YOU RECALL TESTIFYING UNDER OATH TO THE
17 SECURITY AND EXCHANGE COMMISSION³ LAWYERS THAT, "I HAD SOME
18 CONVERSATION WITH RONNIE WHICH LED ME TO BELIEVE THAT HE
19 DIDN'T FEEL THAT HE HAD AN ETHICAL RESPONSIBILITY TO PAY
20 IT BACK BUT ONLY A LEGAL RESPONSIBILITY."

21 A I RECALL GIVING THAT.

22 Q AND THAT TESTIMONY WAS SWORN TESTIMONY UNDER OATH?

23 A YES.

24 Q NOW, AND YOU GAVE TWO DAYS OF TESTIMONY BEFORE THE
25 SEC, DID YOU NOT?

1 A I APPEARED ON TWO DAYS, YES.

2 Q AND YOU HAVE GIVEN TWO DAYS, YOU INTERVIEWED WITH
3 AGENTS FROM SLED AND THE FBI AND OTHERS ON TWO SEPARATE
4 OCCASIONS, CORRECT?

5 A I BELIEVE THAT IS CORRECT.

6 Q AND YOU TESTIFIED IN FRONT OF THE STATE GRAND JURY ON
7 TWO SEPARATE OCCASIONS, CORRECT?

8 A THAT IS CORRECT.

9 Q SO, YOU HAVE GIVEN TESTIMONY UNDER OATH FOUR TIMES
10 AND YOU HAVE GIVEN STATEMENTS FROM INVESTIGATORS ON TWO
11 TIMES, CORRECT?

12 A THAT SOUNDS RIGHT.

13 Q AND NONE OF THOSE STATEMENTS OR TESTIMONY DID YOU
14 EVER TELL ANYONE THAT MR. SHEPPARD SAID, "SCREW THE
15 INVESTORS." DID YOU?

16 A I DON'T RECALL.

17 Q NOW, YOU SUBMITTED YOUR RESIGNATION LETTER WHICH IS
18 IN EVIDENCE AS STATE'S EXHIBIT 63 ON AUGUST 29TH OF 2002,
19 CORRECT?

20 A CORRECT.

21 Q AND IN THIS LETTER YOU NOT ONLY SENT IT TO MR.
22 SHEPPARD, YOU SENT IT TO JACK STERLING, BOB PHILPOTT, TEE
23 HOOPER AND PAUL BANNIGER, CORRECT?

24 A CORRECT.

25 Q ALTHOUGH I DON'T BELIEVE YOU HAD AN EMAIL OR FAX FROM

1 MR. HOOPER SO YOU SENT IT TO MR. STERLING'S SECRETARY TO
2 BE DELIVERED TO MR. HOOPER?

3 A I BELIEVE I ASKED HER TO, JUST TO PASS IT ALONG TO
4 TEE HOOPER.

5 Q AND IN THIS LETTER YOU SAY, AS OF TODAY IN MY OPINION
6 WE HAVE TRANSITION FROM A COMPANY THAT IS ACCEPTING
7 ADDITIONAL FINANCING IN ORDER TO -- YOU SAY IN THIS LETTER
8 THAT, AS OF TODAY IN MY OPINION WE HAVE TRANSITION FROM A
9 COMPANY THAT IS ACCEPTING ADDITIONAL FINANCING IN ORDER TO
10 EFFECT A TURNAROUND TO A COMPANY THAT HAS NO REALISTIC
11 EXPECTATIONS OF EVER TURNING AROUND. CORRECT?

12 A CORRECT.

13 Q AND THEN YOU SAY, AS THE RESIDENT NAYSAYER ON THE
14 MANAGEMENT TEAM, I AM SURE IT COMES TO NO SURPRISE THAT I
15 AM THE FIRST TO ARRIVE AT THIS OPINION. YOU ARE THE
16 FIRST, CORRECT?

17 A AT THAT POINT I THOUGHT IT MIGHT OF BEEN, YES.

18 Q WELL, THAT IS WHAT YOU SAID, YOU WERE THE FIRST TO
19 ARRIVE AT THIS OPINION?

20 A WHEN I TOLD RONNIE HE SAID HE AGREED WITH THAT. SO,
21 HE HAD OBVIOUSLY ARRIVED AT IT AT SOME POINT PRIOR TO
22 THAT. I DON'T KNOW WHEN.

23 Q IT IS MY FIRM OPINION?

24 A THAT IS WHAT I SAID IN THE LETTER, SURE. AND WHAT I
25 AM SAYING IS WHAT RONNIE TOLD ME WHEN I GAVE HIM THE

1 LETTER IS YES, I THINK YOU ARE RIGHT. I DON'T THINK WE
2 ARE GOING TO PAY THEM BACK AND THAT IS WHY I AM TRYING TO
3 GET OUT TOO.

4 Q HE WAS TRYING TO SELL THE COMPANY, WAS HE NOT?

5 A HE WAS TRYING TO GET OUT IS WHAT HE SAID.

6 Q WELL, HE WAS TRYING TO SELL THE COMPANY?

7 A THE COMPANY.

8 Q THE RETAIL MORTGAGE DIVISION, CORRECT?

9 A I DON'T THINK THERE IS ANY EFFORT AT THAT POINT TO
10 SELL THE COMPANY. I THINK WE WERE DONE.

11 Q AND THE EFFORTS TO SELL THE COMPANY, THE RETAIL
12 MORTGAGE DIVISION, FROM THAT EFFORT THE PROCEEDS WERE
13 GOING TO BE USED TO PAY BACK CAROLINA INVESTORS, CORRECT?

14 A I BELIEVE, WHAT HE WAS REFERRING TO OR I DIDN'T KNOW
15 IT AT THE TIME. BUT JUST MONTHS LATER HE WAS ABLE TO GET
16 OUT WITH SEVERAL MILLION DOLLARS OF THE INVESTORS MONEY TO
17 FORM EMMCO. AND HE WAS ON HIS OWN AND HE WAS OUT AND HE
18 BELIEVED HE HAD GOTTEN AWAY WITH MANY OF MILLIONS OF
19 DOLLARS. NOW, WHETHER THAT IS WHAT HE WAS REFERRING TO OR
20 NOT, I DON'T KNOW. BUT IT IS COINCIDENTAL THAT JUST A FEW
21 MONTHS LATER THAT IS WHAT HAPPENED.

22 Q YOU DON'T KNOW THAT IS WHAT HAPPENED BECAUSE--

23 A I DO KNOW THAT THAT IS WHAT HAPPENED. I DON'T KNOW
24 THAT THAT IS WHAT HE WAS REFERRING TO. THAT IS WHAT
25 HAPPENED.

1 Q FROM WHAT YOU HAVE READ AND HEARD, CORRECT, YOU
2 WEREN'T WITH THE COMPANY ANY MORE AT THE TIME OF THE EMMCO
3 DEAL, WERE YOU, SIR?

4 A NO, IT WAS FILED WITH THE SEC, THE TRANSACTION.

5 Q AND YOU ARE PUTTING YOUR GLOSS ON WHAT HAPPENED BASED
6 ON WHAT YOU HAVE READ AS A DISGRUNTLED EMPLOYEE WHO WAS ON
7 THE VERGE OF GETTING FIRED?

8 A GLOSS, WHAT RESPECT WAS THAT GLOSS, I SAID HE SET UP
9 THE DEAL WITH EMMCO, WALKED AWAY FROM IT WITH \$5 MILLION
10 DOLLARS OR SOMETHING LIKE THAT. THAT WAS FILED WITH THE
11 SEC AND I DON'T BELIEVE THAT IS GLOSS. I THINK THAT IS
12 FACTUAL. AND IF THAT HAPPENED TWO MONTHS, TWO AND A HALF
13 MONTHS, I DON'T REMEMBER EXACTLY WHEN THAT HAPPENED BUT IT
14 HAPPENED JUST MONTHS AFTER THIS. I DON'T THINK HE WAS
15 WORKING ON A DEAL TO SELL THE COMPANY, I THINK HE WAS
16 WORKING TO GET OUT WITH EMMCO AND THE \$5 MILLION DOLLARS.

17 Q AND THAT IS YOUR OPINION CLEARLY?

18 A THAT IS MY OPINION BASED ON THE FACT THAT IT WAS JUST
19 A COUPLE OF MONTHS LATER THAT IS WHAT HAPPENED.

20 Q AND I BELIEVE SOMEWHERE IN THIS LETTER YOU SAY THAT
21 YOU BELIEVE THAT HOMEGOLD SHOULD NO LONGER TAKE ANY MONEY
22 FROM CAROLINA INVESTORS?

23 A YES, IT IS IN THAT SAME AREA SOME PLACE.

24 Q WELL, LET'S SAY, CONTINUING BORROWING FROM THE
25 INDIVIDUALS THAT MAKE UP THE CORE OF THE CAROLINA

1 INVESTORS CREDITORS HAS BEEN A NECESSITY THAT NONE OF US
2 HAVE BEEN HAPPY WITH. NONE MEANS EVERYBODY, CORRECT?

3 A YES, I THINK THAT IS FAIR TO SAY.

4 Q SO, I BELIEVE THE MANAGEMENT TEAM IS UNANIMOUS AND
5 DISSATISFACTION OF OUR INABILITY TO LOWER THE OUTSTANDING
6 DEBT?

7 A I BELIEVE THAT IS TRUE.

8 Q THAT MEANS EVERYBODY?

9 A I BELIEVE THAT WE WERE ALL DISSATISFIED WITH OUR
10 INABILITY TO LOWER THE OUTSTANDING DEBT.

11 Q AND THAT WOULD INCLUDE THE DEFENDANT ON THE
12 MANAGEMENT TEAM, WERE YOU NOT?

13 A YEAH, I THINK HE WANTED TO LOWER THE OUTSTANDING
14 DEBT.

15 Q THE MANAGEMENT TEAM MAY NOT SHARE THE OPINION I
16 ARRIVED AT AS A RESULT OF THE NEGATIVE RESPONSE FROM
17 IMPAC, PHILPOTT'S EFFORTS. AND WE ARE TALKING ABOUT IMPAC
18 AND PHILPOTT, IMPAC WAS THE IMPAC BANK AND MR. PHILPOTT IS
19 HIS INVESTMENT FIRM TRYING TO SELL THE BUSINESS. THAT IS
20 WHO YOU WERE REFERRING TO?

21 A CORRECT.

22 Q AND THAT WE ARE COMPLETELY UNABLE TO REPAY THOSE
23 INVESTORS AND WE SHOULD IMMEDIATELY STOP TAKING NEW
24 DEPOSITS OR ROLLING OVER MATURITY NOTES. THAT WAS YOUR
25 OPINION IN THIS LETTER THAT YOU EXPRESSED?

1 A CORRECT.

2 Q DID YOU SEND A COPY OF YOUR LETTER TO ANYBODY AT
3 CAROLINA INVESTORS?

4 A NO.

5 Q DID YOU CALL MR. OWEN AND TELL HIM?

6 A NO.

7 Q DID YOU CALL MR. MORRIS AND TELL HIM?

8 A I FULLY EXPECTED THAT THE REMAINING MANAGEMENT, MR.
9 SHEPPARD WOULD ADDRESS THOSE ISSUES SINCE THEY WERE GOING
10 TO CAROLINA INVESTORS THAT DAY.

11 Q DID YOU CALL MR. BOBO AND TELL HIM?

12 A I FULLY EXPECTED THAT MR. SHEPPARD WOULD ADDRESS
13 THOSE ISSUES WITH CAROLINA INVESTORS SINCE THEY WERE GOING
14 TO CAROLINA INVESTORS THAT DAY.

15 Q DID YOU CALL MR. SHARPE AND TELL HIM?

16 A NO, I REALLY EXPECTED THAT MR. SHEPPARD WOULD ADDRESS
17 THOSE ISSUES WITH MR. SHARPE SINCE HE WAS VISITING THEM
18 THAT DAY.

19 Q DID YOU CALL MR. STERLING AND SAY, MR. SHEPPARD SAYS
20 SCREW THE INVESTORS?

21 A NO, I NEVER TOLD HIM THAT.

22 Q DID YOU CALL MR. HOOPER AND SAY, MR. SHEPPARD SAYS
23 SCREW THE INVESTORS?

24 A NO.

25 Q DID YOU CALL MR. OWEN AND MR. BOBO AND MR. SHARPE AND

1 MR. MORRIS AND SAY, MR. SHEPPARD SAYS SCREW THE INVESTORS?

2 A NO.

3 Q NOW AFTER THIS DAY YOU WERE UNEMPLOYED FOR A YEAR?

4 A I HAD SOME WORK BUT I DIDN'T HAVE A FULL TIME JOB FOR
5 A LITTLE OVER A YEAR.

6 Q CAROLINA INVESTORS FILED FOR BANKRUPTCY?

7 A CORRECT.

8 Q PEOPLE YOU GREW UP WITH LOST MONEY?

9 A I DON'T BELIEVE ANYBODY I ACTUALLY KNEW. BUT, YES,
10 PEOPLE, A LOT OF INDIVIDUALS IN PICKENS COUNTY.

11 Q AND YOU FEEL LIKE YOUR REPUTATION HAD BEEN STAINED IN
12 THE COMMUNITY?

13 A IT WAS DIFFICULT TO FIND WORK.

14 Q YOU HAD TO LEAVE THE STATE OF SOUTH CAROLINA TO GET A
15 JOB?

16 A I FOUND A JOB IN NORTH CAROLINA.

17 Q AND YOU LIVED IN SOUTH CAROLINA ALL OF YOUR LIFE?

18 A NO, THAT IS NOT TRUE.

19 Q TRAVELED AROUND, BUT YOU HAD TO RELOCATE YOUR WIFE
20 AND FIVE CHILDREN IN NORTH CAROLINA AFTER LEAVING THIS
21 JOB?

22 A YES, WELL, I WAS GOING TO HAVE TO DO THAT. THAT IS
23 SOMETHING THAT WE CONSIDERED BEFORE I DID THAT.

24 Q AND YOU KNEW THE DAY YOU WROTE THIS LETTER THAT THERE
25 WAS AN INVESTIGATION GOING ON ABOUT BROKERAGE FEES MONEY

1 NOT BEING ACCOUNTED FOR PROPERLY AT HOMEGOLD?

2 A NO, I WOULDN'T TERM IT THAT WAY.

3 Q YOU ARE TELLING THIS JURY THAT YOU DID NOT KNOW THAT
4 KAREN MILLER WAS WORKING WITH OTHERS TO TRY TO FIND OUT
5 HOW THE BROKERAGE FEE INCOME WAS BEING ACCOUNTED FOR?

6 A YES, SHE WAS WORKING TO FIGURE OUT HOW MUCH BROKERAGE
7 FEE INCOME WAS UNACCOUNTED FOR AND THE BEST WAY TO PROCEED
8 WITH BOOKING THAT INCOME. I THINK PRIOR TO THAT
9 ASSIGNMENT, AT SOME POINT PRIOR TO THAT, A FEW MONTHS WE
10 HAD BECOME BOOKING NEW BROKERAGE ACTIVITY SO WE WERE DOING
11 SOME RESEARCH TO HOW, AS I RECALL, WE WERE DOING RESEARCH
12 AS TO HOW TO ADDRESS THE BROKERAGE ACTIVITY FROM 2001
13 WHICH WAS NOT THAT MUCH BUT WAS PRETTY SIGNIFICANT IN
14 DECEMBER AND THEN IT WAS STUFF WE HAD MISSED. I THINK THE
15 ULTIMATE RESULT OF THAT WAS US.

16 MS. EVANS: YOUR HONOR, HE IS STILL TALKING.

17 THE COURT: PLEASE LET HIM FINISH HIS ANSWER.

18 MR. GRIFFIN: I AM SORRY, I THOUGHT HE WAS FINISHED.

19 A I WAS GOING TO SAY THE RESULT OF THAT RESEARCH THAT
20 MY ACCOUNTING DEPARTMENT WAS DOING ON MY DIRECTION WAS
21 THAT IT WAS FAIRLY A INSIGNIFICANT AMOUNT THAT WAS NOT
22 REPORTED, IF ANY.

23 Q SO, YOU KNEW THERE WAS AN INVESTIGATION GOING ON
24 ABOUT UNACCOUNTED MONEY BUT THAT YOUR ACCOUNTING
25 DEPARTMENT WAS COMING UP SAYING IT WAS INSIGNIFICANT

1 MONEY?

2 A THIS HAD BEEN GOING ON FOR A FEW MONTHS. WE HAD BEEN
3 RESEARCHING THE IT SYSTEM, THE INFORMATION TECHNOLOGY
4 SYSTEM TO SEE WHY THE BROKERAGE FEES WEREN'T SHOWING UP IN
5 THE ACCOUNTING SYSTEM. WE ENDED UP BOOKING THEM ON A CASH
6 BASIS WHEN IT WAS A SMALL AMOUNT AND WHEN IT BECAME A
7 LARGER AMOUNT WE BEGAN BOOKING THEM ON THE ACCRUAL BASIS
8 AS ACCOUNTING ALLOWS AND WE WERE STILL RESEARCHING HOW
9 MUCH THE EFFECT OF THAT WAS GOING TO BE.

10 Q AND THERE WAS A HIGH LEVEL OF DISSATISFACTION ABOUT
11 THAT ISSUE AMONG UPPER MANAGEMENT?

12 A NOT THAT I AM AWARE OF.

13 MR. GRIFFIN: THAT IS ALL THE QUESTIONS THAT I HAVE,
14 YOUR HONOR.

15 THE COURT: REDIRECT.

16 REDIRECT EXAMINATION

17 BY MS. EVANS:

18 Q WERE THEY RESEARCHING THIS ISSUE JUST MONTHS BEFORE
19 THEY GAVE YOU A \$10,000 DOLLAR RAISE?

20 A YES, CERTAINLY.

21 Q NOTHING FURTHER.

22 MS. EVANS: CAN THE WITNESS BE EXCUSED?

23 THE COURT: ANY OBJECTION?

24 MR. GRIFFIN: NO, YOUR HONOR.

25 THE COURT: YOU MAY STEP DOWN. CALL YOUR NEXT

1 WITNESS, PLEASE.

2 MR. PEAVY: THE STATE CALLS PAUL BANNINGER.

3 PAUL BANNINGER, AFTER BEING DULY SWORN,
4 TESTIFIED AS FOLLOWS:

5 DIRECT EXAMINATION

6 BY MR. PEAVY:

7 Q GOOD AFTERNOON.

8 A GOOD AFTERNOON.

9 Q WOULD YOU PLEASE TELL US A LITTLE ABOUT YOURSELF,
10 YOUR PERSONAL BACKGROUND AND WORK BACKGROUND?

11 A MY PERSONAL, I AM MARRIED, TWO CHILDREN, I LIVE IN
12 THE PHILADELPHIA, PENNSYLVANIA AREA. I HAVE BEEN DOING
13 MORTGAGE BUSINESS FOR 30 YEARS, ALL OF MY LIFE. SO, I
14 STARTED BACK TOO LONG AGO, BACK IN 1975. WORKED FOR, OUT
15 OF THE 30 YEARS, 20 YEARS WORKED WITH HOUSEHOLD. FOUR OF
16 THOSE YEARS WERE WITH BANK ONE AND I AM PRESENTLY EMPLOYED
17 BY WILMINGTON FINANCE OUT OF PHILADELPHIA.

18 Q DURING THAT 30 YEARS THAT YOU WORKED IN THE MORTGAGE
19 BUSINESS, DID YOU EVER COME TO WORK FOR A COMPANY CALLED
20 HOMEGOLD?

21 A YES, I DID.

22 Q COULD YOU TELL US WHEN YOU FIRST LEARNED OF THAT
23 COMPANY, SIR?

24 A APPROXIMATELY DECEMBER OF 2001 TIME FRAME I RECEIVED
25 A RECRUITING CALL FROM A HEAD HUNTER NAMED BUDDY CHURCHILL

1 OUT OF TAMPA, FLORIDA.

2 Q AND AS A RESULT OF THAT PHONE CALL WHAT DID YOU DO?

3 A BUDDY HAD ORIGINATED THAT I WOULD HAVE AN INTERVIEW.
4 SO, I FLEW DOWN TO COLUMBIA AND I HAD AN INTERVIEW IN THE
5 AIRPORT WITH RONNIE SHEPPARD AND ALSO PRESENT WAS A
6 GENTLEMAN NAMED GARY ELLY WHO I BELIEVE WAS IN CHARGE OF
7 RECRUITING.

8 Q DID YA'LL HAVE THE INTERVIEW AT THE AIRPORT?

9 A YES, WE ACTUALLY HAD THE INTERVIEW AT THE AIRPORT.
10 RONNIE AND I MET PRIVATELY, JUST THE TWO OF US, HE HAD
11 TOLD ME THAT HE HAD PREVIOUSLY OWNED A COMPANY CALLED
12 HOMESENSE. AND THAT HE HAD MERGED WITH HOMEGOLD
13 APPROXIMATELY TWO YEARS AGO AND HE WAS LOOKING FOR SOMEONE
14 TO COME IN AND HELP HIM GROW THE RETAIL PRODUCTION CHANNEL
15 WHICH WAS MY SPECIALITY.

16 Q DID HE MENTION ANYTHING ABOUT ANY DEBT THAT HIS
17 COMPANY HAD OR HOMEGOLD HAD?

18 A THE ONLY COMMENT ON DEBT, HE DID SAY TO ME, HE GOES
19 SOMEWHERE DOWN THE ROAD, I BELIEVE IT WAS IN A TWO TO
20 THREE YEAR TIME FRAME, THAT WE WOULD PROBABLY LOOK TO SELL
21 THE RETAIL MORTGAGE UNIT TO PAY OFF DEBT.

22 Q AND AFTER THAT MEETING DID YOU SUBSEQUENTLY RECEIVE
23 AN OFFER OF EMPLOYMENT?

24 A YES, I DID.

25 Q AND WHAT WAS THE TERMS OF THAT OFFER?

1 A I WAS GOING TO COMMUTE ON A WEEKLY BASIS. I WOULD
2 FLY OUT OF PHILADELPHIA, FLY DOWN ON A MONDAY, STAY FOR A
3 COUPLE OF DAYS EACH WEEK, RECEIVE THE BASE PAY OF \$375
4 THOUSAND DOLLARS, I WAS ELIGIBLE FOR BONUSES ON AN ANNUAL
5 BASIS AND I BELIEVE POSSIBLY QUARTERLY. AND I WAS TO
6 RECEIVE ONE MILLION SHARES OF HOMEGOLD STOCK.

7 Q AND DID YOU ULTIMATELY ACCEPT THAT OFFER AND BEGIN
8 WORKING AT HOMEGOLD?

9 A YES, I DID. I STARTED APPROXIMATELY JANUARY OF 2002,
10 I BELIEVE.

11 Q AND SUBSEQUENT TO THE BEGINNING OF YOUR EMPLOYMENT
12 DID YOU ALSO BECOME A MEMBER OF THE HOMEGOLD BOARD?

13 A RONNIE PUT ME ON THE BOARD, I BELIEVE IT WAS FEBRUARY
14 OF 2002, SHORTLY AFTER.

15 Q DID YOU RECEIVE ANY ADDITIONAL COMPENSATION FOR BEING
16 ON THE BOARD OF DIRECTORS?

17 A NO, I DID NOT.

18 Q NOW, YOU JUST MENTIONED THAT YOU HAD BEEN WORKING IN
19 THE LENDING INDUSTRY FOR A NUMBER OF YEARS?

20 A YES.

21 Q WHEN YOU FIRST GOT TO HOMEGOLD, WHAT WAS YOUR
22 IMPRESSION OF THE BUSINESS OPERATION?

23 A IT WAS A VERY UNIQUE SET UP ON SCALE WISE AS FAR AS
24 THE NUMBER OF EMPLOYEES AND VOLUME. IT WAS A LITTLE
25 SMALLER THAN I HAD WORKED, I WAS USED TO WORKING LARGER

1 OPERATIONS. THE CULTURE THERE, THE PEOPLE WORSHIPED
2 RONNIE, IT WAS AN INTERESTING ADJUSTMENT I HAD THE FIRST
3 FEW MONTHS. RONNIE WANTED IT THIS WAY, RONNIE WANTED IT
4 THAT WAY. SO, RONNIE GAVE A LOT OF DIRECTION AND THERE
5 WAS A LOT OF RONNIE WANTED THIS DONE AND RONNIE WANTED
6 THAT DONE. SO, THAT WAS THE MOST EXPOSURE I EVER HAD TO
7 WORKFORCE BEING FOCUSED ON THE DIRECTION OF ONE PERSON.
8 SO THAT STRUCK ME INITIALLY ALSO. AND THE OPERATION FROM
9 MY TRAINING AT LARGER COMPANIES, IT WAS NOT AN EFFICIENT
10 OPERATIONS AS FAR AS SOME OF THE BUSINESS PRACTICES.
11 Q AND WHAT WAS YOUR TITLE OR WHAT WAS YOUR ROLE AT
12 HOMEGOLD WHEN YOU CAME ON BOARD?
13 A I BELIEVE I WAS PRESIDENT OF THE RETAIL MORTGAGE
14 GROUP, I BELIEVE THAT WAY MY TITLE.
15 Q SO, WHAT WAS YOUR DAILY DUTIES?
16 A I WAS RESPONSIBLE TO INCREASE THE PRODUCTION AND ALSO
17 TO HELP MAKE THE MORTGAGE UNIT PROFITABLE.
18 Q AND AS PRESIDENT OF THAT DIVISION TO WHOM ARE YOU
19 REPORTING?
20 A I REPORTED DIRECTLY TO RONNIE.
21 Q TELL US A LITTLE BIT ABOUT MR. SHEPPARD'S MANAGEMENT
22 STYLE?
23 A RONNIE IS A SELF GROWN GENTLEMAN, VERY OPINIONATED,
24 WANTED THINGS DONE HIS WAY, OCCASIONALLY HE WOULD TAKE
25 INPUT. IT TOOK US A WHILE TO LEARN TO WORK TOGETHER. I

1 DID SOME CHANGES RIGHT OFF THE BAT, SOME I DID WITHOUT
2 TELLING HIM WHICH WE TALKED ABOUT A LITTLE LATER AND SOME
3 I DID WITH HIS APPROVAL. BUT MY MAIN TASK IN COMING IN
4 INITIALLY, I BELIEVE THE RETAIL CHANNEL WAS DOING \$30 TO
5 \$40 MILLION A MONTH. MY TASK WAS TO GROW THAT AND DOUBLE
6 THAT.

7 Q MR. BANNINGER, YOU JUST MENTIONED SOME CHANGES THAT
8 YOU HAD IMPLEMENTED. WHEN YOU FIRST CAME ON BOARD DID YOU
9 NOTICE ANYTHING STRANGE ABOUT THE OPERATIONAL EXPENSES AT
10 HOMEGOLD?

11 A SOME OF THE EXAMPLES OF SOME OF THE THINGS THAT I
12 CHANGED THAT NEEDED TO GET DONE. COMPENSATION PLANS,
13 NUMBER ONE FOR THE SENIOR EXECUTIVES THAT WERE RUNNING THE
14 MORTGAGE OPERATIONS, THE OFFICE IN SOUTH CAROLINA,
15 CINCINNATI, PHOENIX, WHERE EVER THEY WERE. THE PEOPLE
16 THAT WERE RUNNING THESE LOCATIONS WERE PAID ON A VOLUME
17 COMPONENT SO REGARDLESS OF THE OFFICE MAKING A PROFIT OR
18 LOSING MONEY THEY WERE PAID OFF THE VOLUME. SO, I SHIFTED
19 THAT, THAT THE EXECUTIVES THAT WERE RUNNING IT WOULD ONLY
20 MAKE A MONTHLY COMMISSION IF THEIR BRANCH WAS PROFITABLE,
21 IF THE BRANCH MADE MONEY. SO, IT BECAME APPARENT, RIGHT
22 OFF THE BAT THERE WAS A GENTLEMAN THAT RAN ONE OF THE
23 SOUTH CAROLINA OFFICES, I REMEMBER THE CONVERSATION, JUST
24 BECAME VERY UPSET THAT HE WAS NOT GETTING THE COMMISSION.
25 AND I EXPLAINED THE NEW COMPENSATION PLAN, YOUR OFFICE DID

1 NOT MAKE MONEY SO YOU ARE NOT GOING TO GET PAID A BONUS
2 THIS MONTH SINCE YOUR OFFICE DID NOT MAKE A PROFIT. SO
3 CONFLICTS WITH THE SENIOR EXECUTIVES WERE ONE. ONE OF THE
4 CHANGES THAT WE MADE WAS THE APPRAISAL FEES. TYPICALLY A
5 LARGE PROFITABLE COMPANY, THE CUSTOMER, WHEN THEY APPLY
6 FOR A MORTGAGE THE CUSTOMER PAYS THE APPRAISAL FEE. AT
7 HOMEGOLD THE COMPANY WAS EXPENSING THESE FEES WHICH MEANT
8 IF THE LOAN CLOSED WE WOULD COLLECT OUR MONEY BACK.
9 HOWEVER, IF THE LOAN DIDN'T CLOSE AND TYPICALLY FIFTY
10 PERCENT OF LOANS, THE COMPANY WOULD INCUR THAT EXPENSE.
11 SO, I IMMEDIATELY CHANGED THAT ALSO, THAT IF A CUSTOMER
12 APPLIED YOU WOULD PAY THE APPRAISER DIRECTLY YOURSELF
13 THUS, THAT WAS A COUPLE OF MILLION DOLLARS PER YEAR RIGHT
14 THERE ON THE APPRAISAL FEES.

15 Q YOU RECALL ANYTHING ABOUT THE CREDIT BUREAU REPORTS?

16 A CREDIT BUREAUS WAS ANOTHER ONE. WE WERE WORKING WITH
17 A FEW HUNDRED CREDIT BUREAUS PER DAY, TYPICALLY THE CREDIT
18 BUREAU COST WE WERE PAYING WERE \$10 TO \$12 DOLLARS PER
19 CREDIT BUREAU RANGE, SO IT WAS A SIGNIFICANT EXPENSE. WE
20 HAD KAREN MILLER DO SOME COMPETITIVE PRICING, WE BROUGHT
21 THAT COST DOWN ALSO. SO CREDIT BUREAUS, WE NEGOTIATED OUR
22 CONTRACTS AND BROUGHT THAT EXPENSE DOWN. SO, THOSE ARE
23 THREE EXAMPLES THAT COME TO MIND.

24 Q WHEN YOU FIRST JOINED HOMEGOLD WERE YOU AWARE THAT IT
25 HAD BEEN SUFFERING OPERATING LOSSES?

1 A YES. I KNEW THAT THE COMPANY HAD BEEN LOSING MONEY
2 FOR SOMEWHERE IN THE FIVE TO EIGHT YEAR RANGE. HOWEVER,
3 MY EXPERIENCE, I HAD ALWAYS BEEN ABLE TO TURNAROUND
4 NON-PROFITABLE OPERATIONS. MY SPECIALTY WAS DRIVING
5 PRODUCTION, I WAS A SALES GUY THAT WAS ABLE TO DRIVE
6 PRODUCTION TO GET MORE VOLUME PER LOAN OFFICER AND TURN A
7 UNIT PROFITABLE.

8 Q SHORTLY AFTER JOINING HOMEGOLD DID YOU BECOME AWARE
9 OF A COMPANY CALLED CAROLINA INVESTORS?

10 A YES, I DID.

11 Q AND DID YOU BECOME AWARE OF A DEBT FROM HOMEGOLD TO
12 CAROLINA INVESTORS?

13 A YES. IT WAS APPROXIMATELY THREE MONTHS AFTER I
14 STARTED THAT I BECAME AWARE OF WHO CAROLINA INVESTORS,
15 EXACTLY WHAT THE RELATIONSHIP WAS TO THE PARENT COMPANY,
16 YES.

17 Q YOU MENTIONED THE FACT THAT THERE WAS ALL OF THESE
18 OPERATING LOSSES. AT THIS POINT WERE YOU ABLE TO
19 DETERMINE HOW HOMEGOLD HAD BEEN STAYING AFLOAT?

20 A IT BECAME CLEAR TO ME AT A MARCH MEETING THAT WE HAD
21 AT THE WYCHE LAW FIRM THAT CAROLINA INVESTORS WAS KEEPING
22 HOMEGOLD AFLOAT. THAT IS WHERE THE FUNDS WERE COMING
23 FROM, YES.

24 Q FUNDS FOR OPERATING AT HOMEGOLD?

25 A CORRECT.

1 Q I WANT TO TALK A LITTLE BIT ABOUT SOME OF THE PEOPLE
2 THAT YOU WORKED WITH. DID YOU EVER COME TO MEET A
3 GENTLEMAN BY THE NAME OF FORREST FERRELL?

4 A YES, I DID.

5 Q AND WHAT WAS MR. FERRELL'S ROLE?

6 A FORREST OVERSAW THE DAY-TO-DAY CASH FLOWS FROM
7 CAROLINA INVESTORS, HE WOULD KNOW WHAT HAPPENED EACH DAY
8 BY OFFICE, I THINK THERE WAS SEVERAL OFFICES AT CAROLINA
9 INVESTORS. HE ALSO OVERSAW THE WAREHOUSE LINES, WE HAD
10 SEVERAL WAREHOUSE LINES THAT ALLOWED US TO FUND LOANS AT
11 HOMEGOLD. AND HE ALSO OVERSAW THE LOAN SALES, WE WERE
12 SELLING THESE TO INVESTORS, HOW WERE THE PREMIUMS THAT WE
13 WERE GETTING. IT WAS AN OP'S FUNCTION THAT FORREST RAN.

14 Q OP'S, YOU MEAN?

15 A OPERATIONS, NON-SALES, I HEADED UP THE SALES PART TO
16 A LARGE DEGREE.

17 Q WHAT ABOUT A LADY BY THE NAME OF KAREN MILLER?

18 A YES. I KNEW KAREN, KAREN DID A LOT OF THINGS FOR
19 RONNIE, INVOLVED WITH TRAINING, RECRUITING, OPENING UP NEW
20 OFFICES, A LOT OF ADMINISTRATIVE TYPE WORK THAT RONNIE
21 NEEDED TO GET DONE FOR VARIOUS PROJECTS.

22 Q DID YOU EVER COME TO MEET A GENTLEMAN BY THE NAME OF
23 JACK STERLING?

24 A YES, I DID.

25 Q WHAT WAS MR. STERLING'S ROLE?

1 A JACK I KNEW WAS THE FORMER CHAIRMAN OF HOMEGOLD,
2 FINANCIAL AND JACK WAS NOW ON THE BOARD OF DIRECTORS.

3 Q DID HE STILL HAVE AN OFFICE AT HOMEGOLD?

4 A I DO NOT BELIEVE HE HAD AN OFFICE AT HOMEGOLD. I DID
5 SEE HIM COMING FROM TIME TO TIME EARLY ON IN MY FIRST FEW
6 MONTHS. I WOULD SEE HIM GIVE OR TAKE ONCE PER MONTH, HE
7 WOULD COME TO THE HEADQUARTERS, YES, BUT I DON'T THINK HE
8 HAD AN OFFICE, NO.

9 Q WHILE YOU WERE EMPLOYED AT HOMEGOLD DO YOU RECALL THE
10 ISSUE OF VALUATIONS COMING UP?

11 A YES, I DID.

12 Q DO YOU RECALL IF HOMEGOLD OBTAINED VALUATIONS FOR THE
13 RETAIL MORTGAGE DIVISION?

14 A YES, I BELIEVE THEY OBTAINED TWO VALUATIONS OF WHAT
15 THE RETAIL MORTGAGE CHANNEL WAS WORTH.

16 Q AND HOW WERE YOU INVOLVED IN THIS PROCESS?

17 A I HAD KNOWN THAT THEY WERE GETTING THE VALUATIONS, I
18 REMEMBER ONE OF THE THINGS THAT RONNIE HAD ME DOING DAILY
19 WAS, I WAS DOING A LOT OF VIDEO CONFERENCES. RONNIE WAS
20 BIG ON, LIKE DAILY I WOULD GO THROUGH THE PIPELINES OF
21 LOANS THAT WERE IN EACH OFFICE'S PIPELINE, TO SEE WHAT WAS
22 GOING ON WITH THE LOAN, WAS IT MOVING THROUGH. AND WE DID
23 THAT BY VIDEO CONFERENCE. RONNIE BELIEVED THAT YOU NEEDED
24 TO LOOK SOMEBODY IN THE EYE TO SEE IF THEY KNEW WHAT WAS
25 GOING ON. SO, IT WAS THE FIRST TIME I GET EXPOSED TO IT

1 BUT I ACTUALLY THOUGHT IT DID MAKE SENSE AFTER A WHILE.
2 SO, I WAS DOING ONE OF THESE VIDEO CONFERENCES AND
3 FORREST WALKED IN AND HE SHOWED ME SOME NUMBERS THAT WERE
4 IN MONTH ONE THROUGH MONTH SIX AND ASK ME TO VALIDATE, ARE
5 THESE KIND OF IN LINE WITH WHAT LOAN OFFICES ARE DOING
6 TODAY. FROM THE TIME WE HIRED THEM THROUGH SIX MONTHS OUT,
7 DO THESE LOOK LIKE THEY ARE THE RIGHT KIND OF NUMBERS.
8 SO, I DO REMEMBER HIM ASKING ME THAT AND I DO REMEMBER
9 VERIFYING WHAT HE GAVE ME WAS IN THE BALLPARK FOR WHAT MY
10 LOAN OFFICES WERE DOING TODAY, YES.

11 Q AND WERE YOU ASKED TO PREPARE ANY KIND OF FINANCIAL
12 PROJECTIONS REGARDING PRODUCTION?

13 A NO, TO THE BEST OF MY RECOLLECTION, I REMEMBER I WAS
14 STILL IN THE MIDDLE OF A VIDEO CONFERENCE WHEN FORREST
15 WALKED IN. SO, I PAUSED IT AND VERIFIED, ALL I WAS ASKED
16 TO THE BEST OF MY KNOWLEDGE, IS WHAT IS HAPPENING TODAY,
17 FROM THE TIME YOU HIRE A LOAN OFFICER THROUGH THE SIX
18 MONTH TIME FRAME, WHAT ARE THEY PRODUCING. I REMEMBER
19 LIKE THE FIRST MONTH WAS ZERO, MONTH NUMBER TWO WAS
20 APPROXIMATELY \$50 TO \$75 THOUSAND.

21 Q YOU ARE VERIFYING HISTORICAL INFORMATION?

22 A CORRECT.

23 Q YOU ARE NOT MAKING ANY PROJECTIONS OR PREDICTIONS OUT
24 OF THE FUTURE?

25 A NO.

1 Q ARE YOU AWARE OF WHETHER OR NOT PROJECTIONS OR
2 PREDICTIONS WERE GIVEN TO THESE VALUATION COMPANIES?

3 A I BELIEVE THEY WERE.

4 Q BUT YOU DIDN'T HAVE ANY ROLE IN THAT?

5 A NO.

6 Q WHAT WAS YOUR UNDERSTANDING, YOUR SPECIFIC
7 UNDERSTANDING OF WHY HOMEGOLD WAS GETTING THESE
8 VALUATIONS?

9 A I BELIEVE THE VALUATIONS WERE TO, RONNIE TOLD ME WHEN
10 I WAS HIRED, THAT AT SOME POINT DOWN THE ROAD THAT WE
11 WOULD HAVE TO LOOK TO SELL THE BUSINESS. A LOT OF THAT IN
12 MY SHORT TIME FRAME THERE, IT GOT MOVED UP BECAUSE OF
13 ISSUES THAT POPPED UP WITH CAROLINA INVESTORS, IT WAS A
14 TENSE SITUATION. WE WERE NOT SURE WHAT WAS GOING TO
15 HAPPEN WITH THAT, SO THE WHOLE TIME FRAME WITH ME THINKING
16 I HAD TWO YEARS TO GROW A RETAIL CHANNEL AND BUILD THE
17 VOLUME AND GET IT PROFITABLE GOT SQUEEZED UP. SO, I
18 BELIEVE THE VALUATIONS WERE TO SEE WHAT DID THE OUTSIDE
19 WORLD THINK THAT THE RETAIL CHANNEL IS WORTH TODAY AND
20 COULD BE WORTH DOWN THE ROAD.

21 Q I WANT TO MOVE FORWARD A BIT IF I CAN, SIR. DO YOU
22 RECALL ATTENDING A MEETING AT THE WYCHE LAW FIRM IN MARCH
23 OF 2002?

24 A YES.

25 Q AND AT THAT MEETING WERE THE EXTERNAL AUDITORS THERE?

1 A YES, ELLIOTT DAVIS FIRM WAS THERE.

2 Q AND WAS THE DEFENDANT THERE?

3 A YES, RONNIE WAS THERE.

4 Q AND WAS GOING CONCERN LANGUAGE DISCUSSED?

5 A YES, IT WAS.

6 Q AND IN GENERAL, WOULD YOU PLEASE DESCRIBE FOR ME THE
7 MOOD OR THE ATMOSPHERE AT THAT MEETING?

8 A IT WAS VERY SOMBER, AGAIN IT WAS MY THIRD MONTH OF
9 JOINING THE COMPANY. AND I WOULD SAY THAT THE FIRST THREE
10 MONTHS WITH SOME OF THE CHANGES THAT WE JUST TALKED ABOUT,
11 THERE WAS SOME EXCITEMENT, THERE WAS HOPE. I REMEMBER THE
12 CFO WAS VERY HAPPY THAT WE CHANGED THE COMP. PLANS, THAT
13 THEY WOULD ONLY GET BONUSES IF THEY WERE MAKING A PROFIT.
14 WORKING WITH MARKETING, ON EFFICIENCIES IN MARKETING SO
15 THERE WAS HOPE THE FIRST THREE MONTHS, IT CAN BE TURNED
16 AROUND. BUT AT THAT MEETING IN MARCH IT BECAME VERY, VERY
17 SOMBER, WE FELT THE WORLD MIGHT BE COLLAPSING.

18 Q DID YOU HAVE ANY DISCUSSIONS WITH THE DEFENDANT AFTER
19 THAT MEETING?

20 A YES, I DID.

21 Q DID YOU RIDE WITH HIM TO THAT MEETING?

22 A YES, MYSELF, FORREST, KAREN AND RONNIE HAD DRIVEN TO
23 AND FROM COLUMBIA UP TO GREENVILLE, I BELIEVE. SO, AND WE
24 DROVE BACK AND WE MET ALSO WHEN WE GOT BACK. AND THE TALK
25 WAS, WELL, OKAY WHAT DO WE DO NOW. YES, WE HAVE STARTED

1 TO MAKE SOME PROGRESS IN THE LAST THREE MONTHS, WHAT DOES
2 THIS MEAN TO US. AND OUT OF THAT WE CAME WITH THAT, WE
3 STILL BELIEVE WE CAN TURN IT AROUND. HOWEVER, THIS WAS
4 EMINENT, WE DIDN'T KNOW THE IMPACT OF THE GOING CONCERN
5 LETTER WOULD HAVE ON CAROLINA INVESTORS. SO, THE THOUGHT
6 THEN WAS ALSO THAT WE NEED TO MOVE THAT TIME FRAME, PAUL,
7 THAT I TALKED TO YOU ABOUT, IT IS NOT GOING TO BE TWO
8 YEARS. WE NEED TO OPEN MORE RETAIL OFFICES WITH SOME OF
9 THE PEOPLE THAT YOU KNOW SO THAT THE PRODUCTION OF RETAIL
10 MORTGAGE UNIT COULD COME UP AND THAT WOULD BE MORE
11 ATTRACTIVE TO A BUYER.

12 Q WHOSE IDEA WAS THIS EXPANSION?

13 A IT WAS RONNIE'S.

14 Q EARLIER YOU WERE TALKING ABOUT, YOU COMMUTED FROM
15 PENNSYLVANIA?

16 A YES.

17 Q TO SOUTH CAROLINA?

18 A YES.

19 Q AND I GUESS YOU LIVED HERE A COUPLE OF DAYS A WEEK?

20 A YES.

21 Q WHEN YOU LIVED DOWN HERE A COUPLE OF DAYS A WEEK DID
22 YOU GENERALLY WORK LONG HOURS?

23 A YES, I WOULD, I HAD NO SOCIAL LIFE SO I WOULD GET
24 INTO THE OFFICE EARLY AND WORK LATE, YES.

25 Q WAS MR. FERRELL ALSO ONE?

1 A YES, FORREST AND I DID BECOME GOOD FRIENDS AND
2 TYPICALLY FORREST WOULD BE THE FIRST TO ARRIVE EACH DAY.

3 Q DID YA'LL TALK IN THE MORNINGS?

4 A ALWAYS, YES.

5 Q WOULD MR. SHEPPARD EVER STOP BY THESE LITTLE TALKS
6 THAT YOU HAD?

7 A YES, IF I, FOR EXAMPLE, IF I WAS IN TOWN THAT WEEK
8 FOR FOUR DAYS OR FORREST AND I WOULD TALK FOUR DAYS EVERY
9 MORNING FOR COFFEE, RONNIE WOULD BE THERE FOR HALF OF
10 THOSE, JUST POP IN, YES.

11 Q AND THESE DISCUSSIONS THAT YOU WERE HAVING OVER
12 COFFEE, WHEN MR. SHEPPARD WOULD COME BY, WHAT WAS HE
13 TALKING ABOUT?

14 A WE WOULD TALK ABOUT A LITTLE SOCIAL, WHAT WAS GOING
15 ON WITH SPORTS AT FIRST AND THEN RONNIE WOULD GET AN
16 UPDATE FROM ME, WHAT WAS GOING ON WITH THE PRODUCTION
17 BECAUSE WE ALWAYS, THE NUMBERS CAME IN EVERY MORNING. SO,
18 RONNIE WOULD GET AN UPDATE FROM ME ON HOW THE PRODUCTION
19 WOULD LOOK OVERALL FOR THE RETAIL CHANNEL. AND HE WOULD
20 GET AN UPDATE FROM FORREST ON HOW THE PREVIOUS DAY WENT AT
21 CAROLINA INVESTORS. TYPICALLY THOSE WERE THE TWO BUSINESS
22 THINGS THAT WE DISCUSSED OUTSIDE OF SOCIAL ISSUES.

23 Q WHAT WAS FORREST FERRELL'S ROLE?

24 A FORREST WOULD GIVE AN UPDATE ON WHAT THE PREVIOUS DAY
25 DID, WAS THERE MORE DEPOSITS VERSUS WITHDRAWALS, WAS THERE

1 ANY LARGE WITHDRAWALS THE PREVIOUS DAY, HOW WERE THEY
2 HANDLED, THINGS OF THAT NATURE.

3 Q DID YOU HEAR THE DEFENDANT DISCUSS A GENTLEMAN BY THE
4 NAME OF MR. DON BOBO?

5 A YES.

6 Q TELL ME ABOUT THAT.

7 A FIRST I DIDN'T KNOW WHO THE GENTLEMAN WAS AND THEN I
8 FOUND OUT FROM FORREST THAT HE WAS ON THE BOARD OF
9 CAROLINA INVESTORS. AND RONNIE WOULD TYPICALLY BRING UP
10 DON BOBO'S NAME THAT HE FELT IT WAS IMPORTANT FOR FORREST
11 TO LET EARLE AND LARRY KNOW THAT ONE OF THE PEOPLE ON THE
12 BOARD OF CAROLINA INVESTORS, DON BOBO, HAD HIS OWN MONEY
13 INVESTED IN CAROLINA INVESTORS. THAT IS HOW I HEARD HIS
14 NAME MENTIONED, YES.

15 Q DURING THOSE DISCUSSIONS OVER COFFEE DID MR. SHEPPARD
16 EVER MAKE REFERENCE TO INDIVIDUALS AT CAROLINA INVESTORS,
17 THE INVESTORS THEMSELVES OR ABOUT THE INVESTMENT AT
18 CAROLINA INVESTORS?

19 A IN THE MORNING THE THREE OF US WOULD HAVE VARIOUS
20 TOPICS, RONNIE WOULD SAY THAT HE KNEW THE INVESTORS WERE
21 BEING PAID OUT. HOWEVER, THE TOPIC CAME UP, I THINK IT
22 WAS TIED IN WITH THAT NEWS ARTICLE THAT HAPPENED UP IN
23 GREENVILLE WHEN THERE WAS A BIT OF, WHAT DOES ALL THIS
24 MEAN, WHAT IS GOING TO HAPPEN. HE DID SAY THEY WERE PAID
25 ON A HIGH RATE OF INVESTMENT ON THEIR RETURN FOR WHAT

1 COULD BE A RISKY BUSINESS OPPORTUNITY FOR THEM.

2 Q YOU JUST MENTIONED A NEWSPAPER ARTICLE, WAS THAT IN
3 THE SUMMER, FALL OF 2002 THAT YOU ARE TALKING ABOUT?

4 A YES, SOMEWHERE JUNE, AUGUST TIME FRAME.

5 Q DO YOU RECALL WHAT REACTION MR. SHEPPARD HAD WHEN
6 THAT ARTICLE CAME OUT?

7 A VERY, VERY NERVOUS, WHAT IT ALL MEANT. RONNIE HAD
8 HIRED ME, HE HAD CHECKED ME OUT, HE KNEW WHAT I COULD DO
9 WITH A RETAIL GROUP IF I WAS GIVEN TIME. SO, BY THIS
10 ARTICLE COMING UP WE WEREN'T SURE, SINCE CAROLINA
11 INVESTORS WAS FUNDING THE MORTGAGE OPERATION, WHAT THIS
12 MEANT. I KNEW HE WAS RECEIVING CALLS FROM THE NEWSPAPER
13 FOR QUOTES AND COMMENTS ON THAT. SO, IT WAS, WHAT DO WE
14 DO TO WEATHER THE STORM, WHAT IS GOING TO HAPPEN HERE.
15 ARE WE STILL GOING TO BE ABLE TO OPEN THESE RETAIL
16 BRANCHES AND GIVE THEM A CHANCE TO BE PROFITABLE.

17 Q DID THE DEFENDANT MAKE ANY REFERENCE TO WHAT LARRY
18 AND EARLE WERE DOING?

19 A THE THING THAT I DID, RONNIE DID THROUGH FORREST,
20 RONNIE DID TELL FORREST TO TELL EARLE AND TELL LARRY TO
21 USE THE VALUATIONS THAT WERE DONE ON THE RETAIL MORTGAGE
22 BUSINESS THAT WOULD SHOW THAT WE WOULD BE ABLE TO GET THAT
23 MONEY TO COVER THE INVESTORS, YES.

24 Q AND WE TALKED ABOUT LARRY OWEN AND EARLE MORRIS, DID
25 YOU EVER HAVE AN OCCASION TO MEET MR. LARRY OWEN?

1 A I DID. I DID MEET LARRY AT, A FEW TIMES, HE IS A
2 VERY UNIQUE GENTLEMAN, HE WORE A BUSINESS SUIT BUT HE HAD
3 COWBOY BOOTS ON AND A COWBOY HAT SO I REMEMBER ASKING, WHO
4 IS THIS GUY WALKING IN THE DOOR. I HAD NEVER SEEN
5 ANYTHING LIKE THAT UP IN NEW YORK AND PHILADELPHIA. AND
6 THEY TOLD ME WHO HE WAS, THAT HE RAN CAROLINA INVESTORS,
7 YES.

8 Q AND AFTER THIS ARTICLE DID, WAS THERE A FREQUENT OF
9 HIM AT THE HOMEGOLD OFFICE HAD CHANGED?

10 A YES. JUDGING IN MY FIRST THREE MONTHS I WOULD SAY I
11 SAW LARRY OR EARLE MAYBE TWICE IN THE FIRST THREE MONTHS
12 THAT I WAS THERE. THEN WHEN THE ISSUE POPPED UP WITH
13 CAROLINA INVESTORS, I WOULD SAY THAT LARRY AND EARLE CAME
14 DOWN IN A MONTH, TWO OR THREE TIMES.

15 Q AND WHO WERE THEY MEETING WITH?

16 A THEY WOULD MEET WITH RONNIE AND WITH FORREST.

17 Q MOVE UP A LITTLE BIT FURTHER^{5.} NOW. DURING YOUR TENURE
18 DID YOU EVER HAVE THE OCCASION TO MEET A GENTLEMAN BY THE
19 NAME OF KEVIN MARTIN?

20 A YES, KEVIN WAS THE CFO.

21 Q CFO OF HOMEGOLD?

22 A CORRECT.

23 Q AND DID YOU KNOW THAT MR. MARTIN RESIGNED?

24 A YES.

25 Q AND DID YOU EVER RECEIVE A COPY OF HIS RESIGNATION

1 LETTER?

2 A YES, I DID.

3 Q MR. BANNINGER, I AM SHOWING YOU WHAT IS MARKED AS
4 STATE'S EXHIBIT NUMBER 63. DO YOU RECOGNIZE IT?

5 A YES.

6 Q DID YOU RECEIVE A COPY OF THAT TEMPORANEOUSLY?

7 A I BELIEVE IN AN EMAIL FORM, YES.

8 Q AND AFTER RECEIVING THAT RESIGNATION LETTER, WHAT DID
9 YOU DO?

10 A I DO REMEMBER MYSELF, RONNIE, FORREST, KAREN HAD MET.
11 THE FIRST THING WAS TO REPLACE KEVIN, RONNIE PUT KAREN
12 MILLER IN THAT POSITION AS CFO. AND I ALSO REMEMBER THAT
13 THE TIME FRAME JUST KEPT BEING MOVED UP. I DO REMEMBER
14 RONNIE SAYING IS THAT WE ARE DEFINITELY GOING TO HAVE TO
15 SELL THE RETAIL CHANNEL QUICKER NOW.

16 Q YOU HAVE TO MOVE THE TIME TABLE UP?

17 A CORRECT, THOSE WERE THE TWO, AFTER THIS LETTER I DO
18 REMEMBER THOSE TWO THINGS, KAREN BECAME THE CFO AND THERE
19 WAS MORE OF A RUSH THAT WE DO NEED TO SELL THE RETAIL
20 MORTGAGE PLATFORM SOONER, YES.

21 Q YOU MENTIONED A LITTLE WHILE AGO THAT YOU WERE ON THE
22 BOARD OF DIRECTORS?

23 A YES.

24 Q AND YOU ALSO MENTIONED A LITTLE WHILE AGO YOU WERE
25 AWARE OF THIS DEBT THAT WAS OWED TO CAROLINA INVESTORS?

1 A YES.

2 Q AT ANY POINT WERE YOU ASKED TO TAKE ANY TYPE OF
3 ACTION IN YOUR CAPACITY AS A BOARD MEMBER ABOUT THAT DEBT?

4 A THE ONLY THING I DO REMEMBER, ANYTHING TO DO WITH
5 CAROLINA INVESTORS DEBT, I DO BELIEVE I WAS GIVEN A
6 DOCUMENT AT ONE TIME, SOMETHING TO DO WITH MOVING
7 INTER-COMPANY DEBT AROUND. AGAIN, I WAS IN MY OFFICE,
8 JACK STERLING CAME IN AND PRESENTED ME WITH A DOCUMENT AND
9 TOLD ME THAT THIS WAS A DOCUMENT, SOMETHING THAT WE DO
10 EVERY YEAR, MOVING INCOME AROUND FROM ONE ENTITY TO
11 ANOTHER. IT WAS NO MORE THAN A TWO MINUTE CONVERSATION.

12 Q SO, DID YOU HAVE ANY FULL DISCUSSIONS AT THE BOARD
13 MEETINGS ABOUT THIS MANEUVER?

14 A TO THE BEST OF MY KNOWLEDGE I WAS AT ONE BOARD
15 MEETING AND THAT NEVER CAME UP, NO.

16 Q WELL, YOU ARE SIGNING THIS DOCUMENT, WERE YOU
17 PROVIDED ANY INFORMATION ABOUT WHAT IT WAS AND WHY YOU
18 WERE DOING IT?

19 A OUTSIDE OF COMMENTS FROM JACK, NO, JACK WAS THE
20 FORMER CHAIRMAN SO I TRUSTED WHAT HE WAS GIVING ME TO
21 SIGN.

22 Q WAS THERE EVER AN OCCASION WHERE YOU WERE ASKED TO
23 SIGN A SIMILAR DOCUMENT REGARDING A CHECK CASHING COMPANY?

24 A THERE WAS ONE OTHER OCCASION. ON THAT OCCASION IT
25 INVOLVED A NEW COMPANY CALLED FLEXCHECK WHICH WAS A NEW

1 BUSINESS THAT JACK AND RONNIE, I BELIEVE, HAD FORMED WITH
2 A GENTLEMAN NAMED BRENDAN CARPENTER THAT WAS MEANT TO BE
3 SOMETHING SIMILAR TO SOMETHING LIKE AN ADVANCE AMERICA
4 TYPE COMPANY THAT DOES CHECK CASHING. AND IN A SIMILAR
5 INSTANCE, JACK CAME INTO MY OFFICE AND SAID THERE IS A NEW
6 COMPANY THAT WE ARE STARTING AND HAD ME SIGN THAT DOCUMENT
7 ALSO, YES.

8 Q WAS THERE ANY LENGTHY DISCUSSION AT THE BOARD
9 MEETING?

10 A TO THE BEST OF MY RECOLLECTION, NO, I DO NOT REMEMBER
11 ANYTHING COMING ABOUT ABOUT FLEXCHECK AT A BOARD MEETING
12 OUTSIDE OF JACK WALKING INTO MY OFFICE THAT DAY.

13 Q WITH REGARD TO THE DOCUMENT?

14 A WITH THAT DOCUMENT, YES.

15 Q AND IS THIS KIND OF HOW IT WORKED AT HOMEGOLD?

16 A IF YOU GO BACK TO MY OPENING COMMENTS, IT WAS PRETTY
17 MUCH, I CAN'T SAY HOW IT WAS WHEN⁵ JACK WAS RUNNING THE
18 SHOW BUT RONNIE WAS WELL REGARDED, WHAT RONNIE WANTED TO
19 GET DONE GOT DONE. AND AT THE ONE BOARD MEETING THAT I
20 CAN REMEMBER IT, THERE WAS A LOT OF SUPPORT FOR WHAT
21 RONNIE WANTED TO GET DONE AND WHAT JACK WANTED TO GET
22 DONE, THE CHAIRMAN AND THE FORMER CHAIRMAN.

23 Q NOW, YOU TALKED A LITTLE BIT ABOUT THESE VALUATIONS
24 AND THE ATTEMPTS TO SPEED UP THE TIME FRAME?

25 A YES.

1 Q TOWARDS THE END OF 2002 WERE YOU AWARE THAT HOMEGOLD
2 WAS ACTUALLY TRYING TO SELL THE RETAIL MORTGAGE DIVISION?

3 A YES, I WAS.

4 Q HOW WERE THEY GOING ABOUT DOING THAT, SIR?

5 A ONE OF THE BOARD MEMBERS, A GENTLEMAN BY THE NAME OF
6 BOB PHILPOTT WAS ASKED TO PREPARE A PACKAGE ON HOMEGOLD
7 RETAIL MORTGAGE PRODUCTION CHANNEL TO LOOK TO SELLING.

8 Q DID THEY RECEIVE ANY INTEREST IN THE COMPANY?

9 A I BELIEVE THEY RECEIVED TWO TO THREE, WELLS FARGO WAS
10 ONE OF THEM, FREEMONT MORTGAGE AND ANOTHER COMPANY CALLED
11 IMPAC. THOSE ARE THE THREE THAT COMES TO MIND.

12 Q A COMPANY CALLED FREEMONT?

13 A YES.

14 Q WERE YOU INVOLVED IN ANY OF THE ATTEMPTS TO SELL THE
15 COMPANY TO FREEMONT?

16 A YES, MYSELF AND FORREST FERRELL FLEW DOWN TO
17 JACKSONVILLE, FLORIDA, WE FLEW DOWN AND GAVE A
18 PRESENTATION ON WHAT THE RETAIL CHANNEL WAS DOING TODAY,
19 THE PROGRESS WE HAD MADE, THE CHANGES WE HAD MADE AND
20 WHERE WE THOUGHT IT COULD BE. I DO NOT BELIEVE WE TOOK
21 ANY OF THE VALUATIONS DOWN WITH US. I BELIEVE WE JUST
22 TALKED TO, HERE IS WHERE THE OFFICES ARE, HERE IS WHAT THE
23 PRODUCTION LOOKS LIKE. AND THE MEETING WENT WELL.

24 Q DID THEY MAKE AN OFFER?

25 A I BELIEVE THEY DID. THE SPECIFICS ON WHAT THE

1 MONETARY OFFERS WERE CONTROLLED BY MR. PHILPOTT AND BY
2 RONNIE. SO, I DO KNOW THAT IMPAC WAS INTERESTED IN US, I
3 DO KNOW THAT FREEMONT, TO ME THOSE WERE THE TWO OUT OF THE
4 THREE THAT WERE SERIOUS ON BUYING THE RETAIL OFFICE
5 CHANNEL. WELLS FARGO WAS INTERESTED BUT I DO NOT KNOW IF
6 THEY MADE AN OFFER, SO I BELIEVE WE HAD TWO OFFERS FROM
7 FREEMONT AND FROM IMPAC TO BUY THE RETAIL BRANCHES.

8 Q WITH THIS FREEMONT OFFER, DO YOU HAVE ANY
9 RECOLLECTION, YOU WERE GOING TO BE PART OF THIS NEW
10 COMPANY?

11 A YES, WE WENT TO LUNCH AND THAT IS WHEN MR. PHILPOTT
12 TOLD ME THAT THEY WERE INTERESTED AND THAT THEY WOULD WANT
13 ME TO GO ALONG WITH IT, THEY WOULD NOT WANT RONNIE TO GO
14 ALONG WITH IT AND THEY WEREN'T SURE ABOUT FORREST. SO, I
15 DO REMEMBER THAT CAME UP AT LUNCH AFTER THE PRESENTATION
16 THAT WE DID GIVE.

17 Q AND ULTIMATELY DID HOMEGOLD ACCEPT THAT OFFER?

18 A NO, THEY DID NOT.

19 Q THEY DID NOT?

20 A NO.

21 Q DID YOU HAVE ANY DISCUSSIONS WITH THE DEFENDANT ABOUT
22 WHY HOMEGOLD WASN'T ACCEPTED?

23 A NOTHING SPECIFICALLY OUTSIDE OF THE FACT THAT RONNIE
24 SAID THAT THE MONEY WASN'T ENOUGH, I DIDN'T GET INTO
25 SPECIFICS, THE FINANCIAL PIECE WAS HANDLED BY PHILPOTT AND

1 RONNIE AS FAR AS ACCEPTING OR DENYING THE OFFER.

2 Q WERE YOU STILL A PART OF THE DIRECTORS AT THIS TIME?

3 A I BELIEVE I WAS ON THE BOARD THROUGH NOVEMBER OF '02,
4 AND I RESIGNED FROM THE HOMEGOLD BOARD.

5 Q WERE YOU PRESENTED WITH ANY INFORMATION AS A BOARD
6 MEMBER AS TO THIS OFFER AND WHY IT WASN'T ACCEPTABLE?

7 A NO, I WAS NOT.

8 Q YOU MENTIONED THIS OTHER COMPANY CALLED IMPAC, IS
9 THAT THE BANK OUT WEST IN CALIFORNIA?

10 A CALIFORNIA, A GENTLEMAN THERE NAMED MARK BISHOP THAT
11 RONNIE HAD KNOWN FOR SEVERAL YEARS AND HAD DONE BUSINESS
12 WITH.

13 Q AND WERE YOU INVOLVED WITH THE NEGOTIATION PROCESS
14 WITH IMPAC?

15 A NO.

16 Q DO YOU KNOW IF IMPAC MADE AN OFFER?

17 A I BELIEVE THEY DID.

18 Q AND ARE YOU STILL ON THE BOARD WHEN IMPAC MADE AN
19 OFFER?

20 A I DON'T REMEMBER, THERE, IT WAS ALL IN THAT TIME
21 FRAME, I WAS ON THE BOARD FOR THE FREEMONT BID, I PROBABLY
22 WAS FOR THE IMPAC DEAL BUT MY EDUCATED GUESS WOULD BE YES.

23 Q OKAY. IN YOUR CAPACITY AS A BOARD MEMBER WERE YOU
24 MADE AWARE OF THE TERMS OF THAT?

25 A NO.

1 Q WERE YOU GIVEN ANY REASON WHY THEY REJECTED THAT
2 OFFER?

3 A NO.

4 Q SO WE ARE NOW MOVING INTO LATER ON 2002.

5 A YES.

6 Q DO YOU RECALL DISCUSSIONS BEGINNING ABOUT MR.
7 SHEPPARD WANTING TO BUY THE RETAIL MORTGAGE DIVISION OR
8 WHAT YOU CALL CHANNEL?

9 A YES, I DO REMEMBER THAT THERE WERE DISCUSSIONS THAT
10 THE BIDS FROM IMPAC AND FREEMONT WERE NOT ACCEPTED. AND
11 THUS THE CONCEPT OF RONNIE BUYING THE COMPANY, FORMING A
12 SEPARATE COMPANY CAME UP AT THAT TIME, YES, TOWARD THE END
13 OF 2002.

14 MR. PEAVY: YOUR HONOR, MAY WE APPROACH?

15 THE COURT: YES.

16 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
17 PRESENCE OF THE JURY BUT OUT² OF THE HEARING OF THE
18 JURY.)

19 Q WHO WAS INVOLVED IN THE NEGOTIATIONS FOR THIS NEW
20 DEAL, THE DEAL WITH MR. SHEPPARD PURCHASING THE RETAIL
21 MORTGAGE DIVISION?

22 A THE EMMCO TRANSACTION WAS PRIMARILY JACK STERLING,
23 RONNIE AND KAREN, FORREST WAS INVOLVED TO A LESSOR DEGREE,
24 PRIMARILY, RONNIE, FORREST AND KAREN.

25 Q AND WHAT WAS THE NAME OF THIS COMPANY?

1 A EMMCO.

2 Q EMMCO?

3 A EMMCO, E-M-M-C-O.

4 Q E-M-M-C-O. DID MR. SHEPPARD ASK YOU TO JOIN HIS NEW
5 COMPANY?

6 A YES. TOWARD THE END OF 2002, I REMEMBER FORREST AND
7 I BECAME GOOD FRIENDS, WE WEREN'T SURE WHO WAS GOING WITH
8 RONNIE. SO, TOWARD THE END HE DID ASK ME TO GO OVER THERE
9 WITH HIM TO EMMCO.

10 Q AND HOW SOON DID YOU FIND OUT PRIOR TO MR. SHEPPARD
11 STARTING HIS NEW COMPANY THAT YOU WERE GOING OVER THERE?

12 A A WEEK OR TWO BEFORE THE ACTUAL DOCUMENT APPEARED
13 THAT I FOUND OUT THAT I WAS GOING.

14 Q AND AT SOME POINT DID YOU RESIGN FROM THE BOARD OF
15 DIRECTORS FROM HOMEGOLD?

16 A YES, I BELIEVE THAT WAS NOVEMBER OF 2002.

17 Q SO NOVEMBER OF 2002 YOU RESIGNED FROM THE BOARD OF
18 DIRECTORS?

19 A CORRECT.

20 Q DID MR. SHEPPARD ALSO RESIGN ABOUT THAT SAME TIME?

21 A I BELIEVE HE DID, YES.

22 Q NOW, DID YOU STILL GO TO WORK AT HOMEGOLD DURING THAT
23 TIME PERIOD BETWEEN NOVEMBER OF 2002 AND MOVING ON?

24 A I BELIEVE THERE WAS LIKE A 30 DAY PERIOD OF TIME
25 BETWEEN, I RESIGNED AT HOMEGOLD AND EMMCO OFFICIALLY, I

1 THINK EMMCO OFFICIALLY STARTED 1/'03. SO I BELIEVE THERE
2 MIGHT OF BEEN A 30 DAY PERIOD.

3 Q BUT WERE YOU STILL GOING TO THE OFFICE AT HOMEGOLD?

4 A YES. WE WERE DOWN AT REED AVENUE LOCATION.

5 Q AND WAS THE DEFENDANT ALSO GOING TO WORK THERE AS
6 WELL?

7 A YES.

8 Q SO, HE WAS STILL INVOLVED WITH THE COMPANY?

9 A YES, WE BOTH SHOWED UP EVERY DAY AT THAT SAME
10 LOCATION.

11 Q MR. BANNINGER, I AM GOING TO SHOW YOU WHAT IS MARKED
12 STATE'S EXHIBIT NUMBER 130. DO YOU RECOGNIZE THAT
13 DOCUMENT?

14 A YES, TWO DOCUMENTS, THE PURCHASE AGREEMENT AND THE
15 OPERATING AGREEMENT.

16 Q THAT IS THE PURCHASE AGREEMENT FOR EMMCO?

17 A YES.

18 Q AND THE OPERATING AGREEMENT FOR EMMCO?

19 A YES.

20 MR. PEAVY: AT THIS POINT, YOUR HONOR, THE STATE
21 WOULD OFFER EXHIBIT NUMBER 130 INTO EVIDENCE.

22 MR. GRIFFIN: NO OBJECTION, YOUR HONOR.

23 THE COURT: WITHOUT OBJECTION STATE'S 130 IS
24 ADMITTED.

25

1 (WHEREUPON, STATE'S EXHIBIT NO. 130 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q THIS OPERATING AGREEMENT OF EMMCO, WERE YOU REQUIRED
4 TO SIGN THAT DOCUMENT?

5 A THE OPERATING AGREEMENT, YES.

6 Q AND WHEN YOU SIGNED THAT OPERATING AGREEMENT DID YOU
7 COME TO OWN A CERTAIN PORTION OF EMMCO?

8 A YES. I OWNED APPROXIMATELY TEN PERCENT OF EMMCO,
9 RONNIE OWNED NINETY PERCENT.

10 Q SO, WHEN YOU BECAME A TEN PERCENT OWNER OF EMMCO DID
11 YOU RECEIVE ANY NONRECOURSE LOANS FROM HOMEGOLD?

12 A NO.

13 Q DID YOU RECEIVE ANY SPECIAL COMPENSATION FOR THAT TEN
14 PERCENT OWNERSHIP?

15 A NO.

16 Q WHAT WAS THE CHANGE IN YOUR COMPENSATION FROM
17 HOMEGOLD TO EMMCO?

18 A TO THE BEST OF MY RECOLLECTION, NONE, I HAD THIS, THE
19 SAME PAY THAT I WAS GETTING AT HOMEGOLD THAT I RECEIVED AT
20 HOMEGOLD, THE SAME BASE PAY.

21 Q DID YOU HAVE A CONTRACT OF EMPLOYMENT?

22 A I DID NOT.

23 Q DID YOU HAVE A CONTRACT OF EMPLOYMENT WHEN YOU WERE
24 AT HOMEGOLD?

25 A YES, I DID.

1 Q THIS EMMCO THAT YOU JUST REFERENCED, WHAT KIND OF
2 BUSINESS WAS IT?

3 A IT WAS A RETAIL MORTGAGE ORIGINATION BUSINESS.

4 Q VERY SIMILAR TO THE RETAIL MORTGAGE DIVISION OR
5 CHANNEL AT HOMEGOLD?

6 A YES, VERY SIMILAR, YES.

7 Q NOW, TELL ME WHAT THE PURPOSE OR THE CONCEPT BEHIND
8 ESTABLISHING THIS SEPARATE EMMCO?

9 A THE WHOLE CONCEPT BEHIND EMMCO WAS THAT, SINCE THE,
10 FOR WHATEVER REASON THAT THE HOMEGOLD RETAIL CHANNEL COULD
11 NOT BE SOLD AND THAT THE OFFERS THAT WERE MADE WERE NOT
12 ACCEPTABLE, THE CONCEPT BEHIND EMMCO THAT THIS WOULD BE A
13 VEHICLE THAT WOULD ALLOW US TO GET PORTABLE AND BECAUSE IT
14 WOULD BE SEPARATE, IT WOULDN'T HAVE THE LEGAL EXPOSURE OR
15 RISK OF HOMEGOLD AND THUS WOULD BE ABLE TO GET WAREHOUSE
16 LINES AND TO RUN AND GROW AND GIVE ME A TIME FRAME TO GROW
17 THE RETAIL CHANNEL THAT I DID NOT HAVE AT HOMEGOLD. SO,
18 THE CONCEPT WAS THAT IT WOULD BE SEPARATE, LEGAL ENTITY,
19 REMOVED FROM LEGAL RISK, TIME TO GROW.

20 Q AND WAS THAT SUPPOSE TO PAY A PORTION OF ITS PROFITS
21 BACK TO HOMEGOLD?

22 A YES.

23 Q ROUGHLY?

24 A I BELIEVE THE TOTAL PURCHASE OF EMMCO, TOTAL
25 INDEBTEDNESS WAS APPROXIMATELY \$150, \$170 MILLION DOLLARS,

1 THE TOTAL AMOUNT WHICH WOULD BE PAID BACK OVER TIME.

2 Q IN ORDER TO OPERATE THIS RETAIL MORTGAGE DIVISION,
3 THIS NEW RETAIL MORTGAGE DIVISION WAS HOMEGOLD GOING TO
4 NEED WAREHOUSE LINES OF CREDIT?

5 A YES. PART OF THE TRANSITION PERIOD WAS THAT EMMCO,
6 THE ARRANGEMENT THAT RONNIE HAD WORKED OUT WITH KAREN AND
7 WITH FORREST WAS THAT FOR A TRANSITION PERIOD OF TIME THAT
8 EMMCO WOULD BE ABLE TO USE HOMEGOLD'S WAREHOUSE LINES
9 UNTIL EMMCO HAD WAREHOUSE LINES OF ITS OWN SET UP.
10 BECAUSE THE WHOLE TRANSACTION HAPPENED PRETTY QUICK, THAT
11 EMMCO WAS GOING TO NEED TIME TO GET ITS WAREHOUSE LINES
12 SET UP. SO, FOR A PERIOD OF TIME, A FEW MONTHS HOMEGOLD
13 WOULD ALLOW EMMCO TO USE ITS WAREHOUSE LINES.

14 Q AND ULTIMATELY WAS EMMCO ABLE TO SECURE ITS OWN LINES
15 OF CREDIT?

16 A YES, TO COME TO MIND, ONE WAS WITH PROVIDENT BANK,
17 ANOTHER ONE WAS WITH FIRST TENNESSEE, FIRST HORIZON, THOSE
18 ARE THE TWO THAT COMES TO MIND THAT EMMCO WAS ABLE TO
19 SECURE.

20 Q AND AFTER YOU HAD STARTED THIS NEW COMPANY WITH MR.
21 SHEPPARD DID YOU EVER HAVE AN OPPORTUNITY TO REVIEW THE
22 ASSETS THAT CAME ALONG WITH IT?

23 A YES, THERE WERE A FEW ASSETS THAT HAD COME ALONG WITH
24 THE TRANSACTION. ONE WAS A COMPANY CALLED PREVOST, I
25 BELIEVE.

1 Q WHAT WAS PREVOST?

2 A FROM WHAT I CAN GATHER THAT WAS A SEPARATE COMPANY
3 THAT RONNIE HAD SET UP, I BELIEVE HIS BUS WAS IN THAT
4 COMPANY, I AM NOT ONE-HUNDRED PERCENT SURE. BUT I
5 BELIEVE, RONNIE HAD SEVERAL SEPARATE LEGAL COMPANY
6 ENTITIES SET UP THAT HE HAD OWNED. SO THIS ONE KIND OF
7 CAME ALONG IN A TRANSACTION. THERE WAS ANOTHER COMPANY
8 THAT WAS CALLED CONSOLIDATED INFORMATION SYSTEMS, I
9 BELIEVE, CIS.

10 Q CIS?

11 A CORRECT.

12 Q CONNECTED INFORMATION?

13 A CONNECTED, I AM SORRY, IT WAS CONNECTED, NOT
14 CONSOLIDATED. CONNECTED WAS A, AGAIN IN MY PAST
15 EXPERIENCE IN RUNNING OTHER COMPANIES THIS WAS ONE WAY TO
16 TURN AROUND PROFITS. SO, WHAT IT IS IS A MORTGAGE
17 COMPANY, A JOINT VENTURE WITH A TITLE COMPANY. AND IT IS
18 A LEGAL ENTITY, MANY OF YOUR LARGE BANKS, CITI BANK, BANK
19 OF AMERICA HAVE THESE SITUATIONS SET UP. IT ALLOWS YOU TO
20 SHARE IN THE REVENUE FROM THE TITLE INSURANCE PIECE THAT
21 EVERY MORTGAGE HAS A TITLE INSURANCE.

22 Q THIS CONNECTED INFORMATION SYSTEMS, WHO STARTED THIS
23 COMPANY?

24 A I STARTED THAT COMPANY WHEN I WAS AT HOMEGOLD.

25 Q YOU STARTED WHILE YOU WERE AT HOMEGOLD?

1 A CORRECT, IT WAS A WAY TO HELP US GET TO
2 PROFITABILITY.

3 Q BUT THEN ASSET TRANSFERRED TO EMMCO?

4 A YES.

5 Q NOW IN YOUR 30 YEARS OF EXPERIENCE, CAN THESE BECOME
6 EXTREMELY PROFITABLE?

7 A SIGNIFICANTLY, YES, MANY OF THE LARGE FINANCIAL
8 INSTITUTIONS GET MILLIONS OF DOLLARS A YEAR FROM THESE
9 JOINT VENTURE TITLE COMPANIES.

10 Q BUT JOINING VENTURE COMPANIES, SO SOMEBODY OWNS IT
11 WITH ANOTHER COMPANY?

12 A CORRECT.

13 Q AND HOW MUCH INTEREST DID HOMEGOLD HAVE IN CIS OR
14 CONNECTED INFORMATION SYSTEMS?

15 A FORTY-NINE PERCENT.

16 MR. PEAVY: YOUR HONOR, MAY I PUBLISH STATE'S 130?

17 THE COURT: SURE.

18 Q MR. BANNINGER, I WOULD LIKE TO DIRECT YOUR ATTENTION
19 TO ITEM 9, PAGE 4 OF THAT DOCUMENT. DOES THAT REFLECT
20 FORTY-NINE PERCENT MEMBERSHIP INTEREST?

21 A YES, IT DOES.

22 Q SO, THEREFORE THAT FORTY-NINE PERCENT MEMBERSHIP
23 INTEREST IN CIS WENT TO EMMCO?

24 A YES.

25 Q AND WHEN THAT WAS EMMCO, DID IT BECOME PROFITABLE?

1 A I BELIEVE IT BECAME PROFITABLE WITHIN THREE TO FOUR
2 MONTHS SO IT WAS VERY CLOSE TO PROFITABILITY.

3 Q WELL, WHAT HAPPENED WITH CIS, CONNECTED INFORMATION
4 SYSTEMS?

5 A CONNECTED WAS BOUGHT BY RONNIE, RONNIE TOLD ME THAT
6 HE HAD BOUGHT CONNECTED FOR HIMSELF AND MOVED IT UNDER
7 R-DOC WHICH WAS ANOTHER ONE OF HIS COMPANIES.

8 Q SO YOU HAVE THIS COMPANY THAT COMES OVER TO EMMCO?

9 A YES.

10 Q AND TECHNICALLY YOU ARE AN OWNER OF IT, RIGHT?

11 A I OWN TEN PERCENT OF EMMCO, YES.

12 Q AND THEN ALL OF A SUDDEN YOU GET A, MR. SHEPPARD
13 SAYS, HEY, I BOUGHT IT?

14 A CORRECT.

15 Q AND IT WAS PROFITABLE?

16 A IT WAS EITHER PROFITABLE OR VERY, VERY CLOSE, I
17 REMEMBER DOING A STUDY ON THE NUMBERS AND SHOWING RONNIE
18 THE NUMBERS, THAT IT WAS VERY CLOSE TO PROFITABLE, I DO
19 REMEMBER THAT.

20 Q WELL, HOW MUCH DID YOU GET PAID FOR THAT?

21 A NOTHING.

22 Q BUT YOU OWNED A PORTION OF IT?

23 A I GUESS LEGALLY IT DID TURN OUT THAT I DID OWN TEN
24 PERCENT OF IT, IF YOU LOOK AT THAT OPERATING AGREEMENT.
25 IT DID BECOME AN ANNOYING POINT OF MINE THAT, I HAD

1 BELIEVED RONNIE'S INTENTION ALL LONG WERE HONORABLE,
2 EVERYTHING THAT HE DID SAY HE MEANT. THAT IS THE FIRST
3 THING HE SAID FROM MY INTERVIEW, GROW THE RETAIL CHANNEL
4 AND SELL THEM. AND HOWEVER THIS WAS JUST NOT GOOD
5 BUSINESS PRACTICE IN MY OPINION AND I WAS KIND OF CAUGHT
6 FROM LEFT FIELD ON THIS ONE TOPIC. SO, IT WAS AN
7 AGGRAVATING THING TO ME AND I REMEMBER ASKING HIM ABOUT IT
8 AND HE THOUGHT IT WOULD BE A GOOD INVESTMENT FOR HIM.

9 Q FOR HIM?

10 A FOR HIM. AND THAT WAS PART OF THE REASON TO CAUSE ME
11 TO GIVE MY TEN PERCENT OWNERSHIP BACK TO RONNIE, SO I GAVE
12 BACK MY TEN PERCENT OWNERSHIP OF EMMCO IN APRIL OF '03.

13 Q HOW MUCH DID MR. SHEPPARD GIVE YOU FOR THAT?

14 A NOTHING.

15 Q NOTHING?

16 A NO.

17 Q SO, HE BOUGHT CIS AND GAVE YOU NOTHING?

18 A CORRECT.

19 Q YOU GAVE BACK THE TEN PERCENT THAT YOU GOT IN THE
20 COMPANY?

21 A CORRECT.

22 Q THIS EMMCO COMPANY, AFTER YOU GAVE BACK YOUR TEN
23 PERCENT WAS THIS A COMPANY THAT YOU HAD ENVISIONED OR THAT
24 WAS CONCEIVED AT HOMEGOLD?

25 A I BELIEVE THE IDEA WAS RONNIE AS FAR AS COMING UP

1 WITH THE EMMCO, THE LEGAL NAME. I DON'T KNOW IF RONNIE
2 HAD EMMCO AS ONE OF HIS OTHER COMPANIES ALREADY SET UP.

3 Q I AM TALKING ABOUT THE CONCEPT OF IT.

4 A YES, THE CONCEPT WAS RONNIE'S CONCEPT AND WHEN HE
5 TALKED TO MYSELF AND FORREST ABOUT IT HE SAYS, THIS WAS
6 THE ONLY WAY THAT WE WOULD BE ABLE TO HAVE A CHANCE TO
7 GROW THE BUSINESS BECAUSE IT WOULD BE FREE FROM LEGAL
8 EXPOSURE AND GIVE US A CHANCE TO GET A NEW START TO GET
9 WAREHOUSE LINES THAT DID NOT HAVE LEGAL RISK.

10 Q NOW, WE MENTIONED A LITTLE WHILE AGO, A FIGURE OF
11 \$170 MILLION DOLLARS. WAS THAT \$170 MILLION SOME TYPE OF
12 AN EARN OUT?

13 A YES.

14 Q CAN YOU EXPLAIN THAT FOR US?

15 A WHEN MORTGAGE COMPANIES ARE SOLD THERE IS TYPICALLY
16 TWO PARTS OF THE TRANSACTION, HOW MUCH IS UP FRONT MONEY
17 AND HOW MUCH IS PAID OUT OVER A PERIOD OF TIME, KNOWN AS
18 AN EARN OUT.

19 Q SO THERE IS NO GUARANTEE?

20 A NO, NO GUARANTEE THAT THE \$170 FIGURE WAS EARN OUT
21 OVER TIME.

22 Q DURING YOUR TENURE AT HOMEGOLD DID YOU EVER HAVE AN
23 OPPORTUNITY TO REVIEW COMPENSATION PACKAGES OF MEMBERS OF
24 THE BOARD OF DIRECTORS?

25 A YES.

1 Q TELL ME ABOUT THAT.

2 A MY TASK WAS TO GROW THE RETAIL CHANNEL, DOUBLE THE
3 PRODUCTION SO WE COULD SELL IT BUT ALSO TO HELP MAKE IT
4 PROFITABLE, SOME OF THE CHANGES THAT I JUST TALKED ABOUT.
5 SO, ONE OF THE ITEMS THAT CAME UP WHEN I WAS LOOKING AT
6 THE P&L'S WAS THAT--

7 Q WHAT DID YOU SAY?

8 A ONE OF THE ITEMS WHEN I WAS LOOKING AT THE P&L'S,
9 PROFIT AND LOSS FOR THE MORTGAGE BUSINESS.

10 Q OKAY.

11 A JACK STERLING WAS BEING PAID \$250 THOUSAND PER YEAR.

12 Q DID YOU DISCUSS THAT WITH MR. SHEPPARD?

13 A YES, I DID.

14 Q WHAT DID HE SAY?

15 A RONNIE'S EXACT QUOTE IS THAT WE OWE THAT TO JACK.

16 Q WHAT DID YOU TAKE THAT TO MEAN?

17 A I DIDN'T KNOW WHAT THAT MEANT. I KNOW THAT THEY HAD
18 WORKED TOGETHER IN THE PAST AND I DIDN'T PRESS HIM FOR
19 MORE THAN THAT, I DIDN'T GET MORE THAN THAT. THAT IS THE
20 ONLY ANSWER THAT I COULD GET. I REMEMBER TALKING ABOUT IT
21 WITH FORREST, FORREST SAID THAT IS THE ANSWER THAT HE HAD
22 GOTTEN. SO, WHAT EXACTLY IT MEANT, I DON'T KNOW. BUT IT
23 DID STAND OUT BECAUSE I KNOW HE WAS THE ONLY BOARD MEMBER
24 THAT RECEIVED COMPENSATION OR RECEIVED THAT SIGNIFICANT
25 AMOUNT OF COMPENSATION.

1 Q WHEN YOU COMMUTED BACK AND FORTH FROM PENNSYLVANIA,
2 HOW DID YOU TRAVEL?

3 A I FLEW COACH ON U.S. AIR.

4 Q NOW, DID YOU EVER TRAVEL BUSINESS WITH MR. SHEPPARD?

5 A I TRAVELED TWICE WITH RONNIE FOR BUSINESS.

6 Q DID YOU FLY COACH ON U.S. AIR?

7 A NO, WE FLEW CHARTERED JET OUT OF EAGLE AVIATION.

8 Q DID YOU EVER HAVE ANY DISCUSSIONS WITH MR. SHEPPARD
9 ABOUT THESE CHARTERED FLIGHTS?

10 A YES, I DID.

11 Q AND WHAT WAS HIS RESPONSE?

12 A AGAIN, IT WAS AN UNUSUAL SITUATION THAT I HADN'T SEEN
13 BEFORE, THE COMPANY WAS NOT MAKING MONEY. AND WHEN I
14 ASKED RONNIE ABOUT IT, BECAUSE OF THOSE OTHER CHANGES THAT
15 I HAD DONE WITH THE COMPENSATION CHANGES AND THE CREDIT
16 BUREAU CHANGES. RONNIE DID NOT LIKE TRAVELING THROUGH
17 COMMERCIAL AIRPORTS AND HE SAID ~~IT~~ WAS ENTITLED TO THIS.
18 SO, HE FLEW THE CHARTERED PLANES, THE TWO TIMES THAT I DID
19 FLY WITH HIM WERE TO BUSINESS LOCATIONS BUT THEY WERE BOTH
20 ON A CHARTER PLANE.

21 Q YOU MENTIONED BACK AT THE VERY BEGINNING OF YOUR
22 TESTIMONY THAT DURING YOUR INTERVIEW THAT MR. SHEPPARD
23 MENTIONED THIS DEBT THAT THEY HAD?

24 A YES.

25 Q BASED UPON YOUR EXPERIENCE IN DEALING WITH THE MAN,

1 DO HIS ACTIONS, ARE THEY DIFFERENT THAN HIS WORDS?

2 MR. GRIFFIN: YOUR HONOR, I AM GOING TO OBJECT, THAT
3 IS INADMISSIBLE OPINION TESTIMONY.

4 THE COURT: I SUSTAIN TO THE FORM OF THE QUESTION.

5 MR. PEAVY: YOUR HONOR, MAY WE APPROACH.

6 THE COURT: SURE.

7 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
8 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
9 JURY.)

10 THE COURT: OBJECTION SUSTAINED.

11 Q MR. BANNINGER, DID YOU EVER REVIEW MR. SHEPPARD'S
12 COMPENSATION AT HOMEGOLD?

13 A I DON'T KNOW IF I REVIEWED IT, I KNEW RONNIE WAS PAID
14 IN EXCESS OF A MILLION DOLLARS PER YEAR, BASE PAY.

15 Q BASE PAY?

16 A CORRECT. ANYTHING ELSE, I DIDN'T KNOW ABOUT BONUSES
17 OR STOCK OR LOANS OR ANY OF THAT, BASE PAY I DID KNOW.

18 Q THAT IS ALL I HAVE, THANK YOU.

19 THE COURT: WE ARE GOING TO TAKE A BREAK. LADIES AND
20 GENTLEMEN, ABOUT TEN MINUTES. DON'T DISCUSS THE CASE, YOU
21 ARE EXCUSED AND EVERYONE ELSE STAY SEATED WHILE THE JURY
22 IS EXCUSED.

23 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
24 A BREAK.)

25 THE COURT: YOU CAN STEP DOWN AND DON'T DISCUSS YOUR

1 TESTIMONY DURING THE BREAK. WE WILL TAKE TEN MINUTES.

2 (WHEREUPON, A SHORT BREAK WAS TAKEN.)

3 THE COURT: IS THE STATE READY?

4 MR. PEAVY: YES, YOUR HONOR.

5 THE COURT: MR. GRIFFIN:

6 MR. GRIFFIN: YES, SIR.

7 THE COURT: BRING THE JURY IN, PLEASE.

8 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
9 APPROXIMATELY 3:55 P.M.)

10 THE COURT: MR. GRIFFIN.

11 CROSS-EXAMINATION

12 BY MR. GRIFFIN:

13 Q GOOD AFTERNOON, MR. BANNINGER.

14 A GOOD AFTERNOON.

15 Q YOU ARE, BEFORE BEING CONTACTED BY THE HEAD HUNTER
16 YOU HAD NEVER MET RONNIE SHEPPARD, CORRECT?

17 A CORRECT.

18 Q YOU ARE NOT RELATED TO HIM BY BLOOD OR MARRIAGE OR
19 HAD NO PRIOR DEALINGS WHATSOEVER, CORRECT?

20 A CORRECT.

21 Q YOU WERE BROUGHT IN, WAS IT DECEMBER OF 2001?

22 A I BELIEVE I GOT MY OFFER IN DECEMBER OF 2001 AND I
23 THINK I STARTED JANUARY OF 2002.

24 Q AND YOU INTERVIEWED WITH MR. SHEPPARD AND ANOTHER
25 PERSON?

1 A JUST RONNIE, GARY ELLY WAS ALSO THERE BUT GARY WAS
2 NOT IN THE MEETING, IT WAS JUST RONNIE AND MYSELF FOR THE
3 INTERVIEW.

4 Q AND THE PURPOSE OF YOU COMING ON BOARD WAS TO, YOU
5 HAD EXPERIENCE WITH MAJOR MORTGAGE COMPANIES?

6 A YES.

7 Q AND PUBLICLY TRADED COMPANIES?

8 A YES.

9 Q COMPANIES THAT ARE SUBJECT TO FILINGS WITH THE SEC?

10 A YES.

11 Q AND THEN HIGHLY REGULATED INDUSTRIES?

12 A YES.

13 Q AND YOU HAD, YOU CHARACTERIZED HOMEGOLD AS SORT OF A,
14 A SMALLER OUTFIT FROM WHAT YOU WERE USED TO?

15 A YES.

16 Q WHAT WERE YOU USED TO?

17 A I WAS USED TO, NUMBER OF ~~SALES~~^{LOANS}, PEOPLE, LOAN OFFICERS
18 IN THE 600 TO 1000 NUMBER OF LOAN OFFICERS WHERE HOMEGOLD
19 WAS SMALLER AT THE TIME BUT THAT IS WHY RONNIE WANTED ME
20 TO COME ABOARD TO GROW IT BECAUSE HE KNEW I HAD BEEN IN
21 THE BUSINESS. AND RONNIE KNEW A FEW PEOPLE THAT WORKED
22 FOR HIM THAT HAD WORKED FOR ME PREVIOUSLY. SO, THEY HAD
23 KNOWN ME.

24 Q AND YOU WERE GIVEN SORT OF A TWO-YEAR WINDOW TO GROW
25 THE BUSINESS?

- 1 A CORRECT.
- 2 Q WITH THE ULTIMATE GOAL TO SELL THE BUSINESS TO PAY
3 BACK DEBT?
- 4 A CORRECT.
- 5 Q THAT YOU LATER LEARNED TO BE DEBT TO CAROLINA
6 INVESTORS?
- 7 A CORRECT.
- 8 Q AND YOU WERE HIRED AND YOU WERE PAID A HANDSOME
9 SALARY?
- 10 A YES.
- 11 Q \$375?
- 12 A CORRECT, MY INCOME HAD BEEN IN THE \$4 TO \$600
13 THOUSAND RANGE PREVIOUSLY SO IT WAS NOT OUT OF LINE, NO.
- 14 Q AND YOU GOT A MILLION SHARES OF STOCK?
- 15 A I NEVER DID GET THOSE SHARES, IT WAS PART OF MY JOB
16 OFFER BUT I NEVER GOT THOSE SHARES.
- 17 Q YOU WERE NEVER ABLE TO GET THOSE SHARES?
- 18 A RIGHT.
- 19 Q AND YOU CAME ON THE JOB IN DECEMBER, JANUARY?
- 20 A YES.
- 21 Q AND THE DAY YOU GET ON THE JOB, WHAT IS BASICALLY THE
22 VOLUME OF THE MORTGAGES THAT ARE BEING ORIGINATED AT
23 HOMEGOLD?
- 24 A I BELIEVE IT WAS IN THE \$30 TO \$40 MILLION DOLLAR
25 MONTH RANGE.

1 Q PER MONTH?

2 A CORRECT.

3 Q AND THEN IN, SEPTEMBER, OCTOBER OF 2002, WHAT IS THE
4 VOLUME?

5 A WE HAD GOTTEN IT UP TO \$80 MILLION DOLLARS PER MONTH.

6 Q \$80 MILLION, SO YOU WENT FROM JANUARY TO \$30 MILLION
7 AND IF YOU ANNUALIZE THE \$30 MILLION, THAT WOULD BE \$360
8 MILLION DOLLARS A YEAR?

9 A YES.

10 Q TO SEPTEMBER, \$80 MILLION?

11 A \$80 MILLION PER MONTH, CORRECT.

12 Q ANNUALIZE THAT, THAT IS CLOSE TO A BILLION DOLLARS?

13 A YES.

14 Q NOW, THAT DIDN'T COME WITHOUT A LOT OF HARD WORK AND
15 EFFORT, DID IT?

16 A NOPE, IT IS A LOT OF WORK TO OPEN THE BRANCHES, TO
17 RECRUIT CAPABLE PEOPLE THAT HAD WORKED FOR ME IN THE PAST
18 THAT HAD RUN PROFITABLE MORTGAGE OPERATIONS. SO, THERE
19 WOULDN'T BE A LONG WINDOW TO LEARN, THINGS COULD MOVE
20 QUICKLY.

21 Q AND THAT WAS MY NEXT QUESTION. THESE BRANCHES THAT
22 YOU OPENED, CAN YOU SORT OF RUN DOWN THE LIST?

23 A THERE WAS CONNECTICUT, OKLAHOMA; LONG ISLAND, NEW
24 YORK; SACRAMENTO, CALIFORNIA; WE HAD BRANCHES IN SOUTH
25 CAROLINA, ARIZONA, CINCINNATI. I BELIEVE WE OPENED

1 APPROXIMATE EIGHT TO TEN OFFICES.

2 Q AND IN THOSE OFFICES, SOME OF THEM WERE GETTING TO
3 CLOSE TO BREAKING EVEN?

4 A YES.

5 Q THINGS WERE HEADED IN THE RIGHT DIRECTION?

6 A YES.

7 Q AND THE OFFICES WERE STAFFED BY PERSONS, NOT
8 EVERYBODY, BUT PEOPLE YOU HAD PREVIOUSLY HAD RELATIONSHIPS
9 WITH IN THE INDUSTRY?

10 A YES, A LARGE, THE SENIOR VICE-PRESIDENTS, WE CALL
11 THEM THAT RAN THE OFFICES, A GOOD PERCENTAGE HAD WORKED
12 WITH ME IN THE PAST. SO, THEY KNEW MY MANAGEMENT STYLE,
13 THEY KNEW HOW I DROVE PRODUCTION AND I WAS ABLE TO BRING
14 THEM IN TO HELP ME TO TRY TO TURN THE SHIP.

15 Q AND I THINK YOU MENTIONED THAT WHEN YOU GOT THERE IT
16 WAS A VERY POSITIVE UPBEAT ATMOSPHERE AMONGST EVERYONE.

17 A SPECIFICALLY THE FIRST THREE MONTHS, THAT IS A
18 DEFINITE ACCURATE STATEMENT. PEOPLE WERE EXCITED THAT,
19 YOU CAN NEVER PLEASE EVERYONE BUT I BELIEVE NINETY PLUS
20 PERCENT OF THE PEOPLE WERE PLEASED WITH THE CHANGE THAT WE
21 WERE MAKING FROM MARKETING TO COMPENSATION TO KAREN MILLER
22 LOOKING AT THE CREDIT BUREAUS AND THAT THERE WAS A
23 DEFINITE FEELING OF HOPE. THE FIRST THREE MONTHS
24 SPECIFICALLY BEFORE THE ISSUES OF IMPAIRMENT AND CAROLINA
25 INVESTORS POPPED UP, YES.

1 Q NOW, FROM YOUR OWN EXPERIENCE WORKING WITH MR.
2 SHEPPARD DURING, I GUESS, STARTING IN JANUARY FORWARD
3 UNTIL YOU LEFT HOMEGOLD AND THAT IS THE PERIOD I WANT TO
4 ASK YOU ABOUT. HE WAS ACTIVELY INVOLVED IN THE MORTGAGE
5 END, THE PRODUCTION END ALONG WITH YOU?

6 A YES.

7 Q AND NOW, WHO WAS RUINING PRODUCTION, IF YOU WILL, IS
8 THAT WHAT YOU WERE DOING?

9 A YES. MY DAY-TO-DAY WAS TO TALK TO THE SALES OFFICES,
10 TO GO THROUGH THEIR PIPELINES WITH THEM, TO GO THROUGH
11 PROJECTIONS, WHAT WAS GOING TO CLOSE TODAY. SO, I PRETTY
12 MUCH FOCUSED ON THE DRIVING OF THE LOANS INTO THE PIPELINE
13 AND FORREST WAS MORE ON THE WAREHOUSE LINE AND THE LOAN
14 SALES PART OF THE BUSINESS.

15 Q AND YOU, WHAT OFFICE DID YOU WORK OUT OF?

16 A WHEN I WAS IN SOUTH CAROLINA IT WAS IN THE
17 HEADQUARTERS WHICH WAS IN LEXINGTON OR COLUMBIA. AND WHEN
18 I WORKED BACK IN PHILADELPHIA, OH, WE DID HAVE AN OFFICE
19 IN THE PENNSYLVANIA AREA ALSO WHICH I USUALLY WORKED OUT
20 OF ON A THURSDAY OR FRIDAY.

21 Q IN COLUMBIA THERE WAS AN OFFICE OUT ON BRIAR GATE OR
22 SOMETHING?

23 A YES.

24 Q IS THAT WHERE YOU WORKED?

25 A YES.

1 Q AND THEN IN LEXINGTON THERE WAS A FACILITY AT REED
2 AVENUE?

3 A REED AVENUE.

4 Q RIGHT OFF OF 378?

5 A CORRECT.

6 Q AT SOME POINT DID YOU MOVE OVER TO THE REED AVENUE
7 FACILITY?

8 A YES, WE DID.

9 Q WHEN WAS THAT, WAS IT BEFORE THE EMMCO TRANSACTION?

10 A WE DEFINITELY MOVED TO THE REED AVENUE BEFORE THE
11 EMMCO TRANSACTION.

12 Q BUT THE REED AVENUE, IT WAS PRIMARILY, WAS IT
13 PRODUCTION OR WHAT?

14 A PRIMARILY PRODUCTION OUTSIDE OF THE, MYSELF, RONNIE
15 AND TODD LAKE WHO RAN MARKETING UP THERE.

16 Q AND REED AVENUE WAS PRETTY MUCH A PRODUCTION MORTGAGE
17 UNIT?

18 A CORRECT.

19 Q NOW, YOU MENTIONED THAT AS YOU, THAT THERE WERE THESE
20 EFFORTS TO MARKET THE, LET ME STAY ON TRACK. UP UNTIL THE
21 MEETING WITH THE WYCHE LAW FIRM THERE WAS A VERY POSITIVE
22 ATTITUDE AMONGST EVERYBODY AND THEN THAT WAS A SIGNIFICANT
23 MEETING?

24 A YES.

25 Q AND THEN AFTER THAT THEN THE FINANCIALS, THERE CAME

1 THE GOING CONCERN QUALIFICATION?

2 A YES.

3 Q AND THAT GOING CONCERN QUALIFICATION, IT IMPACTED
4 HOMEGOLD'S ABILITY TO, HOW DID IT IMPACT HOMEGOLD'S
5 ABILITY TO CONTINUE THEIR RELATIONSHIPS WITH THESE
6 WAREHOUSE LINES OF CREDIT?

7 A THE WAREHOUSE LENDERS, WHICH I BELIEVE WE HAD TWO TO
8 THREE WAREHOUSE LENDERS AT HOMEGOLD THAT ALLOWED US TO DO
9 BUSINESS. WE ALSO HAD TO DO A LOT OF EXPLAINING AND
10 TALKING TO THEM ON CHANGES THAT WE WERE MAKING AT HOMEGOLD
11 RETAIL MORTGAGE DIVISION TO ENSURE THEM THAT WE HAD A GOOD
12 PLAN IN PLACE AND A CHANCE TO MAKE IT PROFITABLE. BUT
13 THERE WAS, FROM THESE WAREHOUSE LENDERS WHEN THAT ITEM
14 CAME OUT, YES.

15 Q AND THE WAREHOUSE LENDERS, THAT IS BASICALLY THE FEW
16 OF THE WAREHOUSE MONEY THAT WOULD ALLOW HOMEGOLD TO MAKE
17 LOANS IN REVENUE, CORRECT?

18 A YES, EITHER TO DO A RETAIL MORTGAGE BUSINESS YOU NEED
19 A WAREHOUSE LINE FOR YOU TO HAVE A GOOD CHANCE AT THE
20 BUSINESS BECOMING PROFITABLE.

21 Q NOW, WITH THE GOING CONCERN QUALIFICATION COMING OUT,
22 I THINK YOU MENTIONED THAT THE CONVERSATION WITH MR.
23 SHEPPARD, HE ADVISED THIS WINDOW, THE OPPORTUNITY YOU WERE
24 GIVEN TO GROW THE RETAIL BRANCH FOR SALE TO PAY OFF THE
25 DEBT HAD NOW JUST CLOSED AND SHORTENED TREMENDOUSLY?

1 A THAT'S CORRECT.

2 Q AND THE REASON FOR THAT WAS BECAUSE THE EXPECTATION
3 AND THE GOING CONCERN QUALIFICATIONS, THESE WAREHOUSE
4 LENDERS WERE GOING TO, DON'T KNOW IF THEY ARE GOING TO
5 STAY AROUND UNTIL YOU LOAN MONEY TO HOMEGOLD?

6 A THAT'S CORRECT. WE WERE GOING TO AND BECAME NERVOUS,
7 YES.

8 Q THEY BECAME NERVOUS BECAUSE OF GOING CONCERN AND UGLY
9 FINANCIAL STATEMENTS THAT WERE BEING PUT IN THE PUBLIC?

10 A CORRECT.

11 Q YOU WERE WORKING AS FAST AS YOU CAN TO GET THE RETAIL
12 BRANCHES UP AND RUNNING TO GET THIS MODEL IN PLACE BUT YOU
13 HAD TO CUT YOUR WINDOW ABOUT HALF?

14 A AT LEAST HALF. ORIGINALLY OUR FIRST CONVERSATION,
15 RONNIE, IT WAS SOMEWHERE IN THE TWO TO THREE YEAR TIME
16 FRAME, HE SAID THAT IS KIND OF WHAT HE HAD IN MIND, IT
17 WASN'T A SPECIFIC TWO YEARS IT HAS GOT TO BE DONE. AND SO
18 THAT IS WHAT I WAS WORKING TO BUT AFTER WE HAD THAT MARCH
19 MEETING WE WEREN'T EXACTLY SURE WHAT THE FUTURE WAS GOING
20 TO BRING. SO, THAT IS WHEN THAT WINDOW OF TWO YEARS GOT
21 SHORTENED THAT I NEED YOU TO OPEN UP MORE BRANCHES, BRING
22 IN MORE PEOPLE THAT YOU DO KNOW SO THAT THE PRODUCTION
23 COULD GET INCREASED QUICKER.

24 Q AND MR. PHILPOTT WAS RETAINED TO GO ATTEMPT TO
25 MARKET?

1 A YES, HE WAS.

2 Q AND I THINK THAT YOU MENTIONED THAT YOU AND MR.
3 PHILPOTT AND OTHERS HEADED DOWN TO VISIT FREEMONT?

4 A YES.

5 Q MR. SHEPPARD DID NOT MAKE THAT TRIP?

6 A NO, RONNIE DID NOT GO TO FREEMONT, NO.

7 Q AND ON THAT TRIP DID YA'LL TAKE A COMMERCIAL AIRFARE
8 OR DID YA'LL TAKE A PRIVATE JET?

9 A I DON'T REMEMBER, COULD OF BEEN EITHER, I HONESTLY DO
10 NOT REMEMBER HOW WE FLEW DOWN THERE.

11 Q AND YOU SAID EARLIER THAT YOU THOUGHT THAT FREEMONT
12 MADE AN OFFER?

13 A YES.

14 Q WAS IT, DID YOU SEE ANY WRITTEN DOCUMENTATION?

15 A NO.

16 Q WERE YOU INVOLVED IN ANY OF THE NEGOTIATIONS LEADING
17 UP TO THE OFFER?

18 A NO, OUTSIDE THE INITIAL TALK IN JACKSONVILLE, FLORIDA
19 WHICH WAS THE PRESENTATION.

20 Q SO, AFTER THAT INITIAL PRESENTATION IN JACKSONVILLE
21 DID YOU HAVE ANY CONVERSATION WITH ANYONE FROM FREEMONT?

22 A I DO NOT BELIEVE SO, I REMEMBER I DID THE
23 PRESENTATION, WE WENT BACK AND I GOT A LITTLE FEEDBACK
24 FROM RONNIE THAT THEY WERE INTERESTED, THERE WAS SOME
25 UPFRONT MONEY, I COULDN'T QUOTE AN EXACT AMOUNT BUT THE

1 OFFER WASN'T WHAT THEY WERE LOOKING FOR. SO, I DO NOT
2 BELIEVE THAT I SPOKE TO ANYBODY FROM FREEMONT AFTER THAT
3 INITIAL PRESENTATION.

4 Q AND CERTAINLY YOU DIDN'T SEE ANY DUE DILIGENCE TEAM
5 COME FROM FREEMONT?

6 A NO.

7 Q NOW, AND SO WHEN YOU USE THE TERM, OFFER, YOU ARE
8 USING IT LOOSELY?

9 A VERBAL, I WOULD SAY WHEN I REFER TO OFFER, IT WOULD
10 HAVE TO BE A VERBAL OFFER OR A VERBAL DISCUSSION. I DID
11 NOT SEE ANY WRITTEN DOCUMENTS THAT CAME FROM FREEMONT OR
12 FROM IMPAC.

13 Q OR A WRITTEN LETTER OF INTENT?

14 A NO, I DID NOT.

15 Q AND THE SECOND, I BELIEVE THERE WERE DISCUSSIONS WITH
16 WELLS FARGO?

17 A YES.

18 Q NOW, THAT NEVER MADE IT TO THE POINT OF OFFER, DID
19 IT?

20 A I DO NOT BELIEVE SO, NO, I BELIEVE THERE WERE THREE
21 POSSIBILITIES, WELLS FARGO, IMPAC AND FREEMONT AND I DO
22 NOT BELIEVE WELLS FARGO WENT PAST THE INITIAL
23 PRESENTATION. I NEVER HEARD ANY FEEDBACK THAT THEY WERE
24 INTERESTED, NO.

25 Q AND THEN THE THIRD, IMPAC, YOU KNOW THAT THERE WERE

1 NEGOTIATIONS AND DISCUSSIONS?

2 A THAT IS CORRECT.

3 Q WOULD INCLUDE OFFERS?

4 A YES.

5 Q AND I BELIEVE THERE WAS A LETTER OF INTENT SIGNED AT
6 ONE POINT AND TIME?

7 A I DID NOT KNOW THAT, I NEVER SAW THAT, NO.

8 Q SO, YOU WERE NOT INVOLVED IN THESE DISCUSSIONS?

9 A NO.

10 Q AND NOTHING WAS PRESENTED TO YOU AS A MEMBER OF THE
11 BOARD ABOUT ANY OF THESE OFFERS?

12 A NO.

13 Q OR ANY OTHER BOARD MEMBERS?

14 A TO MY KNOWLEDGE, NO.

15 Q NEVER MADE IT TO THAT POINT?

16 A NO. EVERYTHING AS FAR AS IMPAC BEING INTERESTED AND
17 FREEMONT, AS FAR AS I KNEW IT WAS VERBAL, VERBAL COMMENTS
18 MADE TO MR. PHILPOTT THAT GOT TO RONNIE.

19 Q NOW, DURING THE FALL AND WE ARE IN THE FALL OF 2002,
20 HOMEGOLD IS STILL, HAS ITS WAREHOUSE MONIES OUT THERE FROM
21 VARIOUS SORTS, IMPAC, CORRECT?

22 A YES.

23 Q AND WHEN THESE DISCUSSIONS WITH IMPAC WERE FALLING
24 APART OR THE DEAL NOT GOING THROUGH, YOU CALL IMPAC AND
25 SAY WE ARE JUST GOING TO SHUT THESE WAREHOUSE LINES DOWN?

1 A YES, I DID.

2 Q AND THAT WAS PRETTY MUCH THE PRIMARY SOURCE OF
3 WAREHOUSE MONEY THAT HOMEGOLD HAD, WASN'T IT?

4 A IT WAS IMPAC AND HOUSEHOLD, HFC WAREHOUSE LINE, I
5 BELIEVE THOSE WERE THE TWO MAIN.

6 Q AND WITH IMPAC CLOSING DOWN, FUTURE PROSPECTS FOR
7 HOMEGOLD WERE PRETTY DIM?

8 A CORRECT.

9 Q AND IT WAS IN THAT CONTEXT THAT THE DISCUSSIONS ABOUT
10 EMMCO AND THE OPPORTUNITY TO TAKE THIS RETAIL MORTGAGE
11 CHANNEL OUT FROM UNDER HOMEGOLD AND OPERATE IT PROFITABLY?

12 A IT WAS A COMBINATION OF TWO THINGS. FOR WHATEVER
13 REASON THE RETAIL CHANNEL COULD NOT BE SOLD AND THAT THE
14 WAREHOUSE LINES WERE BEGINNING TO PULL BACK, RESTRICT
15 THOSE TWO FACTORS IS WHAT BROUGHT EMMCO TO THE FRONT.

16 Q WITH THE EMMCO DEAL YOU WERE, TO RECEIVE AND DID
17 RECEIVE TEN PERCENT?

18 A CORRECT.

19 Q THAT ENTITY?

20 A YES.

21 Q AND THAT ENTITY WAS, THERE WAS EFFORTS TO LINE UP
22 WAREHOUSE MONEY FOR THAT STAND ALONE COMPANY, CORRECT?

23 A YES.

24 Q AND YOU HAD MENTIONED, FIRST TENNESSEE WAS A
25 WAREHOUSE LENDER THAT WAS PREPARED?

1 A YES, THEY DID.

2 Q WHAT WAS THE SECOND ONE?

3 A PROVIDENT.

4 Q PROVIDENT AND THEN THERE WAS A \$50 MILLION WAREHOUSE
5 LINE FROM HOUSEHOLD?

6 A HOUSEHOLD HAD ALSO BEEN A POSSIBILITY, YES.

7 Q AND IN IDENTIFYING THESE PROSPECTS THERE WAS AT LEAST
8 \$100 MILLION DOLLARS OF WAREHOUSE MONEY, WAREHOUSE LINES
9 OF CREDIT THAT YOU AND MR. SHEPPARD HAD IDENTIFIED?

10 A IT WAS IN THAT RANGE, I WOULD SAY \$70 TO \$100
11 MILLION.

12 Q AND THEN WHEN THE EMMCO TRANSACTION TOOK PLACE AND
13 YOU MENTIONED THAT THERE WAS THIS MONTH WINDOW OF
14 TRANSITION FROM WHERE YOU AND MR. SHEPPARD RESIGNED FROM
15 THE BOARD IN NOVEMBER UNTIL 1/1/'03?

16 A CORRECT.

17 Q AND YOU WERE AT REED AVENUE?

18 A CORRECT.

19 Q AND THE HEADQUARTERS WAS OVER IN COLUMBIA AT BRIAR
20 GATE?

21 A CORRECT.

22 Q DURING THAT PERIOD OF TIME THESE PRODUCTION PEOPLE,
23 THEY WERE REPORTING TO FORREST FERRELL, WERE THEY NOT?

24 A THE HOMEGOLD, YES, THEY WERE.

25 Q AND YOU AND MR. SHEPPARD HAD OFFICES AT REED AVENUE?

1 A CORRECT.

2 Q AND YOU WERE IN THE PROCESS OF GETTING LICENSED UP IN
3 ALL OF THE STATES?

4 A IT WAS A TREMENDOUS AMOUNT OF WORK THAT HAD TO HAPPEN
5 WITH LICENSING, TRANSFERS, INSURANCE COVERAGE, BONDS AND
6 SPECIFICALLY THE WAREHOUSE LINES. SO, WE, AGAIN
7 EVERYTHING WAS SHORT, HAD TO HAPPEN QUICK SO IT WAS A
8 TREMENDOUS AMOUNT OF, FROM OPENING UP THE OFFICES, TO
9 GETTING THE WAREHOUSE LINES IT WAS JUST TREMENDOUS SENSE
10 OF URGENCY, A LOT OF STUFF HAD TO HAPPEN IN A QUICK PERIOD
11 OF TIME.

12 Q AND THEN IN JANUARY THERE WAS THE OPENING UP, FOR
13 GOOD, EMMCO WAS UP AND RUNNING AT THAT POINT AND TIME?

14 A YES.

15 Q AND THAT THERE WAS AN AGREEMENT REACHED BETWEEN EMMCO
16 AND HOMEGOLD?

17 A YES, THE PURCHASE AGREEMENT AND THE OPERATING
18 AGREEMENT.

19 Q YOU AND MR. SHEPPARD WERE NOT ON THE BOARD OF
20 HOMEGOLD WHEN THAT AGREEMENT WAS CONSIDERED OR VOTED BY
21 HOMEGOLD?

22 A NO, WE WERE NOT.

23 Q AND YA'LL WERE ON THE EMMCO SIDE OF THE TRANSACTION?

24 A I WILL SAY THIS, FOR THAT ONE 30 DAY PERIOD OF TIME
25 WE WERE NOT ON THE BOARD OF HOMEGOLD, I WILL SPEAK FOR

1 MYSELF, I RESIGNED NOVEMBER OF 2002. SO, I WAS NO LONGER
2 ON THE BOARD OF HOMEGOLD WHEN THE HOMEGOLD BOARD VOTED TO
3 DO THE EMMCO TRANSACTION.

4 Q MR. SHEPPARD WASN'T ON THE BOARD?

5 A CORRECT.

6 Q YA'LL RESIGNED ON THE SAME DAY?

7 A YES, RONNIE HAD ALSO RESIGNED IN NOVEMBER OF 2002.

8 Q NOW, AND THEN THE FIRST QUARTER OF 2003 AS HOMEGOLD,
9 EMMCO IS GETTING LICENSED UP THERE IS AN AGREEMENT BETWEEN
10 EMMCO AND HOMEGOLD TO OPERATE ON THE WAREHOUSE LINES
11 ALREADY IN PLACE?

12 A CORRECT.

13 Q AND THEN AT SOME POINT AND TIME LOANS THAT WERE
14 FUNDED ON THAT THROUGH PRODUCTION PEOPLE ON EMMCO'S
15 PAYROLL DIDN'T MAKE IT BACK TO EMMCO, THERE WAS A DISPUTE
16 BETWEEN HOMEGOLD AND EMMCO?

17 A THAT IS CORRECT. THERE WAS SPECIFICALLY A DISPUTE
18 BETWEEN RONNIE SHEPPARD AND BETWEEN KAREN MILLER ON THE
19 LOANS THAT EMMCO HAD USED ON THE HOMEGOLD WAREHOUSE LINES
20 BUT WHEN THOSE LOANS WERE SOLD THE MONIES DID NOT COME TO
21 EMMCO. SO, I REMEMBER THAT RONNIE AND KAREN WERE IN A
22 HEATED DISCUSSION ON THAT TOPIC, YES.

23 Q AND THAT CREATED LIQUIDITY PROBLEMS FOR EMMCO?

24 A CORRECT.

25 Q BECAUSE EMMCO TOOK OVER, BASICALLY, A LARGE AMOUNT OF

1 PAYROLL, PERSONNEL?

2 A CORRECT.

3 Q HOW MANY EMPLOYEES DID EMMCO START?

4 A OUT OF THE APPROXIMATE 15 OFFICES THAT EXISTED AT
5 HOMEGOLD APPROXIMATELY HALF HAD COME OVER TO EMMCO.

6 Q SEVEN OFFICES AROUND THE COUNTRY?

7 A YES.

8 Q EIGHT?

9 A YES.

10 Q HOW MANY EMPLOYEES?

11 A WOULD BE SEVERAL HUNDRED.

12 Q AND THIS CONTRACT DISPUTE AROSE BETWEEN EMMCO AND
13 HOMEGOLD?

14 A CORRECT.

15 Q AND THIS WAS FIRST QUARTER OF 2003?

16 A YES.

17 Q AND THEN HOMEGOLD AND CAROLINA INVESTORS FILED
18 BANKRUPTCY?

19 A YES.

20 Q AND DID THAT BANKRUPTCY FILING, IN RELATED ISSUES,
21 AFFECT EMMCO'S ABILITY TO CONTINUE GETTING THIS WAREHOUSE?

22 A YES, IT DEFINITELY DID. THE PROVIDENT WHO WE HAD A
23 WAREHOUSE LINE WITH AT EMMCO, THEY LOVED THE CONCEPT OF A
24 SEPARATE LEGAL ENTITY THAT WOULD BE ABLE TO GROW THE
25 BUSINESS WITHOUT LEGAL EXPOSURE. AS SOON AS THAT NEWS

1 BROKE PROVIDENT CANCELED THE WAREHOUSE LINE. I BELIEVE
2 THAT WAS IN THE \$5 TO \$10 MILLION DOLLAR RANGE AND WE HAD
3 SIMILAR PROBLEMS WITH HOUSEHOLD. FIRST TENNESSEE STAYED
4 ON A WHILE, THE FIRST TENNESSEE WAREHOUSE LINE, RONNIE HAD
5 KNOWN THE GENTLEMAN, SOME GENTLEMAN AT FIRST TENNESSEE
6 FIRST HORIZONS, THAT WAREHOUSE LINE STAYED LONGER THAN THE
7 OTHER TWO.

8 Q NOW, THE HOUSEHOLD LINE, THAT WAS \$50 MILLION
9 DOLLARS?

10 A CORRECT.

11 Q SO, THAT WAS A REAL CRUNCH ON EMMCO'S ABILITY TO
12 CONTINUE OPERATING WITHOUT THE WAREHOUSE LINES, RIGHT?

13 A YES.

14 Q AND THOSE CANCELED AS THE RESULT OF THE BANKRUPTCY
15 AND ENSUING LITIGATION?

16 A CORRECT.

17 Q ON ALL OF THESE WAREHOUSE LINES MR. SHEPPARD IS THE
18 PERSONAL GUARANTEE OF THOSE, CORRECT?

19 A CORRECT.

20 Q NOW, YOU MENTIONED SOME COMPANIES, SPECIFICALLY YOU
21 MENTIONED CONNECTED INFORMATION SYSTEMS?

22 A YES.

23 Q AND YOU RECEIVED TEN PERCENT OF EMMCO?

24 A YES.

25 Q AND YOU BELIEVE THAT CONNECTED INFORMATION SYSTEMS

1 WAS IN THE EMMCO AGREEMENT, THAT IT CAME OVER WITH EMMCO?

2 A YES.

3 Q DID YOU PAY ANYTHING FOR THE TEN PERCENT?

4 A I DON'T BELIEVE SO, NO.

5 Q BUT YOU CAME OVER WITH THE SALARY THAT YOU HAD, WERE
6 RECEIVING AT HOMEGOLD?

7 A CORRECT.

8 Q AND THEN YOU, IN THIS CONNECTED INFORMATION SYSTEM
9 ENTITY WAS SOMETHING THAT YOU FELT WAS GETTING UP?

10 A YES, I HAD SAT ONE UP BEFORE AT A PREVIOUS COMPANY
11 AND IT HAD BECOME A VERY PROFITABLE ADDITION TO THE BOTTOM
12 LINE SO I KNEW WHAT IT COULD DO, AGAIN, HAVEN BEEN GIVEN
13 TIME.

14 Q AND YOU, I BELIEVE YOU SAID THAT MR. SHEPPARD SAID
15 WORDS TO THE EFFECT THAT HE BOUGHT IT OR PUT IT IN R-DOC?

16 A CORRECT.

17 Q DID HE SAY HE PUT IT IN R-DOC?

18 A HE SAID HE WAS BUYING IT FOR HIMSELF AND PUTTING IT
19 IN R-DOC, YES.

20 Q R-DOC?

21 A YES.

22 Q AND WERE YOU AWARE THAT R-DOC IS OWNED BY EMMCO?

23 A NO, I WAS AWARE THAT R-DOC WAS OWNED BY RONNIE.

24 Q THAT IS WHAT YOU BELIEVED?

25 A YES, IT WAS.

1 Q WERE YOU INVOLVED IN SETTING UP THESE CORPORATE
2 ENTITIES?

3 A NO.

4 Q NOW, YOU LEFT EMMCO WHEN?

5 A SEPTEMBER, OCTOBER OF 2003.

6 Q AND THE EMMCO STARTED UP IN?

7 A JANUARY OF 2003.

8 Q SO, YOU WERE THERE ABOUT TEN MONTHS?

9 A CORRECT.

10 Q AND YOU RETURNED YOUR TEN PERCENT, NOT RETURN, YOU
11 CONVEYED YOUR TEN PERCENT INTEREST IN EMMCO OVER TO MR.
12 SHEPPARD ROUGHLY IN?

13 A APRIL OF 2003.

14 Q WITHIN A MONTH AFTER THE BANKRUPTCY?

15 A CORRECT.

16 Q AND THAT IS SOMETHING THAT YOU WANTED TO TURN OVER TO
17 HIM?

18 A YES.

19 Q BECAUSE YOU FELT THAT IF YOU TURNED IT OVER TO HIM
20 THAT WOULD REMOVE YOU FROM ANY POTENTIAL LITIGATION?

21 A I THOUGHT, IT WAS A COMBINATION OF THAT PLUS THE FACT
22 THAT THE WHOLE CONCEPT BEHIND EMMCO TURNS OUT, THAT IT WAS
23 NOT GOING TO BE ABLE TO BE HAPPENED, WE THOUGHT WE WOULD
24 BE ABLE TO HAVE THESE WAREHOUSE LINES, BE POSSIBLY REMOVED
25 FROM LEGAL RISK, THAT WE WOULD HAVE AN OPPORTUNITY TO GROW

1 IT, THAT I DIDN'T HAVE AT HOMEGOLD. SO, IT WAS A
2 COMBINATION OF THAT, YES.

3 Q SO, AFTER THE BANKRUPTCY, THE LITIGATION, THE WHOLE
4 GAME PLAN JUST FELL APART?

5 A CORRECT.

6 Q AND THEN EMMCO HAD TO START CLOSING BRANCHES AROUND
7 THE COUNTRY?

8 A YES.

9 Q AND WHEN YOU LEFT IT WAS DOWN TO?

10 A I BELIEVE IT WAS JUST THE SOUTH CAROLINA, I BELIEVE
11 THERE WAS THREE BRANCHES IN SOUTH CAROLINA, I BELIEVE THAT
12 WAS WHAT WAS LEFT WHEN I RESIGNED IN THAT SEPTEMBER,
13 OCTOBER TIME FRAME.

14 Q YOU TESTIFIED ABOUT CUTTING EXPENSES AND MR.
15 SHEPPARD'S SALARY?

16 A YES.

17 Q I THINK YOU SAID YOU SAID IT WAS MORE THAN A MILLION
18 DOLLARS A YEAR?

19 A YES.

20 Q BUT YOU DON'T KNOW WHAT PORTION OF THAT AMOUNT THAT
21 SHOWS UP ON THE SALARY REPORTS IS FOR COMPENSATION, WHAT
22 WAS PREVIOUSLY AGREED TO BY HOMEGOLD AND MR. SHEPPARD FOR
23 PAYMENT OF HOMESENSE?

24 A NO, I DON'T KNOW ANY OF THAT, NO.

25 Q THAT IS ALL I HAVE.

1 THE COURT: ANY REDIRECT?

2 MR. PEAVY: NO, YOUR HONOR.

3 THE COURT: YOU MAY STEP DOWN. CALL YOUR NEXT
4 WITNESS, PLEASE.

5 MR. PEAVY: THE STATE CALLS MARTHA MURPHREE.

6 MARTHA MURPHREE, AFTER BEING DULY SWORN,
7 TESTIFIED AS FOLLOWS:

8 DIRECT EXAMINATION

9 BY MR. PEAVY:

10 Q MS. MURPHREE, TELL US A LITTLE BIT ABOUT YOURSELF.

11 A WELL, I HAVE LIVED IN GREENVILLE, SOUTH CAROLINA FOR
12 THE PAST 40 YEARS. AND I AM RETIRED FROM J.P. STEVENS
13 TEXTILE, JTS. AND MY HUSBAND IS A RETIRED INDEPENDENT
14 LIFE INSURANCE. AND I HAVE THREE CHILDREN, ONE GRANDSON
15 21 YEARS OLD TODAY.

16 Q PRIOR TO YOUR RETIREMENT, MS. MURPHREE, WHAT DID YOU
17 DO AT THAT TEXTILE COMPANY?

18 A I WORKED A LITTLE WHILE AT STONES MANUFACTURING AS A
19 ORDER FILLER.

20 Q AND THEN WHAT WAS THAT COMPANY YOU JUST MENTIONED,
21 JTS?

22 A I FILLED ORDERS THERE, WITH JTS I WAS A INSPECTOR FOR
23 CLOTH.

24 Q AT SOME POINT DURING THE 40 YEARS YOU LIVED IN THE
25 UPSTATE DID YOU BECOME AWARE OF A COMPANY CALLED CAROLINA

1 INVESTORS?

2 A YES.

3 Q AND HOW DID YOU BECOME AWARE OF THAT?

4 A WELL, I HAVE AN AUNT THAT LIVES IN PICKENS AND MY
5 HUSBAND WOULD HELP HER CUT HER GRASS AND DO CHORES FOR
6 HER. SO EVERY TIME THAT WE WOULD GO TO PICKENS WE WOULD
7 ALWAYS SEE THIS BIG BILLBOARD SIGN, A LARGE SIGN THAT WAS
8 ADVERTISING CAROLINA INVESTORS INTEREST RATES. SO AFTER
9 SEVERAL YEARS OF JUST RIDING BY AND READING THAT SIGN IT
10 LOOKED GOOD. THEIR INTEREST RATE IS LIKE EIGHT AND A HALF
11 PERCENT, MY HUSBAND AND I, WE WOULD TALK ABOUT MAYBE THAT
12 IS WHERE WE SHOULD PUT OUR MONEY. SO, WE DECIDED THAT WE
13 WOULD PULL OUR MONEY OUT OF THE BANK AND GO WITH CAROLINA
14 INVESTORS.

15 Q PRIOR TO INVESTING AT CAROLINA INVESTORS DID YOU COME
16 TO LEARN THAT YOU WERE RELATED TO ANYBODY WHO WORKED
17 THERE?

18 A YES, I LEARNED THAT LARRY OWEN WAS THE PRESIDENT.

19 Q AND WERE YOU RELATED TO HIM?

20 A YES, OUR MOTHERS WERE FIRST COUSINS, OUR GRANDMOTHERS
21 WERE SISTERS. SO, AT REUNIONS WE WOULD SEE THE FAMILY AND
22 OUR MOTHERS WERE VERY CLOSE AND I WAS VERY CLOSE TO HIS
23 GRANDMOTHER.

24 Q DO YOU REMEMBER THE DATE OF MARCH 21ST OF 2003?

25 A YES.

1 Q WHERE WERE YOU?

2 A I WAS HOME.

3 MR. GRIFFIN: YOUR HONOR, CAN WE APPROACH?

4 THE COURT: SURE.

5 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
6 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
7 JURY.)

8 THE COURT: OBJECTION UNDER 403 IS OVERRULED.

9 Q MS. MURPHREE, DO YOU REMEMBER THE DATE OF MARCH 21ST
10 OF 2003?

11 A YES.

12 Q WHERE WERE YOU?

13 A I WAS HOME.

14 Q WHAT WERE YOU DOING?

15 A WELL, I WAS LEISURING AT HOME AND WE GOT A PHONE
16 CALL. AND OUR FRIEND HAD CALLED, HIS MOTHER HAD GONE TO
17 CAROLINA INVESTORS THAT MORNING TO INVEST \$10 THOUSAND
18 DOLLARS, THIS WAS MY FRIEND. SHE CALLS HER SON, HER SON
19 CALLED ME AND SAID, MARTHA, CAROLINA INVESTORS HAS CLOSED
20 ITS DOORS. AND I WAS IN TOTAL SHOCK.

21 Q WHAT HAPPENED THEN?

22 A I PUT DOWN THE PHONE AND I RAN TO MY DESK, OPENED MY
23 DRAWERS AND PULLED OUT MY BIG BROWN ENVELOPE THAT I HAD
24 PUT ALL OF MY PAPERS IN. I PULLED EVERYTHING OUT JUST
25 LIKE I HAD PUT THEM IN THE LAST DAY I WAS AT CAROLINA

1 INVESTORS. AND WHEN I PULLED THEM OUT SOME PAPERS HAD
2 BEEN PULLED FACE DOWN, AND I HAD NOT READ ANY OF THAT
3 INFORMATION SINCE I HAD LEFT CAROLINA INVESTORS. AND WHEN
4 I PULLED THEM OUT THAT DAY AND TURNED THEM OVER THE FIRST
5 PARAGRAPH I READ, ALL THE LOSS THAT HOMEGOLD AND CAROLINA
6 INVESTORS HAD OCCURRED AND THERE WAS A GREAT RISK. WHEN
7 THE LADY HANDED ME THE PAPERS SHE TURNED THEM OVER FACE
8 DOWN. I DID NOT TURN THEM OVER UNTIL THAT DAY AND I
9 DIDN'T THINK THEY WERE IMPORTANT BECAUSE SHE HAD TURNED
10 THEM DOWN FACE DOWN. BUT IN MY MIND I SAID, WHEN I GET
11 TIME I WILL READ THEM. BUT I DIDN'T READ THEM UNTIL THAT
12 DAY AND I THOUGHT THESE WERE IMPORTANT.

13 Q AT SOME POINT, MS. MURPHREE, WHEN DID YOU FIRST START
14 INVESTING AT CAROLINA INVESTORS?

15 A MAY OF '98.

16 Q AND THEREAFTER DID YOU INVEST ADDITIONAL MONIES IN
17 1999, MA'AM?

18 A YES.

19 Q AND THEREAFTER DID YOU INVEST ADDITIONAL MONIES IN
20 DECEMBER OF 2000?

21 A YES.

22 Q HOW MUCH MONEY DID YOU, ROUGHLY--

23 A ROUGHLY WE INVESTED \$40 THOUSAND DOLLARS. BUT AT ONE
24 POINT WE DID GET UP TO \$51 THOUSAND.

25 Q THAT IS WITH THE INTEREST?

1 A YES.

2 Q DID THERE EVER COME A TIME THAT YOU BECAME CONCERNED
3 ABOUT THE SAFETY OR SECURITY OF YOUR INVESTMENTS?

4 A YES.

5 Q TELL ME ABOUT THAT, PLEASE, MA'AM.

6 A IN SEPTEMBER OF '02 I WAS READING THE GREENVILLE NEWS
7 AND I FOUND THIS LITTLE ARTICLE THAT SAID, THAT THE CREDIT
8 RATING FOR CAROLINA INVESTORS HAD BEEN LOWERED. AND I
9 BECAME TROUBLED IN MY HEART. I THOUGHT, WHAT IS GOING ON,
10 SOMETHING IS GOING ON. SO, ME AND MY HUSBAND DECIDED THAT
11 WE WOULD PULL OUR MONEY OUT OF CAROLINA INVESTORS AND PUT
12 IT BACK INTO OUR BANK.

13 Q AND AS A RESULT OF READING THAT ARTICLE WHAT DID YOU
14 DO?

15 A MY HUSBAND AND I TALKED ABOUT IT ABOUT A WEEK, THIS
16 IS STILL SEPTEMBER, LATER PART OF SEPTEMBER. ON MY WAY TO
17 PICKENS TO HELP MY AUNT I STOPPED AT THE CAROLINA
18 INVESTORS OFFICE THERE IN EASLEY AND I WENT IN AND MY GOAL
19 THERE WAS TO WITHDRAW ALL OF OUR MONEY AND PUT IT IN THE
20 BANK.

21 Q AND WHEN YOU WALKED INTO CAROLINA INVESTORS, TELL US
22 WHAT HAPPENED?

23 A I WENT TO THE LADY THERE THAT WAS STANDING BEHIND THE
24 WINDOW. AND I SAID, I AM HERE TO WITHDRAW OUR MONEY. AND
25 SHE SAID BEFORE YOU DO ANYTHING YOU FIRST MUST TALK TO

1 LARRY OWEN.

2 Q WHAT DID YOU THINK ABOUT THAT?

3 A I RESENTED IN MY HEART BECAUSE IN MY HEART I DIDN'T
4 COME TO TALK TO ANYBODY REALLY, I JUST CAME TO GET MY
5 MONEY. AND MY HEART DROPPED BECAUSE I THOUGHT, HERE I AM,
6 I HAVE GOT TO TALK TO SOMEBODY ELSE. AND SO I LOOKED TO
7 MY RIGHT AND LARRY WAS STANDING OUTSIDE OF HIS OFFICE AND
8 HE WAS BECKONING ME TO COME ON. AND HE INVITED ME TO COME
9 IN AND HAVE A SEAT.

10 Q WHAT HAPPENED THEN, MA'AM.

11 A LARRY ASKED ME, WHAT IS THE MATTER, WHAT IS THE
12 PROBLEM. AND I SAID, LARRY, I HAVE READ IN THE GREENVILLE
13 NEWS THAT CAROLINA INVESTORS CREDIT RATING HAS BEEN
14 LOWERED.

15 Q HE SAYS, MARTHA, YOU CANNOT--

16 MR. GRIFFIN: OBJECTION.

17 THE COURT: WAIT A MINUTE.

18 MR. GRIFFIN: OBJECTION, HEARSAY.

19 THE COURT: OVERRULED, YOU MAY CONTINUE.

20 Q YOU MENTIONED THAT YOU WERE TALKING TO MR. OWEN ABOUT
21 THE GREENVILLE NEWS, TAKE IT FROM THERE, WILL YOU, PLEASE,
22 MA'AM.

23 A OKAY, WHILE WE WERE TALKING THE PHONE RANG AND HE
24 BEGAN TO TALK AND THEN HE EXCUSED ME FROM THE ROOM. SO, I
25 WAS OUT JUST A SHORT TIME, HE CALLED ME BACK IN. AND HE

1 SAID, MARTHA, THAT WAS OUR OFFICE IN COLUMBIA CALLING ME.
2 EVERYTHING IS LOOKING GOOD, YOU HAVE NOTHING TO WORRY
3 ABOUT. I SAID, WHO IS HOMEGOLD AND HE SAID THAT IS OUR
4 PARENT COMPANY.

5 Q DID YOU MENTION ANYTHING TO HIM ABOUT LIFE INSURANCE
6 OR ANYTHING LIKE THAT?

7 A YES. I TOLD LARRY INITIALLY THAT WE COULD NOT AFFORD
8 TO LOSE OUR MONEY BECAUSE MY HUSBAND'S INSURANCE COMPANY
9 HAD MERGED WITH ANOTHER COMPANY. AND AFTER THREE YEARS MY
10 HUSBAND'S LIFE INSURANCE WAS DONE AWAY WITH. AND I SAID,
11 LARRY, WE CANNOT AFFORD TO LOSE OUR MONEY.

12 Q DID HE MAKE REFERENCE TO A BANK IN CALIFORNIA?

13 A YES. I ASKED WHAT HOMEGOLD WAS, WHO THEY WERE. HE
14 SAID THAT THIS IS THE PARENT COMPANY AND THEY HANDLE HOME
15 MORTGAGES. AND HE SAID, WE, THE CAROLINA INVESTORS TAKE
16 CARE OF COMMERCIAL MORTGAGES. NOW, HE SAID THERE IS A
17 BANK IN CALIFORNIA THAT IS COMING TO HELP HOMEGOLD. AND
18 HE SAYS, THAT WE HAVE HAD A \$2 MILLION DOLLARS INVESTMENT
19 THIS WEEK AND THINGS ARE LOOKING GOOD.

20 Q DURING THAT MEETING THAT YOU HAD WITH MR. OWEN DID HE
21 MENTION ANYTHING NEGATIVE?

22 A NO, LARRY WAS VERY POSITIVE AND UPBEAT AND HE GAVE ME
23 THE IMPRESSION THAT WE WERE ON TOP OF EVERYTHING.

24 Q NOW, A COUPLE OF WEEKS LATER AFTER THAT MEETING THAT
25 YOU HAD IN HIS OFFICE, DID YOU ACTUALLY WITHDRAW SOME OF

1 YOUR INVESTMENTS?

2 A YES, MY HUSBAND AND I TALKED ABOUT OUR INVESTMENT.

3 AND SOMEHOW AFTER READING THE NEWSPAPER THERE WAS A LITTLE

4 ANNOYING DISCONTENT IN MY HEART. I FELT LIKE SOMETHING

5 WAS WRONG, I DIDN'T KNOW. AND SO WE DECIDED THAT IT WOULD

6 JUST BE BEST TO TAKE OUR MONEY OUT AND SO I DECIDED TO GO

7 BACK TO ANOTHER BRANCH AND NOT GO TO THE EASLEY BRANCH

8 BECAUSE I DIDN'T WANT TO RUN INTO LARRY OWEN AGAIN. I

9 DIDN'T WANT ANOTHER TALK. SO, I WENT OVER TO THE BRANCH

10 AND IT WAS ON WHITE HORSE ROAD, GREENVILLE, SOUTH

11 CAROLINA. AND I TOLD THE LADY THAT I WAS HERE TO WITHDRAW

12 OUR MONEY. AND SO SHE DREW UP THE PAPERS FOR ONE DEBENTURE

13 AND WE GOT THAT OUT OF THE WAY. AND THEN WE STARTED WITH

14 A SECOND ONE AND THEN WE GOT TO LOOKING, BECAUSE SHE SAID,

15 MARTHA, IF YOU TAKE THIS SECOND OUT NOW YOU WILL LOSE

16 \$1,300.00 DOLLARS BECAUSE IT HAS GOT TWO MORE MONTHS TO

17 MATURE. AND I SAID, WELL, \$1,300.00 DOLLARS IS A GOOD

18 PIECE OF MONEY FOR US AND I WILL LET IT STAY THERE FOR TWO

19 MORE MONTHS. AND SO I LEFT WITH ONE DEBENTURE, I WENT

20 STRAIGHT TO OUR BANK AND PUT IT IN. I GOT IN THE CAR AND

21 I GOT HOME, IT TAKES ME ABOUT FIVE TO SEVEN MINUTES FROM

22 MY BANK TO MY HOUSE. I WAS CLIMBING THE BACK STEPS,

23 OPENING MY DOOR AND THE PHONE WAS RINGING. I ANSWERED THE

24 PHONE, MARTHA, WHAT ARE YOU DOING. I SAID, LARRY, I DON'T

25 FEEL GOOD IN MY GUT, I SAID I GOT ONE OUT BUT I LEFT THE

1 BIGGER ONE IN THERE. HE SAID, HAVE YOU FORGOTTEN
2 EVERYTHING THAT I TOLD YOU TWO WEEKS AGO. AND I SAID, NO.

3 Q SO, YOU PUT THAT MONEY, WAS IT WACHOVIA?

4 A YES.

5 Q OKAY. YOU TAKE OUT ONE OF YOUR INVESTMENTS AND YOU
6 PUT IT IN WACHOVIA, NOW DID YOU LATER DECIDE TO REINVEST
7 THAT MONEY AT CAROLINA INVESTORS?

8 A MY HUSBAND, AFTER THAT PHONE CALL AND LARRY WAS SO
9 UPBEAT AND HE SAID IN THE PHONE CALL THAT WE HAD NOTHING
10 TO WORRY ABOUT, THAT THEY WERE IN GOOD SHAPE. AND I TOLD
11 MY HUSBAND EVERYTHING THAT HE SAID. MY HUSBAND BEGIN TO
12 THINK THAT IT WAS OKAY. BUT I DIDN'T GO ALONG
13 WHOLEHEARTEDLY WITH MY HUSBAND, BUT HE INSISTED SINCE WE
14 WERE NOT DRAWING THE INTEREST AT THE BANK THAT WE WERE
15 DRAWING AT CAROLINA INVESTORS. HE SAID, MARTHA, GO AND
16 TAKE IT BACK TO CAROLINA INVESTORS. SO, AGAINST MY HEART
17 I DID TAKE IT BACK.

18 Q DID YOU REINVEST THAT MONEY WITH CAROLINA INVESTORS?

19 A YES.

20 Q WAS THAT EARLY PART OF 2003?

21 A YES, JANUARY.

22 Q NOW, MS. MURPHREE, WHEN YOU WENT TO CAROLINA
23 INVESTORS DID YOU EVER TALK WITH MR. SHEPPARD ABOUT YOUR
24 INVESTMENTS?

25 A NO, SIR.

1 Q DID NOT, DID YOU EVER SEE HIM AT CAROLINA INVESTORS?

2 A NO.

3 Q PRIOR TO COMING HERE TODAY HAVE YOU EVER SEEN HIM
4 BEFORE?

5 A I SAW HIM ONE TIME ON TELEVISION BEING INTERVIEWED IN
6 REGARDS TO THE COLLAPSE OF CAROLINA INVESTORS.

7 Q NOW, MS. MURPHREE, TELL ME SOMETHING, HOW MUCH MONEY
8 DID YOU LOSE WHEN CAROLINA INVESTORS CLOSED ITS DOORS?

9 A ROUGHLY, \$41 THOUSAND.

10 Q DID YOU GET SOME OF THAT BACK?

11 A ON ONE CHECK WE GOT ABOUT \$800.00 HUNDRED AND ANOTHER
12 LITTLE CHECK WE GOT \$400.00 DOLLARS.

13 Q MS. MURPHREE, THIS MONEY THAT YOU INVESTED, WHAT WAS
14 THAT FOR?

15 A OUR RETIREMENT THAT WE COULD ENJOY AND I HAD STARTED
16 RENOVATING OUR KITCHEN WHICH SERIOUSLY NEEDED IT. AND I
17 HAD MANAGED TO GET THE NEW FLOOR PUT DOWN AND I HAD
18 MANAGED TO TAKE THE OLD BAR OUT. BUT BEFORE WE COULD GET
19 THE NEW BAR AND THE CABINETS OUR MONEY WAS GONE AND I AM
20 HAVING TO LIVE IN AN UNFINISHED KITCHEN AND OUR PLANS FOR
21 RETIREMENT TARNISHED.

22 Q MS. MURPHREE, I DON'T HAVE ANY FURTHER QUESTIONS FOR
23 YOU AT THIS TIME. MR. GRIFFIN MAY HAVE SOME QUESTIONS.

24 THE COURT: CROSS, MR. GRIFFIN.

25 CROSS-EXAMINATION

1 BY MR. GRIFFIN:

2 Q GOOD AFTERNOON.

3 A GOOD AFTERNOON.

4 Q YOU STARTED, YOUR INITIAL INVESTMENT WAS IN 1998?

5 A YES.

6 Q AND IN THEN YOU CONTINUED TO ROLL OVER YOUR
7 INVESTMENT?

8 A YES.

9 Q WAS IT ORIGINALLY, THE TERM WAS FOR A YEAR OR TWO
10 YEARS?

11 A TWO YEARS.

12 Q SO, YOU LEFT IT ALL IN THERE FOR TWO YEARS?

13 A YES, UNTIL, LET'S SEE, I THINK IT WAS, IN 2000 WE MAY
14 OF STARTED WITHDRAWING SOME OF OUR INTEREST.

15 Q AND I THINK YOU SAID YOU GOT UP TO \$51 THOUSAND?

16 A AT ONE TIME THAT WAS THE MOST WE HAD IN THERE. WE
17 DREW OUT \$10 THOUSAND LITTLE BY LITTLE.

18 Q HOW MUCH TOTAL YOU THINK YOU PUT IN NOT INCLUDING THE
19 INTEREST?

20 A WE PUT IN THREE TIMES, WE PUT IN I KNOW A GOOD TOTAL
21 OF \$40 THOUSAND.

22 Q YOU PUT IN A TOTAL OF \$40 THOUSAND NOT INCLUDING
23 INTEREST?

24 A THAT'S RIGHT.

25 Q AND THEN EACH TIME YOU WOULD GO TO THE PICKENS

1 LOCATION?

2 A NO, THE LAST TRANSACTION WE WERE THERE ON WHITE HORSE
3 ROAD.

4 Q THE FIRST TIME WAS IN 1998 AND THEN THE LAST TIME YOU
5 ACTUALLY, I GUESS, BOUGHT A DEBENTURE WAS IN 2002 OR 2003?

6 A LET'S SEE, IN 2002 WE TOOK ONE OUT IN OCTOBER AND
7 TOOK IT BACK TO WACHOVIA BANK. THAT WAS \$13,206.00 WE PUT
8 THAT, THAT WAS THE SMALLER ONE. AND THEN WE LEFT THE
9 LARGER ONE IN THE BANK.

10 Q SO, YOU NEVER PUT THE \$13 THOUSAND BACK IN TO
11 CAROLINA INVESTORS?

12 A WE DID, IN JANUARY OF '03 WE, MY HUSBAND WANTED ME TO
13 TAKE IT BACK OUT OF THE BANK AND TAKE IT BACK TO CAROLINA
14 INVESTORS.

15 Q THAT WAS AT THE WHITE HORSE ROAD?

16 A YES.

17 Q AND WAS IT THAT DOCUMENT THAT YOU PICKED UP?

18 A THAT LAST VISIT WHERE I TOOK IT BACK AND MADE THE
19 DEPOSIT BACK IN CAROLINA INVESTORS, SHE WAS GIVING ME MY
20 DEBENTURE AND SHE, BEFORE SHE SLID TO ME THERE, I WAS
21 ACROSS FROM HER. AND SHE GOES OVER HERE TO MY RIGHT TO A
22 TABLE AND THERE IS PAPERS ON THE TABLE. AND SHE PICKS UP
23 THE PAPERS AND SHE BRINGS THEM OVER AND TURNS THEM FACE
24 DOWN. SO, REALLY I DIDN'T THINK THEY WERE IMPORTANT, I
25 THOUGHT I WILL READ THEM LATER BUT LATER CAME WHEN IT WAS

1 TOO LATE.

2 Q WAS THAT THE FIRST TIME YOU HAD GOTTEN A PAPER LIKE
3 THAT?

4 A YES.

5 Q IT WAS. AND WHAT DID YOU SEE WHEN YOU READ IT?

6 A THAT IT WAS A LOSS, IT WAS A LOSS AND THIS WAS A HIGH
7 RISK. AND I WENT TO PIECES BECAUSE I WAITED SO LATE TO
8 READ THAT.

9 Q AND THAT WAS DIFFERENT FROM WHAT YOU HAD GAINED FROM
10 YOUR CONVERSATION WITH MR. OWEN?

11 A TOTALLY, A WORLD OF DIFFERENCE, HE TOLD ME EVERYTHING
12 WAS GOOD, NOT TO WORRY, I HAD NO WORRY.

13 Q DID YOU KNOW THAT THE INVESTMENT WAS NOT INSURED?

14 A YES, I WAS AWARE OF THAT BUT I WAS ALSO AWARE THAT
15 MR. EARLE MORRIS WAS ONE OF OUR LAW MAKERS HERE IN
16 COLUMBIA FOR YEARS. I WAS AWARE THAT CAROLINA INVESTORS
17 HAD A 40 SOME ODD YEAR TRACK RECORD, I FELT THIS IS PRETTY
18 GOOD. AND THEN I BELIEVED LARRY, ALTHOUGH I WASN'T AS,
19 OUR RELATIONSHIP WAS CASUAL IN BUSINESS. I DIDN'T KNOW
20 HIM TRULY AS MUCH AS I KNEW HIS MOTHER. AND I THOUGHT,
21 WELL, I CAN TRUST HIM, WE TRUSTED HIM, I TRUSTED EARLE
22 MORRIS.

23 Q DO YOU REMEMBER THE DIFFERENCE IN THE INTEREST RATE
24 YOU WERE GETTING AT THE BANK VERSUS WHAT YOU WERE GETTING
25 DOWN AT CAROLINA INVESTORS?

1 A FROM THE BANK?

2 Q YES, MA'AM. DO YOU REMEMBER WHAT THE BANK WAS
3 PAYING?

4 A VERY LOW, LIKE I THINK LESS THAN FIVE PERCENT, MY
5 HUSBAND WAS VERY DISTURBED. AND, THE HIGH INTEREST RATE
6 AT CAROLINA DREW HIM BACK.

7 Q THANK YOU.

8 THE COURT: ANY REDIRECT?

9 MR. PEAVY: NO, YOUR HONOR.

10 THE COURT: YOU MAY STEP DOWN.

11 MR. PEAVY: YOUR HONOR, MAY SHE BE EXCUSED?

12 THE COURT: ANY OBJECTION?

13 MR. GRIFFIN: NO, YOUR HONOR.

14 THE COURT: SHE IS EXCUSED. CALL YOUR NEXT WITNESS.

15 MR. PEAVY: YOUR HONOR, THE STATE CALLS MS. TOMMIE
16 SUE BROWN.

17 MR. GRIFFIN: YOUR HONOR, CAN WE APPROACH.

18 THE COURT: SURE.

19 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
20 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
21 JURY.)

22 THE COURT: OBJECTION UNDER 403 IS OVERRULED TO THE
23 CALLING OF THE NEXT WITNESS.

24 MR. GRIFFIN: THANK YOU.

25 TOMMIE SUE BROWN, AFTER BEING DULY SWORN,

1 TESTIFIED AS FOLLOWS:

2 DIRECT EXAMINATION

3 BY MR. PEAVY:

4 Q MS. BROWN, WOULD YOU TELL ME A LITTLE BIT ABOUT
5 YOURSELF, PLEASE, MA'AM.

6 A YES, SIR. I AM A WIDOW NOW, I LOST MY HUSBAND IN
7 OCTOBER BUT I HAVE GOT A SWEET FAMILY. I HAVE GOT TWO
8 BOYS, FOUR GRANDSONS AND TWO GREAT-GRANDSONS AND ONE
9 LITTLE GREAT-GRANDDAUGHTER, VERY PRECIOUS FAMILY.

10 Q WHERE DO YOU LIVE?

11 A 209 COTTON GIN ROAD IN POWERSVILLE. WE HAVE A
12 PIEDMONT MAILING ADDRESS BUT WE LIVE IN POWERSVILLE.

13 Q NOW, HOW LONG HAVE YOU LIVED IN THAT UPSTATE AREA?

14 A SINCE 1979, I HAVE ALWAYS LIVED IN GREENVILLE, SOUTH
15 CAROLINA, MOST OF MY LIFE I SPENT IN GREENVILLE. AND I
16 WORKED WITH J.P. STEVENS TEXTILE AS A WEAVER FOR 45
17 STRAIGHT YEARS.

18 Q WHAT DOES A WEAVER DO?

19 A MAKE CLOTH.

20 Q MS. BROWN, DO YOU REMEMBER MARCH 21ST OF 2003?

21 A I SURE DO, THAT WAS THE DAY THAT CAROLINA INVESTORS
22 CLOSED THEIR DOORS.

23 Q WHERE WERE YOU WHEN YOU FOUND OUT?

24 A I WAS AT HOME AND A FIRST COUSIN OF MINE CALLED ME
25 AND HE HAD INVESTED MONEY THERE TOO. AND HE SAID, TOMMIE,

1 DID YOU KNOW THAT CAROLINA INVESTORS HAVE CLOSED THEIR
2 DOORS. AND I SAID, NO, I DID NOT. HE SAID GO OVER AND
3 SEE FOR YOURSELF. SO, I WENT OVER TO EASLEY, IT IS JUST A
4 SHORT DISTANCE FROM MY HOME OVER TO EASLEY. AND SURE
5 ENOUGH THE DOORS HAD BEEN CLOSED.

6 Q MS. BROWN, WHEN DID YOU START INVESTING IN CAROLINA
7 INVESTORS?

8 A JANUARY 29TH OF 2002, I INVESTED \$1,000.00 DOLLARS. I
9 HAD BEEN WALKING WITH MY FRIENDS DOWN THERE AND IT WAS
10 MENTIONED, I HAD SEEN THE BILLBOARD BUT I HAD NO IDEA WHAT
11 CAROLINA INVESTORS WAS OR ANYTHING. BUT I SAID, WELL,
12 THAT IS GOOD INTEREST BUT I DON'T KNOW A THING ABOUT IT.
13 SO, WHEN I MOVED DOWN TO WHERE I AM, I HAD SOME FRIENDS
14 THERE AND I MET MORE FRIENDS. AND WE HAVE A WALKING GROUP
15 THAT WALKS EVERY MORNING AT THE UNITED METHODIST CHURCH
16 DOWN THERE. AND SO WHEN WE GET THROUGH WALKING WE SIT
17 AROUND AND TALK. AND IT WAS MENTIONED ABOUT CAROLINA
18 INVESTORS AND THIS PARTICULAR FRIEND OF MINE, I SAID WHAT
19 IS CAROLINA INVESTORS. AND SHE TOLD ME THAT--

20 MR. GRIFFIN: OBJECTION, YOUR HONOR.

21 THE COURT: SUSTAIN THE OBJECTION TO THAT.

22 Q MS. BROWN, WITHOUT TELLING ME WHAT YOUR FRIEND SAID
23 DID YOU DECIDE TO GO AND INVEST YOUR MONEY?

24 A YES, I DID.

25 Q OKAY. AND TELL US ABOUT THE FIRST TIME THAT YOU

1 INVESTED THAT MONEY?

2 A WHEN I WENT OVER THERE, THIS YOUNG LADY WAS AT THE
3 FRONT. AND I WALKED IN AND I TALKED TO HER ABOUT IT AND I
4 WAS GOING TO INVEST \$1,000.00 DOLLARS THAT DAY.

5 Q AND DID YOU?

6 A I DID, I WROTE HER A CHECK, INVESTED \$1,000.00
7 DOLLARS.

8 Q NOW, SHORTLY AFTER THAT DID YOU INVEST MORE MONEY
9 WITH CAROLINA INVESTORS?

10 A FEBRUARY THE 18TH OF 2002 I WENT BACK AND PUT \$40
11 THOUSAND DOLLARS MORE WITH THAT, THEY MADE ME A \$40
12 THOUSAND DOLLAR DEBENTURE, THEY CALL THEM DEBENTURES
13 THERE.

14 Q SO, YOU HAD \$41 THOUSAND AT THAT POINT?

15 A YES.

16 Q NOW, LATER ON IN, I GUESS, JULY OF 2002 DID YOU ALSO
17 INVEST MORE MONEY?

18 A JULY THE 10TH I WENT BACK OVER, DRAVED MONEY OUT OF
19 MY BANK WHERE IT WAS SAFE AND INVESTED A \$50 THOUSAND
20 DOLLAR DEBENTURE. SO, THAT MADE ME \$91 THOUSAND DOLLARS.

21 Q NOW, SOMETIME AFTER INVESTING THIS MONEY DID YOU
22 BECOME CONCERNED ABOUT YOUR INVESTMENTS?

23 A YES, I DID. I HEARD RUMORS THAT THEY WERE IN
24 TROUBLE, IN SEPTEMBER OF 2002.

25 Q AND AS A RESULT OF FINDING OUT ABOUT THOSE, AFTER

1 TIME. AND SHE IS IN A WHEEL CHAIR AND I SAID, WELL, IT
2 COULD HAPPEN TO ME.

3 Q MS. BROWN, WHEN YOU INVESTED YOUR MONEY DID YOU EVER
4 TALK TO MR. SHEPPARD?

5 A NO SIR, I DIDN'T KNOW MR. SHEPPARD EXITED.

6 Q DID YOU EVER SEE HIM BEFORE YOU CAME HERE TODAY?

7 A I SAW HIM ON TELEVISION SINCE THIS TRIAL HAS STARTED.

8 Q WE DON'T WANT TO GO ANY FURTHER THAN THAT. DID YOU
9 GET SOME OF THE MONEY BACK THAT YOU INVESTED?

10 A YES, I DID. I GOT \$13 THOUSAND AND THEN I GOT ONE
11 OTHER SMALL CHECK, I DON'T KNOW, EVEN REMEMBER IT WAS SO
12 SMALL, I DON'T REMEMBER WHAT THE LAST CHECK WAS. BUT
13 WASN'T A DROP IN THE BUCKET TO WHAT THEY GOT FROM ME.

14 Q OKAY. I DON'T HAVE ANY FURTHER QUESTIONS.

15 THE COURT: MR. GRIFFIN?

16 MR. GRIFFIN: NOTHING, YOUR HONOR.

17 THE COURT: YOU MAY STEP DOWN, WATCH YOUR STEP,
18 PLEASE. MADAM FORELADY AND LADIES AND GENTLEMEN, WE WILL
19 BREAK FOR THE DAY AND DON'T DISCUSS THE CASE, READ OR
20 WATCH OR LISTEN TO ANYTHING ABOUT THE CASE. WE WILL START
21 AT 9:30 IN THE MORNING. HAVE A GOOD EVENING, YOU ARE
22 EXCUSED. EVERYONE ELSE STAY SEATED, PLEASE.

23 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
24 THE DAY.)

25 THE COURT: WE WILL START AT 9:30.

1 (WHEREUPON, THE TRIAL WILL RESUME THE NEXT MORNING AT
2 9:30 A.M.)

3 THE COURT: IS THE STATE READY?

4 MS. EVANS: THE STATE IS READY, YOUR HONOR.

5 THE COURT: IS THE DEFENSE READY?

6 MR. GRIFFIN: BEFORE THE JURY COMES IN I WOULD LIKE
7 TO PUT SOME MATTERS ON THE RECORD. I UNDERSTAND THAT THE
8 STATE INTENDS TO CALL ONE MORE INVESTOR AND YESTERDAY I
9 HAD OBJECTIONS AT THE BENCH UNDER RULE 403 AS TO THE
10 INVESTORS TESTIMONY. AND I JUST WANTED TO ADD FOR THE
11 RECORD YESTERDAY THAT THE TWO WITNESSES THAT HAVE
12 TESTIFIED, BOTH WERE, ONE WAS CRYING FROM THE WITNESS
13 STAND, THE OTHER WASN'T. BUT AND WE HAVE HAD THREE
14 INVESTORS TESTIFY SO FAR AND TWO WERE CRYING FROM THE
15 WITNESS STAND, MR. GREGORY AND MS. MURPHREE. NONE OF THEM
16 HAD ANY DIRECT CONVERSATION WITH MR. SHEPPARD ABOUT THEIR
17 INVESTMENT, MR. GREGORY THAT AFTER HE HAD LOST HIS MONEY,
18 AFTER THE BANKRUPTCY THAT HE DID TRY TO CONTACT MR.
19 SHEPPARD AND SPOKE TO HIM AFTER THE FACT. AND I
20 UNDERSTAND THAT THEY INTEND TO PRESENT YET ANOTHER
21 INVESTOR THIS MORNING, I DON'T KNOW OF ANY ADDITIONAL
22 PROBATIVE VALUE THAT THIS INVESTOR WOULD HAVE, THE STATE'S
23 ALLEGATION IS THAT THEY HAVE TO PROVE LOSS, THE LOSS UNDER
24 THE STATUTE, YOUR HONOR, \$25 THOUSAND DOLLARS. THEY DID
25 THAT WITH THE VERY FIRST WITNESS, MR. GREGORY, IT WAS WELL

1 JUST AN OLD COUNTRY FARM BOY, THAT WOULD BE ABOUT IT.

2 Q ARE YOU MARRIED?

3 A YES SIR, I AM MARRIED, ONE WIFE AND ONE DAUGHTER.

4 Q MR. WATSON, LIVING IN THE UPSTATE DID YOU EVER COME
5 TO KNOW A COMPANY CALLED CAROLINA INVESTORS?

6 A YES SIR, I SURE DID.

7 Q NOW, MR. WATSON, DO YOU RECALL THE DATE ABOUT MARCH
8 21ST OF 2003?

9 A YES SIR, THAT IS WHEN I WENT UP AND STARTED
10 INVESTING.

11 Q YOU STARTED INVESTING IN 2003 OR IS THAT WHEN YOU
12 FOUND OUT ABOUT--

13 A I AM SORRY, IN 2003 I FOUND OUT WHERE I HAD MADE A
14 MISTAKE. I WENT UP AND FOUND OUT THAT THEY HAD FOLDED UP.

15 Q NOW, WHEN DID YOU FIRST START INVESTING IN CAROLINA
16 INVESTORS, SIR?

17 A I CAN'T EXACTLY GIVE YOU THE DATE BUT IT WAS SEVERAL
18 YEARS, SOMETHING LIKE 15 TO 16 YEARS.

19 Q I WANT TO FOCUS ON A COUPLE OF SPECIFIC DATES IF THAT
20 IS OKAY WITH YOU, SIR. DO YOU RECALL INVESTING IN JULY OF
21 2001?

22 A YES, SIR.

23 Q AND WAS THAT ABOUT \$10 THOUSAND DOLLARS?

24 A YES, SIR.

25 Q AND THEREAFTER IN AUGUST OF THE SAME YEAR DID YOU

1 Q AND WERE YOU TAKING MONEY OUT OF THE BANK?

2 A YES.

3 Q AND WHAT KIND OF INTEREST RATE WERE YOU GETTING AT
4 THE BANK?

5 A WITH THE CREDIT UNION?

6 Q YES.

7 A I DON'T REMEMBER BUT IT WAS A GOOD AMOUNT. I THINK I
8 MIGHT OF TOOK A LITTLE CUT WHEN I WENT WITH CAROLINA, BUT
9 I DID.

10 Q AND YOU HAD BEEN PUTTING MONEY INTO CAROLINA
11 INVESTORS, I THINK, 15 TO 16 YEARS?

12 A A GOOD WHILE, YES SIR.

13 Q AND WAS IT ALWAYS AT THE EASLEY BRANCH?

14 A EVERY BIT OF IT WAS OUT OF EASLEY.

15 Q YES, SIR. AND SAY IN JULY AND AUGUST AND OCTOBER OF
16 2001, WERE YOU GIVEN A PROSPECTUS, A DOCUMENT WHEN YOU
17 PURCHASED THESE DEBENTURES?

18 A I DON'T RECALL ANYTHING LIKE THAT, NO SIR.

19 Q AND YOU SPOKE WITH MR. MORRIS WHEN YOU WENT DOWN, AT
20 SOME POINT IN LATE 2002 BUT YOU DIDN'T SAY WHEN IN 2002.

21 A NO SIR, I DON'T HAVE NO IDEA.

22 Q THANK YOU, THAT IS ALL I HAVE.

23 THE COURT: ANY REDIRECT?

24 MR. PEAVY: NO, YOUR HONOR.

25 THE COURT: YOU MAY STEP DOWN, WATCH YOUR STEP. CALL

1 YOUR NEXT WITNESS, PLEASE.

2 MR. MYRICK: YOUR HONOR, THE STATE CALLS DON BOBO TO
3 THE STAND.

4 DON BOBO, AFTER BEING DULY SWORN, TESTIFIED AS
5 FOLLOWS:

6 DIRECT EXAMINATION

7 BY MR. MYRICK:

8 Q MR. BOBO, WOULD YOU INTRODUCE YOURSELF TO THE JURY,
9 TELL THEM WHO YOU ARE AND WHERE YOU LIVE.

10 A DON BOBO, I LIVE IN PICKENS, SOUTH CAROLINA. I FARM,
11 I HAVE A HARDWARE STORE.

12 Q AND HOW LONG HAVE YOU LIVED IN PICKENS, MR. BOBO?

13 A SINCE '66.

14 Q AND HOW LONG HAVE YOU WORKED IN THE HARDWARE STORE?

15 A SINCE '66.

16 Q DO YOU STILL WORK THERE?

17 A YES.

18 Q HOW MANY DAYS A WEEK?

19 A FIVE.

20 Q ARE YOU FAMILIAR WITH A COMPANY THAT USED TO BE KNOWN
21 AS CAROLINA INVESTORS?

22 A VERY MUCH SO.

23 Q HOW DID YOU FIRST BECOME INVOLVED WITH CAROLINA
24 INVESTORS?

25 A MY FATHER-IN-LAW WAS ONE OF THE ORIGINAL WITH MR.

1 HOLDER ESTABLISHING CAROLINA INVESTORS. HE OWNED A
2 PERCENTAGE OF IT.

3 Q AND WHAT YEAR WAS THAT?

4 A IN '66, I BELIEVE, ALONG THERE SOMEWHERE.

5 Q DID YOUR FATHER-IN-LAW OWN PART OF CAROLINA
6 INVESTORS?

7 A HE OWNED APPROXIMATELY TEN PERCENT.

8 Q WAS IT A FREE STANDING CORPORATION, THEY OWNED IT
9 ALL?

10 A YES.

11 Q AND WHEN DID YOU GET INVOLVED?

12 A IN '68.

13 Q AND HOW DID THAT COME ABOUT?

14 A I WAS MADE A DIRECTOR IN '68.

15 Q A MEMBER OF THE BOARD?

16 A YES.

17 Q HOW LONG WERE YOU ON THE BOARD?

18 A UNTIL IT WAS SOLD TO HOMEGOLD.

19 Q WHAT YEAR WAS THAT?

20 A '91.

21 Q BETWEEN '68 AND '91, WHAT KIND OF BUSINESS WAS
22 CAROLINA INVESTORS?

23 A GENERALLY THEY FINANCED CEMETERY LOTS, JUST A GENERAL
24 FINANCE COMPANY, MAYBE TO BUY A CAR, THE PEOPLE THAT WE
25 WERE ASSOCIATED WITH AND KNEW, THAT TYPE OF COMPANY.

1 Q AND YOU LOANED MONEY TO PEOPLE WHO WERE INVESTING?

2 A YES.

3 Q AND OTHER PEOPLE IN THE COMMUNITY?

4 A YES.

5 Q AND YOU LEFT IN '91, WHY WAS THAT?

6 A IT WAS BOUGHT OUT OF HOMEGOLD AND I WAS NOT REELECTED
7 TO THE BOARD.

8 Q DID YOU COME BACK TO CAROLINA INVESTORS?

9 A YES, IN '96 THEY ASKED ME IF I WOULD COME BACK TO THE
10 BOARD.

11 Q WHO ASKED YOU?

12 A EARLE MORRIS CALLED ME.

13 Q WHAT DID YOU TELL HIM?

14 A I TOLD HIM I WOULD.

15 Q DID HE SAY WHY HE ASKED YOU?

16 A NO, HE DIDN'T.

17 Q WHAT WAS THE BUSINESS LIKE WHEN YOU CAME BACK?

18 A IT WAS AN ENTIRELY DIFFERENT BUSINESS FROM WHAT IT
19 WAS WHEN I LEFT.

20 Q DID THEY STILL LOAN MONEY FOR CARS?

21 A NOT THAT I KNOW OF.

22 Q APPLIANCES?

23 A NO.

24 Q DID THEY STILL SELL CEMETERY PLOTS?

25 A NO, I DON'T THINK SO.

1 Q WHAT WAS GOING ON WITH CAROLINA INVESTORS MONEY WHEN
2 YOU CAME BACK?

3 A IT WAS GOING TO HOMEGOLD.

4 Q ALL OF IT?

5 A AS FAR AS I KNOW, YES, ALL OF IT.

6 Q WHEN DID YOU LEARN OF THE INTER-COMPANY LOAN?

7 A AT A MEETING, I AM NOT SURE OF THE DATE, THE MEETING
8 OF CAROLINA INVESTORS.

9 Q WHAT WERE YOU TOLD ABOUT IT?

10 A THAT IT WAS NOT, THAT THE, REALLY I CAN'T REMEMBER.

11 Q WELL, YOU KNEW IT WAS THERE?

12 A I KNEW IT WAS THERE BUT I CAN'T REMEMBER HOW IT WAS
13 TOLD TO ME.

14 Q DO YOU REMEMBER WHEN YOU FIRST MET THE DEFENDANT?

15 A YES.

16 Q AND WHAT WERE THE CIRCUMSTANCES ABOUT THE MEETING?

17 A IT WAS A MEETING OF CAROLINA INVESTORS.

18 Q AND HOW WAS HE INTRODUCED TO YA'LL?

19 A HE AND MR. JACK STERLING WERE THERE.

20 Q HOW WAS HE INTRODUCED TO YA'LL, MR. BOBO?

21 A AS A, HE OWNED A BUSINESS IN LEXINGTON CALLED
22 HOMESENSE AND THAT HE WAS GOING TO BE, MAYBE WHERE THEY
23 WERE GOING TO MERGE WITH THAT.

24 Q NOW, YOU WERE ON THE BOARD OF CAROLINA INVESTORS?

25 A YES.

1 Q DID YOU GET A SAY IN THAT?

2 A NO, NO.

3 Q DID THE CAROLINA INVESTORS BOARD GET A VOTE ON THAT?

4 A NO.

5 Q WERE YOU ASKED YOUR OPINION?

6 A NO.

7 Q AFTER THE MERGER DID YOU CONTINUE TO ATTEND CAROLINA
8 INVESTORS BOARD MEETINGS?

9 A YES.

10 Q HOW OFTEN WERE THEY HELD?

11 A ONCE EVERY THREE MONTHS.

12 Q DID YOU ATTEND REGULARLY?

13 A YES.

14 Q DID YOU MISS ANY?

15 A VERY FEW, MAYBE ONE BUT VERY FEW.

16 Q HOW DID YOU REGARD YOUR RESPONSIBILITIES AS A BOARD
17 MEMBER?

18 A WE WERE PRIMARILY PEOPLE THAT TRIED TO GET PEOPLE TO
19 INVEST IN CAROLINA INVESTORS.

20 Q DID YOU TAKE YOUR JOB SERIOUSLY AS A BOARD MEMBER?

21 A YES.

22 Q DID THE DEFENDANT, MR. SHEPPARD, EVER COME TO THE
23 BOARD MEETINGS?

24 A YES.

25 Q DID HE TALK TO YA'LL ABOUT HOMEGOLD'S BUSINESS?

1 A YES.

2 Q DO YOU REMEMBER WHAT HE TOLD YOU WHEN HE WOULD COME
3 TO THE BOARD MEETINGS?

4 A WELL, IT WAS ALWAYS GOOD NEWS OR ON THE UPBEAT, IT
5 WAS VERY SELDOM WAS ANYTHING DEROGATORY SAID ABOUT IT,
6 MOST OF THE TIME IT WAS ALWAYS--

7 Q ALWAYS GOOD NEWS?

8 A GOOD NEWS.

9 Q BUT YOU DID KNOW THAT HOMEGOLD WAS LOSING MONEY?

10 A WE DID KNOW THAT, YES.

11 Q DID THAT CONCERN YOU?

12 A YES, VERY MUCH SO.

13 Q WHAT, IF ANYTHING, DID THE DEFENDANT HAVE TO SAY
14 ABOUT THAT?

15 A WELL, IT WAS ALWAYS UPBEAT, IT WAS ALWAYS, WE ARE
16 GOING TO DO BETTER, WE ARE WORKING ON A PLAN AND IT IS
17 COMING AROUND.

18 Q DID YOU EVER HEAR ABOUT A PROPOSED SELL OF HOMEGOLD'S
19 MORTGAGE BUSINESS TO A WEST COAST BANK?

20 A YES.

21 Q DO YOU REMEMBER WHAT YOU WERE TOLD?

22 A WE WERE TOLD THAT IF IT WAS SOLD TO A CALIFORNIA
23 BANK--

24 MR. GRIFFIN: OBJECTION, YOUR HONOR, HEARSAY.

25 Q DID THE DEFENDANT TELL YOU THAT, MR. BOBO?

1 A YES.

2 THE COURT: OVERRULED.

3 A WE WERE TOLD IT WAS SOLD TO A CALIFORNIA BANK FOR, IF
4 I REMEMBER CORRECTLY, \$185 MILLION DOLLARS.

5 Q WELL, THAT WAS GOOD NEWS, WASN'T IT?

6 A VERY GOOD NEWS, YES. AFTER THE MEETING WHEN I WENT
7 BACK TO MY STORE, THE MERCHANT NEXT DOOR, HE HAD MONEY IN
8 CAROLINA INVESTORS AND HE WAS WORRIED AND WAS THINKING
9 ABOUT TAKING IT OUT. AND HE KNEW I HAD BEEN TO A MEETING
10 THAT MORNING AND HE CAME AROUND THERE AND I TOLD HIM, I
11 SAID, THERE IS NOTHING TO WORRY ABOUT, IT HAS BEEN SOLD TO
12 A BANK IN CALIFORNIA. SO, HE WAS VERY RELIEVED AND DIDN'T
13 GO TAKE HIS MONEY OUT.

14 Q SO, DO YOU BELIEVE THAT HE BELIEVED YOU WHEN YOU SAID
15 THAT?

16 A YES, HE DID.

17 Q DID YOU BELIEVE IT WHEN YOU SAID IT?

18 A YES, I DID.

19 Q WHAT EVER HAPPENED TO THAT WEST COAST BUY OUT?

20 A WE WERE TOLD AT THE NEXT MEETING THAT IT DIDN'T GO
21 THROUGH, AND THAT MR. SHEPPARD WAS GOING TO MAKE THE SAME
22 DEAL WITH THE COMPANY THAT HE WAS GOING TO ESTABLISH.

23 Q YOU WERE TOLD AT THE NEXT MEETING?

24 A I THINK IT WAS AT THE NEXT MEETING.

25 Q SO, IF YOU MET QUARTERLY IT WAS TWELVE WEEKS LATER?

1 A PROBABLY.

2 Q DID ANYBODY CALL YOU IN THE MEANTIME TO TELL YOU THAT
3 HIS DEAL HAD FALLEN THROUGH?

4 A NO.

5 Q SO, AT THE NEXT MEETING YOU LEARNED THAT THERE WAS NO
6 DEAL WITH THE CALIFORNIA BANK?

7 A THAT IT HAD FALLEN THROUGH.

8 Q DID THE DEFENDANT COME BACK WITH THAT THE NEXT WEEK?

9 A I DON'T REMEMBER, I THINK HE DID EXPLAIN THAT HIS
10 COMPANY WOULD MAKE THE SAME DEAL THAT THE CALIFORNIA
11 COMPANY DID.

12 Q DID YOU GET A CHANCE TO VOTE ON THAT?

13 A NO.

14 Q DID YOU KNOW THE TERMS OF THE DEAL, MR. BOBO?

15 A IT WAS NOT GOING TO BE CASH, IT WAS GOING TO BE PAID
16 OUT OVER A PERIOD OF MONTHS, WE WOULD BE GIVEN INTEREST ON
17 THE MONEY BUT IT WOULD BE PAID BACK.

18 Q DID YOU KNOW THAT THE DEFENDANT GOT \$3 MILLION
19 DOLLARS WHEN HE LEFT?

20 A NO.

21 Q WHERE WAS ALL OF CAROLINA INVESTORS MONEY AT THIS
22 POINT?

23 A REPEAT THAT QUESTION.

24 Q WHERE WAS CAROLINA INVESTORS MONEY, DID YA'LL HAVE
25 ANY OF IT THERE IN PICKENS?

1 A I THINK WE KEPT A MILLION DOLLARS IN CASE, WE HAD
2 SOME REDEMPTIONS BUT OTHER THAN THAT IT ALL WENT TO
3 HOMEGOLD.

4 Q DO YOU REMEMBER THE LAST WEEK THAT CAROLINA INVESTORS
5 WAS OPENED, MR. BOBO?

6 A YES.

7 Q WOULD YOU TELL THE JURY ABOUT THAT LAST WEEK.

8 A ABOUT THE MEETINGS THAT WE HAD?

9 Q YES, SIR. BUT DO YOU REMEMBER THE 21ST OF MARCH OF
10 2003?

11 A WHAT HAPPENED THEN, I DON'T REMEMBER DATES.

12 Q TELL THE JURY WHAT YOU REMEMBER ABOUT THAT LAST WEEK.

13 A WE HAD A MEETING, WE CALLED THE MEETING, IT WASN'T A
14 REGULAR MEETING, THEY HAD CALLED A MEETING THAT LARRY
15 OWEN, DANNY SHARPE, EARLE MORRIS I THINK WAS THERE, AND IT
16 WAS A TELEPHONE CONFERENCE WITH JACK STERLING, FORREST
17 FERRELL AND THE LADY FINANCE, THE FINANCE LADY. THEY TOLD
18 US THAT THEY WERE HAVING TROUBLE, RUNNING SHORT ON CASH
19 BUT THAT THERE WAS SEVERAL MILLION DOLLARS IN DIFFERENT
20 PLACES THAT WE COULD DRAW ON, THAT IF EVERYTHING WENT ALL
21 RIGHT THAT WEEKEND, HAD NO BIG INVESTMENTS, NO BIG
22 REDEMPTIONS THAT BY MONDAY EVERYTHING WOULD BE FINE.

23 Q I HATE TO STOP YOU, MR. BOBO, BUT WERE YOU SURPRISED
24 WHEN YOU GOT THAT CALL?

25 A VERY MUCH SO.

1 Q YOU DIDN'T KNOW, DID YOU?

2 A NO, WE WEREN'T EXPECTING ANYTHING LIKE THAT.

3 Q SO, THEN WHAT HAPPENED?

4 A THE NEXT DAY WE WERE CALLED BACK AND FORREST FERRELL
5 AND THE FINANCE LADY, I FORGET HER NAME, WERE ON THE PHONE
6 AND WE WERE TOLD THAT JACK STERLING HAD RESIGNED FROM THE
7 BOARD THE NIGHT BEFORE. AND THAT HOMEGOLD WAS GOING TO
8 DECLARE BANKRUPTCY. AND, OF COURSE, WE DIDN'T KNOW WHAT
9 TO DO, WE DIDN'T KNOW WHAT CAN WE DO. WE TRIED TO CALL A
10 LAWYER AND HE SAID, WE CAN'T ADVISE YOU. AND FINALLY THEY
11 SAID, WELL, MAYBE YOU SHOULD CALL YOUR OWN LAWYER AND WE
12 DID AND HE ADVISED US TO DO THE SAME THING, GO BANKRUPT.

13 Q MR. BOBO, I AM GOING TO HAND YOU SOMETHING AND ASK
14 YOU IF YOU IF YOU RECOGNIZE IT?

15 A YES.

16 Q WHAT IS IT, MR. BOBO?

17 A IT IS A DEBENTURE FOR CAROLINA INVESTORS.

18 MR. MYRICK: YOUR HONOR, I WOULD LIKE TO MOVE IN WHAT
19 HAS BEEN MARKED AS 134 INTO EVIDENCE.

20 THE COURT: ANY OBJECTION?

21 MR. GRIFFIN: NO, YOUR HONOR.

22 THE COURT: STATE'S 134 IS ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 134 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q WHO OWNED THAT DEBENTURE, MR. BOBO?

1 A IT IS TO BIVENS HARDWARE COMPANY, WHICH MY WIFE AND
2 MY SON AND I OWN.

3 Q THAT WAS YOUR FAMILIES MONEY?

4 A YES.

5 Q HOW MUCH WAS IT?

6 A \$30,077.00.

7 Q WHEN DID YOU RENEW IT?

8 A ON THE 1ST DAY OF MARCH, 2003.

9 Q THAT WAS EIGHT WEEKS BEFORE THEY CLOSED?

10 A YES.

11 Q I AM GOING TO HAD YOU WHAT HAS BEEN IDENTIFIED AS
12 STATE'S NUMBER 137. DO YOU RECOGNIZE IT?

13 A YES.

14 Q WHAT IS IT?

15 A IT IS A DEBENTURE.

16 Q WHO OWNED IT?

17 A THE SAME COMPANY.

18 Q WHEN WAS THAT ONE RENEWED?

19 A ON THE 17TH OF JANUARY OF 2003.

20 Q EIGHT WEEKS BEFORE THEY CLOSED?

21 A YES.

22 Q HOW MUCH WAS THAT ONE FOR?

23 A \$350 THOUSAND.

24 Q MR. BOBO, I AM GOING TO HAND YOU WHAT HAS BEEN MARKED
25 AS STATE'S 135.

1 MR. MYRICK: I WOULD LIKE TO MOVE THAT PRIOR ONE INTO
2 EVIDENCE, YOUR HONOR.

3 THE COURT: ANY OBJECTION?

4 MR. GRIFFIN: NO, SIR.

5 THE COURT: 137 IS ADMITTED.

6 (WHEREUPON, STATE'S EXHIBIT NO. 137 WAS ADMITTED INTO
7 EVIDENCE.)

8 Q DO YOU RECOGNIZE THAT, MR. BOBO?

9 A YES.

10 Q WHAT IS IT?

11 A IT IS REGISTERED TO BIVENS HARDWARE ON THE 17TH OF
12 JANUARY OF 2003.

13 Q HOW MUCH IS THAT ONE FOR?

14 A \$443 THOUSAND.

15 MR. MYRICK: I WOULD LIKE TO MOVE THAT ONE INTO
16 EVIDENCE, YOUR HONOR.

17 THE COURT: ANY OBJECTION? ^{4.}
18

18 MR. GRIFFIN: NO, SIR.

19 THE COURT: STATE'S 135 IS ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 135 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q I AM GOING TO HAND YOU WHAT HAS BEEN MARKED AS
23 STATE'S 136. IS THAT THE SAME THING?

24 A THAT IS TO MY WIFE.

25 Q WHEN DID YOUR WIFE RENEW IT?

1 A THE 10TH OF JANUARY OF 2003.

2 Q AND HOW MUCH WAS THAT ONE FOR?

3 A \$63,468.00.

4 MR. MYRICK: YOUR HONOR, I AM HOLDING WHAT IS MARKED
5 AS STATE'S 138, 139, 140, 141 AND 142. THESE ARE ALL
6 CLASSIFIED AS COMMERCIAL PAPER UNDER THE RULES.

7 MR. GRIFFIN: I DON'T HAVE ANY OBJECTION.

8 THE COURT: WITHOUT OBJECTION, STATE'S 138, 139, 140,
9 141 AND 142 ARE ADMITTED.

10 (WHEREUPON, STATE'S EXHIBIT NOS. 138, 139, 140, 141
11 AND 142 WERE ADMITTED INTO EVIDENCE.)

12 Q MR. BOBO, I AM GOING TO HAND YOU WHAT HAS BEEN MARKED
13 AS STATE'S 142. WHAT IS THAT?

14 A IT IS A DEBENTURE MADE OUT TO MY WIFE.

15 Q HOW MUCH IS IT FOR, MR. BOBO?

16 A ONE MILLION DOLLARS.

17 Q THESE ARE ALL SEPARATE?

18 A YES.

19 Q SO, WE WOULD HAVE TO ADD THEM ALL UP TO GET A TOTAL
20 OF HOW MUCH YOU HAD INVESTED?

21 A YES.

22 Q WHEN YOU RENEWED IN JANUARY OF '03, MR. BOBO, THE
23 DEFENDANT HAD ALREADY LEFT HOMEGOLD?

24 A RIGHT.

25 Q WHAT WAS YOUR UNDERSTANDING OF WHAT THE COMPANY THAT

1 HE OWNED WAS SUPPOSE TO DO FOR CAROLINA INVESTORS?

2 A THEY WERE GOING TO PAY US BACK, THEY WERE GOING TO
3 PAY HOMEGOLD AND HOMEGOLD WAS GOING TO PAY CAROLINA
4 INVESTORS.

5 Q WHEN YOU RENEWED THOSE FIRST FEW I HANDED YOU IN
6 JANUARY OF '03, DID YOU KNOW THE TRUE CONDITION OF
7 CAROLINA INVESTORS?

8 A I HAD HEARD RUMORS, BUT NO, I THOUGHT THEY WERE IN
9 GOOD SHAPE.

10 Q BUT YOU WENT TO ALL THE BOARD MEETINGS?

11 A YES.

12 Q IF YOU HAD KNOWN, MR. BOBO, WOULD YOU OF RENEWED
13 THOSE IN JANUARY?

14 A IF I HAD KNOWN?

15 Q THE TRUE CONDITION OF CAROLINA INVESTORS?

16 A IF I HAD KNOWN CAROLINA INVESTORS WAS IN BAD SHAPE
17 AND GOING BROKE, NO, I WOULDN'T HAVE.

18 Q WHAT ABOUT YOUR WIFE'S MILLION DOLLARS, WOULD YOU OF
19 TAKEN THAT OUT?

20 A NO. IT WOULD NOT HAVE BEEN FAIR TO MY CUSTOMERS, MY
21 FRIENDS, MY NEIGHBORS AND I HAVE GOT TO LIVE IN PICKENS
22 AND YOU CAN IMAGINE HOW THEY WOULD OF FELT TOWARD ME
23 KNOWING THAT I TOOK MY MONEY OUT BECAUSE I KNEW IT WAS
24 GOING TO GO BROKE AND DIDN'T TELL THEM.

25 Q YOU WOULDN'T DO THAT TO YOUR NEIGHBORS?

1 A NO.

2 MR. MYRICK: AS A RECORD KEEPING MATTER, YOUR HONOR,
3 I MADE AN ERROR. I WOULD LIKE TO GO AHEAD AND MOVE 136
4 INTO EVIDENCE AS WELL.

5 THE COURT: 136 IS ADMITTED.

6 (WHEREUPON, STATE'S EXHIBIT NO. 136 WAS ADMITTED INTO
7 EVIDENCE.)

8 Q THANK YOU, MR. BOBO, I DON'T HAVE ANY MORE QUESTIONS
9 FOR YOU.

10 THE COURT: MR. GRIFFIN.

11 CROSS-EXAMINATION

12 BY MR. GRIFFIN:

13 Q MR. BOBO, IS IT FAIR THAT YOU KNEW A LOT ABOUT THE
14 FINANCIAL CONDITION OF HOMEGOLD?

15 A NOT A LOT ABOUT HOMEGOLD, I KNEW CAROLINA INVESTORS
16 BUT WE WEREN'T TOLD A LOT ABOUT HOMEGOLD.

17 Q YOU ATTENDED QUARTERLY BOARD MEETINGS GOING BACK
18 FROM, STARTING IN 1996 WHEN YOU REJOINED THE BOARD,
19 CORRECT?

20 A YES.

21 Q AND AT THOSE QUARTERLY BOARD MEETINGS THE CHIEF
22 FINANCIAL OFFICER OF HOMEGOLD WOULD PRESENT THE FINANCIAL
23 INFORMATION OF THE COMPANY, CORRECT?

24 A YES, VERY BRIEFLY.

25 Q AND YOU WOULD RECEIVE A BOOK OF FINANCIAL STATEMENTS

1 TO REVIEW?

2 A YES, THAT WAS TURNED BACK IN AT THE END OF THE
3 MEETING.

4 Q AND THAT BOOK WAS KEPT FOR EACH BOARD MEMBER AT THE
5 CAROLINA INVESTORS OFFICES, RIGHT?

6 A YES.

7 Q AND HOW FAR WAS THAT CAROLINA INVESTORS OFFICE FROM
8 YOUR HARDWARE STORE?

9 A THREE OR FOUR BLOCKS.

10 Q YOU COULD WALK DOWN ANY TIME TO LOOK AT THE BOOKS IF
11 YOU HAD ANY QUESTIONS?

12 A YES.

13 Q AND DID YOU ALSO OWN STOCK IN HOMEGOLD?

14 A NO.

15 Q NEVER BOUGHT STOCK IN HOMEGOLD. AND YOU KNEW IN 1998
16 THAT HOMEGOLD LOST, GOSH, ALMOST \$100 MILLION DOLLARS?

17 A \$50 SOMETHING.

18 Q YOU KNEW THERE WAS SUBSTANTIAL LOSSES?

19 A YES.

20 Q THERE WERE MORE LOSSES IN 1999?

21 A YES.

22 Q AND THAT CAROLINA INVESTORS SUPPORTING THE OPERATIONS
23 OF THIS MORTGAGE COMPANY?

24 A RIGHT.

25 Q THAT THIS MORTGAGE COMPANY HAD GROWN SUBSTANTIALLY IN

1 1997 AND '96, OFFICES ALL OVER THE COUNTRY?

2 A YES.

3 Q AND THAT THOSE LOSSES IN 1998, THEY CONCERNED YOU,
4 DID THEY NOT?

5 A YES, BUT WE WERE ALWAYS TOLD THAT THINGS ARE GETTING
6 BETTER, WE ARE COMING OUT OF IT.

7 Q AND YOU WERE TOLD THIS BEFORE 2000?

8 A YES.

9 Q AND IN FACT ONE OF THE WAYS FOR THE COMPANY TO GET
10 BETTER AND TO GET OUT OF IT TO MERGE WITH THIS GENTLEMAN'S
11 BUSINESS DOWN IN LEXINGTON?

12 A THAT IS WHAT WE WERE TOLD.

13 Q IN ORDER TO TURN THE COMPANY AROUND?

14 A RIGHT.

15 Q NOW, YOU UNDERSTOOD YOUR POSITION ON THE BOARD, THAT
16 THE FIRST, THAT CAROLINA INVESTORS WAS OWNED COMPLETELY BY
17 HOMEGOLD?

18 A RIGHT.

19 Q AND FRANKLY THAT IS WHEN YOU HAD TO GET OFF THE BOARD
20 IN 1991 BECAUSE--

21 A I WAS NOT REELECTED, RIGHT.

22 Q AND WE KEEP SAYING HOMEGOLD BUT WHO WAS IT IN 1991,
23 THAT BOUGHT CAROLINA INVESTORS, WHO WERE THE PEOPLE?

24 A EMERGENT GROUP.

25 Q AND GIVE ME SOME NAMES OF PEOPLE BEHIND EMERGENT

1 GROUP?

2 A JACK STERLING, THE WYCHE GROUP, TEE HOOPER.

3 Q BUCK MICKEL AT THE TIME?

4 A YES, I THINK SO. I DON'T REMEMBER ALL OF THEM,
5 SEVERAL OF THEM WERE ON CAROLINA INVESTORS BOARD WHEN I
6 CAME BACK.

7 Q AND THESE ARE PROMINENT BUSINESSMEN IN GREENVILLE?

8 A RIGHT.

9 Q AND IS IT FAIR TO SAY THAT THE CHARACTER OF CAROLINA
10 INVESTORS, ITS BUSINESS CHANGED AFTER IT WAS PURCHASED IN
11 1991 BY EMERGENT?

12 A MADE BY CHARACTER, WHAT DO YOU MEAN?

13 Q WHAT THE MONEY WAS USED FOR?

14 A YES, YES.

15 Q BUT THE DAILY OPERATIONS OF CAROLINA INVESTORS AND
16 HOW THAT BUSINESS COLLECTED MONEY FROM CITIZENS OF THE
17 COMMUNITY, THAT STAYED THE SAME?

18 A EXACTLY.

19 Q AND IT STAYED THE SAME ALL THE WAY UP TO 2000?

20 A YES.

21 Q AND IT STAYED THE SAME ALL THE WAY UP FROM 2000,
22 2003?

23 A YES.

24 Q AND WHEN YOU WERE ON THE BOARD BEFORE 1991 WAS MR.
25 LARRY OWEN AN OFFICER OF THE COMPANY?

1 A YES.

2 Q WAS HE ALSO ON THE BOARD?

3 A YES.

4 Q WAS EARLE MORRIS ON THE BOARD?

5 A YES.

6 Q AND I GUESS MR. DWIGHT HOLDER WAS CHAIRMAN OF THE
7 BOARD?

8 A HE WAS CHAIRMAN.

9 Q AND WAS YOUR FATHER-IN-LAW ON THE BOARD?

10 A HE HAD DIED.

11 Q I SEE. AND YOU TOOK HIS SPOT?

12 A YES.

13 Q AND THEN AFTER YOU STEPPED OFF THE BOARD, I GUESS MR.
14 OWEN AND MR. MORRIS REMAINED ON THE BOARD?

15 A AS FAR AS I KNOW, I THINK THEY DID, YES.

16 Q AND THEN MR. EARLE MORRIS INVITED YOU BACK TO COME ON
17 BOARD?

18 A HE IS THE ONE THAT CALLED ME AND ASKED ME IF I WOULD
19 BE ON IT.

20 Q AND THAT IS WHEN YOU LEARNED, IN 1996, A LOT OF THE
21 MONEY THAT WAS BEING RAISED IN PICKENS, AT CAROLINA
22 INVESTORS, WERE BEING LOANED TO EMERGENT AT THAT TIME?

23 A RIGHT, WE WERE TOLD THAT EMERGENT WAS, HAD A LOT OF
24 MONEY IN IT ALREADY.

25 Q AND THE LOANS THAT WERE GOING, FROM CAROLINA

1 INVESTORS TO EMERGENT, SOME OF THAT WAS YOUR FAMILIES
2 PERSONAL FAMILY, WAS IT NOT?

3 A POSSIBLY, YES.

4 Q YOU HAD--

5 A I HAD MONEY IN IT, YES.

6 Q DID YOU HAVE MILLIONS IN IT BACK THEN?

7 A WELL, WE HAD A LOT, WE DIDN'T HAVE THAT MUCH.

8 Q A MILLION?

9 A YES, PROBABLY.

10 Q AND THEN OVER TIME, HOW LONG HAVE YOU INVESTED YOU AN
11 YOUR FAMILIES MONEY IN CAROLINA INVESTORS?

12 A SINCE '66.

13 Q A LONG TIME. OVER THE YEARS YOU AND YOUR FAMILY HAVE
14 DRAWN OUT INTEREST FROM THAT MONEY?

15 A RIGHT.

16 Q DO YOU KNOW HOW MUCH INTEREST YOU HAVE DRAWN OUT?

17 A I HAVE NO IDEA.

18 Q AND THEN YOU ROLLED SOME OF THAT INTEREST BACK INTO
19 THE INVESTMENT?

20 A WELL, WE GENERALLY LIVED ON IT.

21 Q LIVED OFF THE INTEREST. AND THEN, SO YOU LEARNED
22 WHEN YOU COME BACK ON, THESE INVESTMENTS, YOURS AND YOUR
23 FAMILIES AND OTHER PEOPLE IN THE COMMUNITY, THIS MONEY WAS
24 LOANED UP TO EMERGENT AND USED TO FUND ITS OPERATIONS.
25 AND THERE WAS SUBSTANTIAL LOSSES IN 1998?

1 A YES.

2 Q 1999?

3 A YES.

4 Q AND THE PRESENTATIONS AT THE BOARD, THESE ARE THE
5 LOSSES AND THIS IS THE PLAN, CORRECT?

6 A RIGHT.

7 Q NOW, IN 2000 WHEN MR. SHEPPARD'S COMPANY MERGES WITH
8 HOMEGOLD HE CAME TO SIT ON THE BOARD?

9 A YES.

10 Q BUT AND EVERY QUARTERLY BOARD MEETING THERE IS ALSO
11 THE CHIEF FINANCIAL OFFICER PRESENT FROM HOMEGOLD?

12 A YES.

13 Q AND THE CHIEF FINANCIAL OFFICER IS THERE TO PRESENT
14 THE FINANCIAL INFORMATION FOR HOMEGOLD AND CAROLINA
15 INVESTORS?

16 A RIGHT.

17 Q AND YOU ARE GIVEN FINANCIAL STATEMENTS TO HAND YOU
18 AND YOU KEEP THIS BOOK, CORRECT?

19 A YES.

20 Q AND THAT BOOK IS AVAILABLE, I KNOW YOU TURN THE BOOK
21 BACK IN AT THE END OF THE MEETING BUT IT IS STILL
22 MAINTAINED THERE AT CAROLINA INVESTORS?

23 A THAT IS RIGHT.

24 Q IF YOU HAVE GOT ANY QUESTIONS YOU CAN GO LOOK?

25 A YES.

1 Q NOW, AND THEN 2000 THERE WAS STILL LOSSES AT
2 HOMEGOLD, CORRECT?

3 A THERE WAS BUT IT WAS ALWAYS PRESENTED TO US, TIMES
4 ARE GOING TO GET BETTER.

5 Q THIS IS THE PLAN AND WE HOPE TO TURN IT AROUND?

6 A THIS IS THE PLAN AND WE ARE GOING TO DO BETTER.

7 Q BUT THIS IS WHAT WE HAVE DONE SO FAR AND WHAT WE DID
8 DIDN'T LOOK TOO GOOD, DID IT?

9 A NO, BUT WE HAD BEEN IN BUSINESS FOR 40 YEARS AND I
10 JUST, I HAD FAITH IN WHAT THEY WERE TELLING ME.

11 Q AND SO IN 2001 THERE WAS STILL ANOTHER YEAR DISMAL
12 FINANCIAL, AND THAT WAS NO SECRET TO YOU, WAS IT?

13 A NO.

14 Q BUT AGAIN THERE WAS A PLAN TO DO BETTER?

15 A THERE WAS ALWAYS A PLAN.

16 Q TO DO BETTER?

17 A YES.

18 Q AND THEN IN 2002 YOU MENTIONED THAT YOU HAD
19 DISCUSSIONS WITH MR. SHEPPARD AND OTHERS ABOUT THE SELL OF
20 HOMEGOLD TO A BANK IN CALIFORNIA?

21 A YES.

22 Q NOW, THOSE DISCUSSIONS WERE ABOUT A PROPOSED SELL?

23 A YES, THE DISCUSSIONS WERE BUT WE WERE TOLD AT ANOTHER
24 MEETING THAT THE SALE HAD GONE THROUGH.

25 Q AND WAS THIS A MEETING OF THE BOARD OF CAROLINA

1 INVESTORS?

2 A IT WAS IN A MEETING IN THE BOARD OF CAROLINA
3 INVESTORS.

4 Q AND DO YOU REMEMBER WHEN THE BOARD MEETING WAS?

5 A I DON'T REMEMBER THE DATE.

6 Q MR. BOBO, IF YOU DON'T MIND LOOKING AT DEFENDANT'S
7 12, IT IS MARKED FOR IDENTIFICATION AND DON'T READ IT TO
8 THE JURY OR TO THE COURT BUT TELL ME IF YOU RECOGNIZE THAT
9 DOCUMENT?

10 A YES.

11 Q AND ARE THOSE THE MINUTES OF THE, I GUESS AUGUST?

12 A 8/22/02.

13 Q THOSE ARE THE MINUTES OF THE BOARD MEETING?

14 A I AM REALLY NOT SURE BUT THEY PROBABLY WERE.

15 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO MOVE
16 EXHIBIT 12 INTO EVIDENCE.

17 THE COURT: ANY OBJECTION? ²/₈

18 MR. MYRICK: I DON'T THINK HE HAS LAID A FOUNDATION
19 WITH THE WITNESS.

20 THE COURT: HE HAS IDENTIFIED IT BEING THE MINUTES OF
21 A MEETING AS I UNDERSTOOD HIS TESTIMONY.

22 MR. MYRICK: WE DON'T HAVE ANY OBJECTION.

23 THE COURT: DEFENDANT'S 12 IS ADMITTED.

24 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 12 WAS ADMITTED
25 INTO EVIDENCE.)

1 Q MR. BOBO, THESE MINUTES, DO THEY NOT, THAT RONNIE
2 SHEPPARD AND FORREST FERRELL CAME UP AND MET WITH DON
3 BOBO, DAN SHARPE, EARLE MORRIS, LARRY OWEN, THEY PROCEEDED
4 TO DESCRIBE THE PROPOSED SELL OF HOMEGOLD, INC. TO IMPAC
5 BANK, IS THAT RIGHT?

6 A THAT IS WHAT THAT SAID BUT IT WAS NOT, IT WAS TOLD TO
7 US THAT THE SELL HAD BEEN, IT WAS A SELL, NOT A PROPOSED
8 SELL.

9 Q AND IN FACT, THERE WAS A LETTER OF INTENT, A WRITTEN
10 AGREEMENT HAD BEEN EXECUTED AT THIS POINT AND TIME. DO
11 YOU RECALL THOSE DISCUSSIONS?

12 A NO.

13 Q WERE THERE ANY ADDITIONAL, WAS THERE ANOTHER BOARD
14 MEETING WHERE THIS IMPAC BANK DEAL WAS DISCUSSED OTHER
15 THAN THE ONE THAT YOU HAD BEEN TOLD THAT IT HAD FALLEN
16 THROUGH?

17 A IN AN EARLIER MEETING THAT MR. SHEPPARD HAD GONE TO
18 CALIFORNIA TO MEET WITH THEM BUT IT WASN'T CONSUMMATED
19 THEN.

20 Q IT WAS CLEARLY KNOWN TO THE BOARD OF CAROLINA
21 INVESTORS THAT MR. SHEPPARD AND OTHERS WERE ATTEMPTING TO
22 SELL THE MORTGAGE BUSINESS?

23 A YES.

24 Q THE PURPOSE OF THE SELL WAS TO GET PROCEEDS IN AN
25 EFFORT TO REPAY THE INTER-COMPANY DEBT?

1 A RIGHT.

2 Q BECAUSE AT THIS POINT AND TIME IT WAS CLEAR FROM THE
3 OPERATIONS THAT JUST CONTINUE LOSING MONEY, THAT WAS KNOWN
4 TO YOU, RIGHT?

5 A YES.

6 Q NOW, MR. SHEPPARD, DO YOU RECALL THAT YOU MENTIONED
7 THAT HE, AFTER THE IMPAC BANK DEAL FELL THROUGH THAT HE
8 AGREED TO START THIS EMMCO AND TO PURCHASE THROUGH EARN
9 OUT THIS RETAIL MORTGAGE DIVISION ON BASICALLY THE SAME--

10 A THE SAME DEAL.

11 Q AND YOU MENTIONED THAT YOU DIDN'T GET A CHANCE TO
12 VOTE ON THAT TRANSACTION AS A BOARD MEMBER OF CAROLINA
13 INVESTORS?

14 A NO, I DON'T RECALL VOTING ON IT.

15 Q WHEN YOUR DEBENTURES CAME UP FOR RENEWAL IN JANUARY
16 OR FEBRUARY OR MARCH OF 2003 AND MR. SHEPPARD HAD ALREADY
17 LEFT TO START EMMCO AT THAT POINT⁵ AND TIME, RIGHT?

18 A RIGHT.

19 Q AND THEN THERE WERE STILL BOARD MEETINGS AT CAROLINA
20 INVESTORS?

21 A YES.

22 Q THEY WERE NOT ATTENDED BY MR. SHEPPARD, HE LEFT IN
23 NOVEMBER, RIGHT?

24 A THAT'S RIGHT.

25 Q AND IN FACT THERE WAS A BOARD MEETING IN MARCH OF

1 2003 WHERE YOU WERE GIVEN A FINANCIAL PRESENTATION BY THE
2 CFO OF HOMEGOLD, CORRECT?

3 A I DON'T RECALL.

4 Q WAS IT FEBRUARY?

5 A I REALLY DON'T RECALL.

6 Q MR. BOBO, LET ME SHOW YOU WHAT IS DEFENDANT'S EXHIBIT
7 NUMBER 13 AND ASK YOU IF YOU CAN IDENTIFY THOSE AS
8 CAROLINA INVESTORS BOARD MEETING MINUTES FOR FEBRUARY OF
9 2002?

10 THE COURT: FEBRUARY OF WHAT YEAR?

11 MR. GRIFFIN: 2003, I APOLOGIZE, 2003.

12 A YES.

13 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO MOVE
14 EXHIBIT 13 INTO EVIDENCE.

15 THE COURT: ANY OBJECTION?

16 MR. MYRICK: NO, SIR.

17 THE COURT: DEFENDANT'S 13 IS ADMITTED.

18 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 13 WAS ADMITTED
19 INTO EVIDENCE.)

20 Q THIS MEETING WAS IN FEBRUARY?

21 A YES, SIR.

22 Q AND DO YOU RECALL THE MEETING OF FEBRUARY THE 26TH OF
23 2003?

24 A YES.

25 Q AND YOU PUT YOUR, YOU MADE THESE ADDITIONAL PURCHASES

1 A FEW DAYS LATER IN, MARCH 3RD OF 2003?

2 A YES.

3 Q AND I DON'T KNOW HOW MANY DAYS THE MONTH OF FEBRUARY
4 HAD IN IT IN 2003 BUT IT WAS ROUGHLY A WEEK LATER,
5 CORRECT?

6 A YES.

7 Q AND IN THIS MEETING THERE WAS, IT WAS ATTENDED BY MR.
8 EARLE MORRIS, MR. LARRY OWEN, MR. FORREST FERRELL, MS.
9 KAREN MILLER AS WELL AS YOU AND MR. SHARPE?

10 A RIGHT.

11 Q AND ONCE AGAIN, AND YOU ARE GIVEN INFORMATION AT THIS
12 MEETING ABOUT ANOTHER ENTITY CALLED FLEXCHECK?

13 A YES.

14 Q AND YOU REMEMBER THAT ENTITY?

15 A YES.

16 Q AND THAT WAS ANOTHER BUSINESS THAT HAD BEEN STARTED
17 THAT WAS GOING TO ALSO, HOPE TO RETURN MONEY TO PAY BACK
18 THE INTER-COMPANY DEBT?

19 A YES.

20 Q AND THERE WAS A STARTUP BUSINESS THAT WAS, HAD
21 STARTED UP?

22 A IT WAS A STARTUP BUSINESS THAT WE, AS BOARD OF
23 DIRECTORS AT CAROLINA INVESTORS, OPPOSED AND WE TOLD MR.
24 SHEPPARD SO THAT IT JUST DID NOT GO ALONG WITH THE TYPE
25 BUSINESS THAT WE WERE RUNNING AND WANTED TO RUN. IT WAS

1 STARTED ANYWAY WITHOUT OUR CONSENT.

2 Q AND MS. MILLER GAVE A FINANCIAL PRESENTATION TO THE
3 COMPANY, THE BOARD?

4 A YES.

5 Q BASED ON THAT IT APPEARED THAT-

6 A THAT EVERYTHING WAS GOING TO GO ALONG ALL RIGHT.

7 Q CERTAINLY NOTHING IN THAT MEETING LED YOU TO BELIEVE
8 THAT LESS THAN A MONTH LATER THAT THE DOORS WERE GOING TO
9 BE SHUT?

10 A NO, NO. IN FACT THEY TOLD US THAT THEY WOULDN'T BE
11 NEEDING ANY MORE OF CAROLINA INVESTORS MONEY, THAT
12 EVERYTHING WAS GOING SO WELL THAT THEY WOULDN'T NEED IT.
13 BUT THEY HAD A PLACE TO PUT IT.

14 Q AND THAT IS WHAT MS. MILLER SAID?

15 A YES.

16 Q AND THEN, AND I THINK YOU, BUT THE REASON YOU NEVER
17 WITHDREW MONEY, ONE OF THE REASONS THAT YOU NEVER WITHDREW
18 MONEY FROM CAROLINA INVESTORS IS BECAUSE YOU WERE AFRAID
19 IF THE PUBLIC KNEW--

20 A NO, I DIDN'T SAY THAT, I SAID IF I HAD KNOWN THAT
21 CAROLINA INVESTORS WAS GOING TO GO BROKE, I DIDN'T KNOW
22 THEN. IF I HAD OF KNOWN IT WAS GOING TO GO BROKE I WOULD
23 NOT HAVE TAKEN MY MONEY OUT.

24 Q YOU STILL WOULDN'T OF TAKEN IT OUT BECAUSE, HAD YOU
25 TAKEN IT OUT THEY WOULD OF, THE PUBLIC WOULD OF KNOWN AND

1 IT WOULD OF CAUSED A RUN?

2 A WELL, YES AND I WOULD OF GOTTEN MY MONEY AND THE REST
3 OF THEM WOULDN'T.

4 Q WORD WOULD OF BEEN PUT OUT PRETTY QUICKLY THAT YOU
5 HAD TAKEN YOUR MONEY OUT?

6 A RIGHT.

7 Q FRANKLY PEOPLE WOULD COME BY AND ASK YOU, HAD YOU
8 TAKEN YOUR MONEY OUT, ARE YOU STILL IN, CORRECT?

9 A RIGHT.

10 Q AND BASED ON THOSE, YOU WERE AWARE THAT YOU
11 PERSONALLY WERE, I GUESS, THE STANDARD BARRIER OF SORTS OF
12 THE RISK OR THE SAFETY OF PEOPLES INVESTMENT AT CAROLINA
13 INVESTORS IN THE COMMUNITY?

14 A NO, I WON'T SAY THAT BECAUSE THEY DIDN'T KNOW HOW
15 MUCH MONEY I HAD IN THERE.

16 Q WELL CERTAINLY THE PROSPECTUS DISCLOSED SUBSTANTIAL
17 INVESTMENTS, DID THEY NOT?

18 A I DON'T THINK THE PROSPECTUS TELLS HOW MUCH MONEY YOU
19 GOT IN THERE.

20 Q MR. BOBO, I AM GOING TO SHOW YOU WHAT IS IN EVIDENCE,
21 STATE'S EXHIBIT 50 AND IT IS A PROSPECTUS THAT WAS FILED
22 IN 2002 AND IF YOU WILL TELL THE JURY WHAT IT SAYS, THE
23 AMOUNT OF YOUR INVESTMENT IN CAROLINA INVESTORS?

24 A \$925,678.

25 Q THAT IS \$925 THOUSAND DOLLARS?

1 A RIGHT.

2 Q SO, IT IS IN THE PROSPECTUS, RIGHT?

3 A YES, I GUESS IT IS.

4 Q DID YOU EVER HAVE ANY DISCUSSIONS WITH ANYONE AT
5 HOMEGOLD ABOUT TAKING YOUR MONEY OUT?

6 A NO.

7 Q THAT IS ALL I HAVE.

8 THE COURT: REDIRECT?

9 MR. MYRICK: YES, YOUR HONOR.

10 REDIRECT EXAMINATION

11 BY MR. MYRICK:

12 Q YOU REJOINED THE BOARD IN WHAT YEAR, MR. BOBO?

13 A '91, WE SOLD OUT IN '91, I JOINED THE BOARD IN '96.

14 Q '96?

15 A YES.

16 Q AND THERE WERE HOW MANY MEETINGS PER YEAR?

17 A WE MET QUARTERLY, EVERY THREE MONTHS.

18 Q FROM '96 TO '03 YOU MET FOUR TIMES A YEAR?

19 A FOUR TIMES A YEAR.

20 Q IS THAT 28 MEETINGS, MR. BOBO?

21 A I CAN'T TELL YOU.

22 Q I AM NOT A MATH MAJOR EITHER. HOW MANY MEETINGS OF
23 CAROLINA INVESTORS BOARD WERE THERE AFTER THE DEFENDANT
24 LEFT. AFTER HE LEFT WITH EMMCO HOW MANY MORE TIMES DID
25 CAROLINA INVESTORS BOARD MEET?

1 A I AM NOT SURE.

2 Q DO YOU REMEMBER WHEN THE EMMCO DEAL WAS. IF I MAY
3 APPROACH, I AM GOING TO HAND HIM WHAT IS MARKED AS DEFENSE
4 NUMBER 13. MR. BOBO, WOULD YOU LOOK AT THE SECOND PAGE
5 AND AT THE VERY TOP AND ON THE FIRST PAGE WHEN THAT
6 MEETING WAS.

7 A IT WAS ON FEBRUARY 26TH OF '03.

8 Q AND WAS THAT THE LAST ONE?

9 A PROBABLY, YES.

10 Q IS THAT RIGHT AFTER THE DEFENDANT LEFT?

11 A YES.

12 Q MR. BOBO, I HEARD THE QUESTION FROM THE DEFENSE THAT
13 THEY ASKED YOU ABOUT, WHY YOU DIDN'T TAKE YOUR MONEY OUT.
14 I WOULD LIKE TO GIVE YOU THE OPPORTUNITY TO CLEAR IT UP
15 FOR THE JURY. WHY WOULDN'T YOU OF TAKEN YOUR MONEY OUT IF
16 YOU HAD KNOWN?

17 A IT WOULD NOT OF BEEN FAIR TO THE REST OF THE
18 INVESTORS, I GET MY MONEY OUT AND IT GOES BROKE. YOU CAN
19 IMAGINE, MY BUSINESS WOULD OF GONE ALL TO PIECES, MY
20 FRIENDS WOULD OF DESERTED ME. AND I DON'T BLAME THEM, I
21 WOULD TOO.

22 Q BUT YOU DIDN'T KNOW, DID YOU?

23 A NO, I DIDN'T KNOW.

24 Q THANK YOU, MR. BOBO.

25 THE COURT: ANY RECROSS?

1 MR. GRIFFIN: NO, YOUR HONOR.

2 THE COURT: YOU MAY STEP DOWN.

3 MR. MYRICK: THE STATE WOULD LIKE TO RESERVE THE
4 RIGHT TO RECALL MR. BOBO.

5 THE COURT: WE WILL TAKE A BRIEF RECESS BEFORE YOU
6 CALL YOUR NEXT WITNESS. LADIES AND GENTLEMEN, WE WILL
7 TAKE A SHORT BREAK, EVERYONE ELSE STAY SEATED, PLEASE.

8 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
9 A BREAK.)

10 THE COURT: WE WILL TAKE TEN MINUTES.

11 (WHEREUPON, A SHORT BREAK WAS TAKEN.)

12 THE COURT: IS THE STATE READY?

13 MS. EVANS: YES, YOUR HONOR.

14 THE COURT: THE DEFENSE?

15 MR. GRIFFIN: YES, SIR.

16 THE COURT: GET THE JURY IN, PLEASE.

17 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
18 APPROXIMATELY 11:00 A.M.)

19 THE COURT: CALL YOUR NEXT WITNESS, PLEASE.

20 MR. MYRICK: THE STATE CALLS DANNY SHARPE TO THE
21 STAND.

22 DANNY SHARPE, AFTER BEING DULY SWORN, TESTIFIED
23 AS FOLLOWS:

24 DIRECT EXAMINATION

25 BY MR. MYRICK:

1 Q MR. SHARPE, WOULD YOU INTRODUCE YOURSELF TO THE JURY,
2 PLEASE.

3 A I AM USUALLY KNOWN IN MY COMMUNITY AS DAN SHARPE AND
4 I HAVE LIVED IN PICKENS FOR ABOUT 33 YEARS. SINCE MY WIFE
5 AND I WERE OUT OF COLLEGE AND MOVED THERE AND TOOK UP
6 THERE. MARRIED TO KAREN SHARPE WHO IS A FIRST GRADE
7 SCHOOL TEACHER FOR 32 YEARS NOW. I LIVE IN PICKENS, THREE
8 CHILDREN, ALL ARE ADULTS NOW, YOUNG ADULTS, THEY ARE ALL
9 OUT OF SCHOOL.

10 Q WHERE DO YOU WORK, MR. SHARPE?

11 A I WORK WITH AN AGENCY BY THE NAME OF THE BEHAVIORAL
12 HEALTH SERVICES IN PICKENS COUNTY, IT IS AN AGENCY WAS
13 FORMERLY THE PICKENS COUNTY COMMISSION ON ALCOHOL AND DRUG
14 ABUSE AND WE CHANGED THE NAME A FEW YEARS AGO BECAUSE WE
15 DO SO MANY OTHER THINGS OTHER THAN ALCOHOL AND DRUG ABUSE.
16 IT IS AN AGENCY WHERE WE PROVIDE SERVICES PRIMARILY TO
17 INDIVIDUALS AND FAMILIES WITH PROBLEMS WITH ALCOHOL AND
18 DRUG ABUSE AS WELL AS OTHER PSYCHOLOGICAL KIND OF
19 PROBLEMS.

20 Q HOW LONG HAVE YOU WORKED THERE?

21 A DECEMBER WAS 33 YEARS.

22 Q IT IS A PROFIT ENTERPRISE?

23 A NO, SIR. IT IS NON-PROFIT.

24 Q WHERE DID YOU GO TO SCHOOL, MR. SHARPE?

25 A I GRADUATED FROM SOUTHERN WESLEY UNIVERSITY IN

1 CENTRAL, SOUTH CAROLINA. WHEN I WENT THERE BACK IN '69 IT
2 WAS CENTRAL WESTEND COLLEGE BUT THEY CHANGED THE NAME. I
3 GRADUATED FROM THERE IN '73, A BACHELORS DEGREE IN
4 PHYSIOLOGY AND ABOUT 10 YEARS AGO WENT BACK AND COMPLETED
5 MY MASTERS DEGREE IN ORGANIZATIONAL MANAGEMENT.

6 Q DO YOU DO ANY VOLUNTEER WORK IN PICKENS?

7 A YES SIR, I HAVE BEEN PRETTY INVOLVED ALL OF MY
8 PROFESSIONAL LIFE IN VARIOUS KINDS OF VOLUNTEER ACTIVITY,
9 BOTH IN THE COMMUNITY AS WELL AS MY CHURCH. I SERVED ON A
10 NUMBER OF BOARDS OVER THE YEARS, THIS, THE BOARD SITUATION
11 WITH CAROLINA INVESTORS IS THE FIRST TIME I HAVE BEEN A
12 MEMBER OF A FINANCIAL INSTITUTION. BUT I AM CURRENTLY
13 STILL A MEMBER OF THE SALVATION ARMY, YMCA, RED CROSS,
14 UNITED WAY, SERVED AS CHAIRMAN OF THE SCHOOL BOARD IN OUR
15 COUNTY FOR A COUPLE OF YEARS. SO, I HAVE BEEN PRETTY
16 ACTIVELY INVOLVED IN THE COMMUNITY AND MY CHURCH, AS A
17 DEACON THERE IN THE CHURCH.

18 Q ARE YOU FAMILIAR WITH CAROLINA INVESTORS?

19 A YES.

20 Q SINCE WHEN?

21 A WELL, I HAVE BEEN FAMILIAR WITH CAROLINA INVESTORS
22 FOR THE MAJORITY OF THE TIME I HAVE BEEN IN PICKENS COUNTY
23 BUT I KNEW IT WAS A BUSINESS IN PICKENS. I WASN'T
24 FAMILIAR WITH IT IN TERMS OF ANY BUSINESS WITH THE
25 INSTITUTION UNTIL I WAS ASKED TO SERVE ON THE BOARD.

1 Q WHO ASKED YOU TO SERVE ON THE BOARD?

2 A LARRY OWEN.

3 Q AND WHEN WAS THAT?

4 A THAT WAS IN THE LATER PART OF 1998, I THINK IT WAS
5 THE LATER PART OF 1998, IT MIGHT OF BEEN AROUND THE
6 BEGINNING OF 1999.

7 Q WHAT DID HE SAY?

8 A WELL, HE CALLED ME ONE DAY AT THE OFFICE, HE REALLY
9 DIDN'T TELL ME WHY HE WANTED ME TO MEET WITH HIM. HE JUST
10 CALLED ME AND SAID I WOULD LIKE YOU TO MEET WITH ME IN MY
11 OFFICE AND TALK WITH YOU ABOUT SOMETHING. SO, I WENT OUT
12 THERE, I KNEW WHO MR. OWEN WAS, I DIDN'T KNOW HIM
13 PERSONALLY BUT I KNEW WHO HE WAS, I KNEW HE WAS, I GUESS,
14 THE CEO AT THAT TIME, AT THAT BUSINESS. SO, I WENT OUT
15 AND MET WITH MR. OWEN, THAT IS WHEN HE TOLD ME THAT THEY
16 HAD A VACANCY ON THE CAROLINA INVESTORS BOARD AND ASKED IF
17 I WOULD BE INTERESTED IN SERVING IN THAT CAPACITY.

18 Q DID HE SAY WHY HE ASKED YOU?

19 A YES SIR, HE TOLD ME THAT THEY WERE LOOKING FOR
20 ANOTHER INDIVIDUAL IN THE COMMUNITY THAT WAS WELL
21 RESPECTED AND WELL KNOWN AND HONEST AND THAT PEOPLE
22 TRUSTED.

23 Q WHAT DID YOU SAY?

24 A WELL, WE TALKED ABOUT IT A WHILE IN TERMS OF, YOU
25 KNOW, WHAT THE ROLE AND THE RESPONSIBILITIES WOULD BE AND

1 THAT SORT OF THING. AND MOST OF MY CONVERSATION THERE
2 WITH HIM, I UNDERSTOOD THAT TO BE A POSITION THAT REALLY
3 WAS MORE OF A COMMUNITY RELATIONS KIND OF A POSITION THAN
4 ANYTHING ELSE, FROM A PUBLIC RELATIONS STANDPOINT. AND
5 AFTER TALKING WITH HIM ABOUT THAT, TOLD HIM I WOULD BE
6 GLAD TO SERVE AND I WANTED TO HELP OUT ANY WAY I COULD
7 BECAUSE IT WAS CONSISTENT WITH ALL THE YEARS AS A BOARD
8 SERVICE.

9 Q AND WHEN DID YOUR SERVICE AS A BOARD MEMBER BEGIN?

10 A IT WAS IN THE LATER PART OF '98, EARLY PART OF '99,
11 SOMEWHERE IN THAT AREA.

12 Q WHEN YOU JOINED DID YOU UNDERSTAND THE NATURE OF THE
13 RELATIONSHIP BETWEEN CAROLINA INVESTORS AND HOMEGOLD?

14 A WELL, AT THAT TIME MY UNDERSTANDING WAS PRETTY MUCH
15 LIMITED TO THE FACT THAT CAROLINA INVESTORS WAS NOW A
16 SUBSIDIARY OF A PARENT COMPANY NAMED HOMEGOLD. I KNEW
17 VERY LITTLE ABOUT HOMEGOLD.

18 Q HOW WAS THE RELATIONSHIP DESCRIBED TO YOU BETWEEN THE
19 TWO COMPANIES?

20 A THAT WAS PRETTY MUCH IT, THAT CAROLINA INVESTORS WAS
21 NOW OWNED BY A PARENT COMPANY OF HOMEGOLD, THAT WAS PRETTY
22 MUCH THE EXPLANATION OF THAT RELATIONSHIP.

23 Q AND WHAT AUTHORITY DID YOU BELIEVE THE BOARD TO HAVE?

24 A WELL, AT THAT POINT AND TIME I DIDN'T UNDERSTAND THE
25 BOARD TO BE AN AUTHORITATIVE BOARD, I HAD REALLY NEVER

1 SEEN ANY BYLAWS AND HAD NOT SEEN ANY BYLAWS THE WHOLE TIME
2 THAT I SERVED ON THAT BOARD. AND MY UNDERSTANDING AT THAT
3 POINT AND TIME THAT IT WAS MORE UN-ADVISORY CAPACITY.

4 Q WHEN YOU FIRST BEGAN ATTENDING CAROLINA INVESTORS
5 BOARD MEETINGS, WERE THERE NOTES TAKEN?

6 A THERE WERE NOTES TAKEN, I PRESUME AND MINUTES,
7 RESULTED IN MINUTES BEING DEVELOPED.

8 Q DID THOSE MINUTES REFLECT EVERYTHING THAT HAPPENED AT
9 THE MEETING?

10 A THEY WOULD TYPICALLY WOULD REFLECT THE MOST CRITICAL
11 ELEMENTS OF THE MEETING, NOT EVERYTHING VERBATIM AT A
12 BOARD MEETING THAT WAS RECORDED. BUT FOR THE MOST PART,
13 THE MOST CRITICAL, THE MOST SALIENT ISSUES WERE RECORDED,
14 YES.

15 Q WHEN DID YOU FIRST MEET THE DEFENDANT?

16 A I MET MR. SHEPPARD AT THE FIRST BOARD MEETING AFTER
17 THE MERGER BETWEEN HOMEGOLD AND HOMESENSE, I THINK THAT
18 WAS PROBABLY, I THINK A MERGER WAS CONSUMMATED SOMEWHERE
19 AROUND MAY OF 2000 AND IT WOULD PROBABLY BE SOMEWHERE
20 THEREABOUTS WITH A BOARD MEETING WITH CAROLINA INVESTORS.

21 Q DID YA'LL HAVE A SAY IN THAT MERGER?

22 A NO, THE ONLY CONVERSATION THAT OCCURRED PRIOR TO THAT
23 MERGER WAS FROM THE OFFICERS AND THE BOARD MEMBERS OF
24 HOMEGOLD WHICH WAS LOCATED, THE OFFICES IN GREENVILLE
25 COUNTY. AND WE WOULD HAVE A CAROLINA INVESTORS BOARD

1 MEETING, THEY WOULD COME TO CAROLINA INVESTORS OFFICE IN
2 PICKENS. AND THERE HAD BEEN SOME DISCUSSIONS ABOUT
3 LOOKING FOR WAYS TO IMPROVE THE PRODUCTION WHICH WOULD
4 MOVE TO HOPEFULLY IMPROVING THE COMPANY RETURNING TO
5 PROFITABILITY AND THAT SORT OF THING. AND THEY HAD BEEN
6 TALKING WITH SOMEONE ABOUT THE POSSIBILITY OF THE MERGER.

7 Q AFTER THE MERGER DID THE DEFENDANT ATTEND THE BOARD
8 MEETINGS REGULARLY?

9 A FOR THE MOST PART I WOULD SAY FOR THE FIRST YEAR AND
10 A HALF I WOULD SAY FAIRLY REGULAR IN ATTENDANCE, YES.

11 Q AND AT THOSE MEETINGS DID YA'LL DISCUSS THE FINANCIAL
12 STATUS OF CAROLINA INVESTORS AND HOMEGOLD?

13 A YES, WE WERE PROVIDED FINANCIAL STATEMENTS FOR BOTH
14 ENTITIES, YES.

15 Q WHAT KIND OF INFORMATION WAS PRESENTED REGARDING
16 HOMEGOLD?

17 A WELL, WITH HOMEGOLD I RECALL THE FINANCIAL REPORTS
18 WERE FAIRLY LONG, A LOT OF LINE ITEMS KIND OF THINGS
19 LISTED. YOU KNOW, VERY DIFFICULT TO SORT OUT. SO, MOST
20 OF THE TIME MY QUESTIONS WERE RELATED TO, I WANT TO KNOW
21 THE BOTTOM LINE, I CAN'T, FROM MY PERSPECTIVE THEY WERE SO
22 DIFFICULT TO READ, I USE THE TERM CONVOLUTED IN THE PAST.
23 THEY WERE SO DIFFICULT TO UNDERSTAND THAT I COULDN'T
24 UNDERSTAND THEM IN TERMS OF ALL THE IN'S AND OUT'S. AND I
25 WOULD ALWAYS FUNDAMENTALLY COME BACK TO SAY, I WANT TO

1 KNOW WHAT THE BOTTOM LINE IS, HOW MUCH IS THE COMPANY
2 LOSING AND WHAT ARE YOU DOING ABOUT IT. NOW, THE
3 FINANCIAL REPORT FOR CAROLINA INVESTORS WAS FAIRLY SIMPLE
4 BECAUSE IT JUST BASICALLY GAVE US AN OUTLINE OF THE
5 DEPOSITS AND THE WITHDRAWALS. SO, THAT WAS A FAIRLY
6 SIMPLE REPORT TO READ.

7 Q SO, ARE YOU SAYING THEY WERE ENTIRELY DIFFERENT IN
8 THE WAY THEY WERE PRESENTED?

9 A WELL, THEY WERE SUBSTANTIALLY DIFFERENT, IN TERMS OF
10 THE TEXT AND INFORMATION, THEY WERE DIFFERENT. HOMEGOLD
11 GAVE A LOT OF LINE ITEM KINDS OF INFORMATION. BUT FOR THE
12 MOST PART, INFORMATION THAT A TYPICAL LAY PERSON, AT LEAST
13 I COULD NOT MAKE MUCH SENSE OF THAT IS WHY I ALWAYS WENT
14 BACK TO THE BOTTOM LINE IN TERMS OF HOW MUCH ARE YOU
15 LOSING AND WHAT YOU ARE DOING ABOUT THE COMPANY.

16 Q WAS IT GIVEN TO YOU, THE FINANCIAL INFORMATION, WAS
17 IT HANDED TO YOU?

18 A IT WAS PRESENTED TO US IN A NOTEBOOK, AS WE CAME INTO
19 THE MEETING IT WAS PRESENTED TO US IN A NOTEBOOK AND WE
20 NEVER TOOK IT AWAY OR ANYTHING, IT WAS TURNED BACK IN WHEN
21 WE LEFT THE MEETING.

22 Q YOU COULDN'T KEEP IT?

23 A NO, SIR.

24 Q YOU DID UNDERSTAND THAT HOMEGOLD WAS LOSING MONEY?

25 A YES, I KNEW THAT, ADDRESSED IT EVERY TIME WE MET,

1 YES.

2 Q BEFORE THE MERGER?

3 A YES, I ADDRESSED IT BEFORE THE MERGER AND AFTER THE
4 MERGER, YES.

5 Q HOW DID YOU TREAT THIS MATTER?

6 A WELL, I AM NOT SURE WHAT YOU ARE ASKING IN THAT
7 QUESTION. BUT IN TERMS OF TREATING IT, I SAW IT AS VERY
8 SERIOUS AND SIGNIFICANT. THAT THIS WAS SOMETHING THAT,
9 YOU KNOW, I GUESS USING AN ANALOGY, WE HAD A SLOW LEAKING
10 SITUATION AND IF IT DIDN'T HAVE SOME SERIOUS SURGERY IT
11 WAS GOING TO BE TURNED INTO A FULL BLOWN CATASTROPHE,
12 FINANCIALLY SPEAKING. SO, I SAW IT AS VERY CRITICAL, VERY
13 DIRE AND IT WAS NEEDING SOME VIABLE REASONABLE LEGITIMATE
14 PLAN FROM THE OFFICERS OF HOMEGOLD TO TURN THAT SITUATION
15 AROUND.

16 Q DID YOU ASK QUESTIONS?

17 A ABSOLUTELY.

18 Q DID YOU ASK QUESTIONS OF THE DEFENDANT?

19 A I ASK QUESTIONS OF EVERYBODY AT EVERY MEETING. I ASK
20 QUESTIONS THAT WERE OPEN TO VARIOUS PEOPLE TO ANSWER. I
21 DON'T WANT TO OVERSIMPLIFY THIS BUT IT HAS BEEN A LOT MORE
22 COMPLICATED THAN THIS. I HAVE A FAIRLY GOOD UNDERSTANDING
23 OF FINANCIAL BUDGETS AND STATEMENTS. AS EXECUTIVE
24 DIRECTOR OF OUR AGENCY, I AM FULLY RESPONSIBLE FOR THAT.
25 SO, I UNDERSTAND EXPENSES AND REVENUE STREAMS AND

1 BUDGETING, AND I PREPARE A \$2 MILLION DOLLAR BUDGET FOR
2 OUR AGENCY OVER THE YEARS. SO, I UNDERSTAND BUDGETING AND
3 I UNDERSTAND FINANCIAL CORRELATIONS AND ALL THAT SORT OF
4 THING. BUT WITH THESE REPORTS, I SIMPLY HAD, I HAD TO GO
5 BACK TO TELL ME WHAT THE BOTTOM LINE IS EACH TIME.

6 Q WHAT KIND OF RESPONSE DID YOU GET TO YOUR QUESTIONS
7 ABOUT THE FINANCIAL SITUATION?

8 A EVERY TIME THAT I RAISED THE QUESTION AND I ASSURE
9 YOU THAT I RAISED QUESTIONS EVERY TIME WE HAD A MEETING.
10 I WAS VERY DILIGENT ABOUT THAT, IT WAS ALWAYS, THINGS ARE
11 LOOKING BETTER, THINGS ARE LOOKING GOOD, DON'T WORRY ABOUT
12 IT, WE ARE MOVING TOWARDS TURNING THIS THING OVER TO A
13 PROFITABLE BUSINESS AND EVERYTHING LOOKS OKAY.

14 Q AS YOUR SERVICE ON THE BOARD CONTINUED AFTER THE
15 MERGER DID YOU KEEP UP WITH THE INTER-COMPANY LOAN, THE
16 AMOUNT OF IT?

17 A WELL, JUST, ONLY, YES IN TERMS OF THE INFORMATION WE
18 PROVIDED ON A QUARTERLY BASIS. AND DURING THAT TIME WE
19 WERE SCHEDULED TO BE ON A QUARTERLY BASIS AND I CAN'T GIVE
20 YOU SPECIFICALLY TIME LAPSES. BUT THERE WERE TIMES THAT
21 WE DID NOT MEET QUARTERLY, THERE WERE ACTUALLY SIX MONTHS
22 LAPSES. AND I BECAME VERY CONCERNED AT TIMES WHY, YOU
23 KNOW, NOT HAVING THOSE TYPES OF LAPSE BECAUSE AS VOLITIVE
24 AS THAT SITUATION WAS, THE FINANCIAL SITUATION COULD
25 CHANGE VERY SUBSTANTIALLY IN THREE MONTHS MORE THAN LESS

1 THE TIMEFRAMES WHERE YOU HAVE LARGER GAPS.

2 Q I WANT TO HAND YOU SOMETHING, MR. SHARPE, WITHOUT
3 SAYING WHAT IT IS I AM GOING TO ASK YOU IF YOU RECOGNIZE
4 IT?

5 A YES SIR, I DO.

6 Q WHAT IS IT?

7 A IT IS THE MINUTES FROM THE CAROLINA INVESTORS
8 MEETING, BOARD OF DIRECTORS MEETING ON NOVEMBER 20TH OF
9 2001.

10 Q HOW WERE THOSE MINUTES HANDLED?

11 A HOW WERE THE MINUTES HANDLED IN TERMS OF THE
12 OPERATION OF THE MEETING, THAT SORT OF THING?

13 Q DID YA'LL ADOPT THEM.

14 A YES, THE MINUTES WERE PRESENTED, THAT WOULD BE
15 PREPARED IN A NOTEBOOK, WE WOULD GET A NOTEBOOK AND THEN
16 THEY ARE VOTED ON AND APPROVED.

17 MR. MYRICK: YOUR HONOR, THE STATE IS GOING TO MOVE
18 STATE'S NUMBER 131 INTO EVIDENCE.

19 THE COURT: ANY OBJECTION?

20 MR. GRIFFIN: NO OBJECTION.

21 THE COURT: WITHOUT OBJECTION STATE'S 131 IS
22 ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 131 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q I PUT THESE MINUTES UP ON THE SCREEN SO THE JURY CAN

1 SEE THEM AS WELL. THAT FIRST BIG PARAGRAPH, CAN YOU SEE
2 IT UP THERE ON THE SCREEN?

3 A YES SIR, I CAN.

4 Q DO YOU SEE WHERE THAT THIRD SENTENCE BEGINS WHERE IT
5 SAYS, MR. FERRELL AND MR. SHEPPARD?

6 A YES SIR, I DO.

7 Q CAN YOU READ THAT TO THE JURY, IF YOU DON'T MIND?

8 A MR. FERRELL AND MR. SHEPPARD STATED THAT IT IS THEIR
9 GOAL TO HAVE THE INTER-COMPANY BALANCE DOWN TO AS NEAR
10 \$100 MILLION DOLLARS AS POSSIBLE BY YEAREND.

11 Q AND THAT WAS WHICH MEETING?

12 A THAT WAS NOVEMBER 20TH OF 2001.

13 Q ARE THESE MINUTES CORRECT?

14 A YES SIR, AS FAR AS I RECALL.

15 Q WHAT DID THE DEFENDANT TELL YOU, IN ADDITION TO THIS,
16 ANYTHING?

17 A WELL, AGAIN, THIS IS ANOTHER ONE OF THOSE MEETINGS
18 WHERE EVEN THOUGH IT IS NOT REFLECTED IN HERE, THE
19 QUESTION WAS ALWAYS ASKED AND AGAIN, PARDON ME FOR BEING
20 REDUNDANT, BUT I THINK IT IS IMPORTANT THAT IT IS
21 UNDERSTOOD HOW DILIGENT I WAS ABOUT TRYING TO UNDERSTAND
22 WHAT WAS GOING ON. THERE IS NO QUESTION IN MY MIND THAT I
23 ADDRESSED THE ISSUE AGAIN, WHAT IS THE BOTTOM LINE AND THE
24 SAME RESPONSE, EVERYTHING IS FINE, EVERYTHING IS MOVING
25 FORWARD, EVERYTHING IS GOOD, DON'T WORRY ABOUT IT, WE ARE

1 MOVING TOWARD PROFITABILITY. AND EVEN IN MOST INSTANCES
2 WHEN I WOULD RAISE THE QUESTION, IT WAS ALWAYS GIVEN SOME
3 TIME FRAME, BY THE END OF THE THIRD QUARTER, BY THE END OF
4 THE FIRST QUARTER OF NEXT YEAR, WAS ALWAYS GIVEN SOME
5 TIMELINE BUT IT NEVER DID MATERIALIZE.

6 Q THIS INTER-COMPANY LOAN, WHAT WAS FUNDING IT?

7 A WELL, THE INTER-COMPANY LOAN, I LEARNED AFTER I CAME
8 ON THE BOARD WAS ACTUALLY INITIATED BEFORE I CAME ON THE
9 BOARD. AND, BUT ONCE I BECAME AWARE OF IT, MY
10 UNDERSTANDING WAS THAT THE INTER-COMPANY LOAN WAS FUNDED
11 SOLELY BY OR PRIMARILY BY AT THAT TIME MONIES THAT HAD
12 BEEN TRANSFERRED TO HOMEGOLD FROM CAROLINA INVESTORS.

13 Q DID YOU BELIEVE THE DEFENDANT WHEN HE TOLD YOU THAT?

14 A YES, SIR.

15 Q DID YOU EVER TALK AT ANY OF THE BOARD MEETINGS ABOUT
16 A PLAN OF AN EXPANSION AROUND THIS TIME?

17 A YES, WE DID. AROUND MID-2001, I DON'T REMEMBER
18 EXACTLY THE MONTH BUT IT WAS PROBABLY IN THE JULY OR
19 AUGUST TIMELINE, MR. SHEPPARD WAS TALKING ABOUT EXPANDING
20 THE OFFICES, THE SUBPART LENDING OFFICES LIKE HOMEGOLD,
21 INC., THAT WAS OPERATING HERE IN SOUTH CAROLINA.
22 EXPANDING THOSE TO VARIOUS OTHER LOCATIONS AROUND THE
23 COUNTRY, PRIMARILY I THINK CONCENTRATED IN THE MIDWEST.
24 AND PRESENTED THAT CONCEPT TO US AT THE BOARD MEETING AND
25 OF COURSE THE ISSUE WAS THERE NEEDS TO BE INCREASED

1 PRODUCTION--

2 Q I AM SORRY, MR. SHARPE, WHOSE IDEA WAS IT?

3 A MR. SHEPPARD WAS PRESENTING THIS.

4 Q HE PRESENTED IT?

5 A YES.

6 Q I AM SORRY, I HATE TO INTERRUPT.

7 A THAT IS FINE. THE CONCEPT WAS TO START UP ALL OF
8 THESE ADDITIONAL TEN TO TWELVE NEW OFFICES AROUND THE
9 COUNTRY. WHICH FROM A PRODUCTION IN SALES OF LOANS ARE
10 YOUR GOAL, IDEALLY THAT MAKES SENSE TO INCREASE MECHANISMS
11 IN YOUR BUSINESS TO DO THAT. BUT WE STATED VERY FIRMLY
12 AND I REMEMBER SAYING VERY VIVIDLY THAT YOU DON'T NEED TO
13 GET OUT TO START EIGHT TO TEN AT ONE TIME, THAT YOU NEED
14 TO DO THIS IN A SYSTEMATIC KIND OF WAY. BECAUSE IF A CASH
15 FLOW IS STRAINED AT THAT POINT AND TIME, IN ANY BUSINESS,
16 YOU CAN'T GO OUT AND SPEND MONEY. YOU DON'T HAVE TO START
17 UP MULTIPLE ARMS OF THAT BUSINESS. SO, WE INDICATED AND I
18 SAY, WE, BECAUSE THERE WAS CONSENSUS IN THAT MEETING THAT
19 IT SHOULD BE DONE IN A VERY SYSTEMATIC WAY, START UP ONE,
20 GET IT SELF-SUFFICIENT, GET IT PROFITABLE AND PROCEED THAT
21 WAY.

22 Q BY WE, WHO DO YOU MEAN?

23 A ALL THE PEOPLE PRESENT IN THAT MEETING, CAROLINA
24 INVESTORS BOARD, THERE WAS CONVERSATION TO THIS EFFECT.
25 AND I CAN'T REMEMBER WHO ALL SAID WHAT BUT I KNOW I TALKED

1 ABOUT THE ISSUE OF STARTING IT UP SYSTEMATICALLY ONE AT A
2 TIME, GET IT PROFITABLE AND THAT SORT OF THING.

3 Q AND WHO WANTED TO OPEN UP EIGHT OR TEN AT ONCE?

4 A MR. SHEPPARD.

5 Q DID YOU VOICE YOUR OPINION?

6 A YES.

7 Q AND WHAT MORE DID YOU SAY?

8 A WELL, WE OFFERED THAT ADVICE, IT WASN'T, IF WE WERE
9 INTENDED BY THE BYLAWS TO BE AN AUTHORITATIVE BOARD,
10 CLEARLY WE OFFERED OUR ADVICE. THERE WAS NO PRESENTATION
11 IN TERMS OF HERE IS WHAT I AM THINKING, BY MR. SHEPPARD
12 SAYING, HERE IS WHAT I AM THINKING ABOUT DOING, I NEED
13 YOUR APPROVAL. IT WAS BASICALLY MAKING PRESENTATIONS
14 SAYING, HERE IS WHAT I AM THINKING ABOUT DOING. AND THAT
15 IS WHEN I SAID, AND OTHERS AGREED THAT HE NEEDED TO DO IT
16 IN A SYSTEMATIC KIND OF WAY AND HE AGREED WITH IT, HE
17 AGREED.

18 Q WERE YOU ASKED TO VOTE ON IT?

19 A NO.

20 Q WERE YOU ASKED FOR YOUR APPROVAL?

21 A NO.

22 Q SO, HOW MANY OFFICES WERE OPENED?

23 A WELL, GO BACK ON THE INFORMATION THAT WAS AVAILABLE
24 LATER, WE LEARNED LATER THAT SOME FIVE OFFICES WAS
25 IMMEDIATELY OPENED, FROM AUGUST TO DECEMBER OF '01. AND

1 THEN FROM JANUARY TO JUNE OF '02 ANOTHER SEVEN, SO TEN TO
2 TWELVE AS I UNDERSTAND IT WERE OPENED AND \$30 MILLION
3 DOLLARS SPENT IN THAT SHORT PERIOD OF TIME WHICH WAS
4 TOTALLY CONTRARY TO WHAT WE HAD SUGGESTED AS A PLAN.

5 Q YOU HAD BEEN UNDER THE IMPRESSION THAT THE DEFENDANT
6 WAS LISTENING TO YOU?

7 A HE INDICATED THAT HE AGREED WITH THAT CONCEPT.

8 Q THE MONEY TO PAY FOR THIS EXPANSION, WHERE WAS IT
9 COMING FROM?

10 A AT THAT TIME IT WAS APPARENTLY COMING OUT OF,
11 PRIMARILY OUT OF CAROLINA INVESTORS, I AM NOT SURE OF ALL
12 OF THE FUNDING STREAMS AT THAT TIME FOR HOMEGOLD IN TERMS
13 OF HOW MUCH MONEY WAS COMING IN FROM ACTUAL SALES AND
14 MORTGAGES THAT WERE CONTINUING. BUT THERE IS NO QUESTION
15 THAT THE SUBSTANTIAL AMOUNT HAD TO BE COMING FROM CAROLINA
16 INVESTORS DOLLARS.

17 Q MOVING AHEAD, MR. SHARPE, TO 2002. WERE YOU AS A
18 BOARD MEMBER INVITED TO A MEETING IN MARCH OF 2002 AT THE
19 WYCHE LAW FIRM?

20 A NO, SIR.

21 Q DID ANYONE TELL YOU THERE WAS GOING TO BE A MEETING?

22 A NO, SIR.

23 Q DID YOU EVER FIND OUT ABOUT SUCH A MEETING?

24 A I DON'T REMEMBER HOW LONG IT WAS, BUT IT WAS LONG
25 AFTER THAT THAT THERE WAS SOME CONTROVERSY AROUND SOME

1 ISSUES THAT WAS DISCUSSED BUT WE WEREN'T AWARE OF IT AT
2 THE TIME.

3 Q NO ONE TOLD YOU ABOUT THE GOING CONCERN MEETING?

4 A NO, SIR.

5 Q WHEN DID YOU FIRST HEAR THE WORDS, GOING CONCERN IN
6 CONJUNCTION WITH CAROLINA INVESTORS?

7 A WELL, I DON'T REMEMBER SPECIFICALLY WHEN BUT IT WAS,
8 I AM SURE THROUGH A LATER CAROLINA INVESTORS BOARD MEETING
9 WHEN THE ISSUE OF THE PROSPECTUS WAS BEING DEVELOPED. AND
10 I AM NOT SURE OF THE TIMELINES ON THAT, IT MAY OF BEEN,
11 YOU KNOW, STARTED IN THE EARLY PART OF, MAYBE FIRST
12 QUARTER IN '01, AGAIN THE DAYS MIX ON ME. BUT THROUGH THE
13 PERIOD OF TIME THAT, THIS PARTICULAR PROSPECTUS WAS BEING
14 PREPARED THERE HAD BEEN CONCERNS ABOUT THAT, CAROLINA
15 INVESTORS BOARD MEMBERS THAT WERE NOT AWARE OF UNTIL, I
16 THINK IT WAS, THE ACCOUNTING FIRM, THE ELLIOTT DAVIS
17 ACCOUNTING FIRM RAISED SOME ISSUES WITH HOMEGOLD THAT
18 AGAIN, WE DIDN'T KNOW ABOUT IT, WE DIDN'T KNOW ABOUT THE
19 MEETING AT THE LAW FIRM. AND THEN LATER WE LEARNED ABOUT
20 IT THROUGH MEETINGS AT CAROLINA INVESTORS, BOARD MEETINGS
21 WHERE THIS WAS REALLY, THERE WAS A LOT OF CONTROVERSY WITH
22 HOMEGOLD ABOUT IT BECAUSE THEY DIDN'T WANT IT IN THEIR
23 PROSPECTUS.

24 Q SO, YOU HEARD ABOUT IT ONLY WHEN THE PROSPECTUS WAS
25 GETTING PRINTED?

1 A WE HEARD ABOUT IT, SHORTLY PRIOR TO THE PROSPECTUS
2 BEING FINALIZED TO BE PRINTED FOR PUBLIC DISTRIBUTION.

3 Q DID YOU EVER HEAR ABOUT VALUATIONS OF THE BUSINESS?

4 A WELL, WE DID LATER, WHEN ALL OF THE ISSUES CAME OUT
5 ABOUT THE PROSPECT OF THE IMPAC BANK OUT ON THE WEST
6 COAST, POTENTIALLY BUYING CAROLINA INVESTORS.

7 Q THE VALUATIONS OF WHAT?

8 A VALUATIONS OF HOMEGOLD, INC., IS, THE VALUATIONS THAT
9 I AM FAMILIAR WITH, THERE WAS NEVER, A FORMAL VALUATION
10 DONE WITH CAROLINA INVESTORS BECAUSE THERE WAS NEVER AN
11 ISSUE OF SELLING CAROLINA INVESTORS. IT WAS AN ISSUE OF
12 TRYING TO SELL HOMEGOLD, INC. WHICH WAS THE SUBPART
13 LENDING SUBSIDIARY OF HOMEGOLD THAT WAS LOSING MONEY,
14 LOSING SUBSTANTIAL MONEY. THAT IS THE ENTITY, THAT IS THE
15 SUBSIDIARY THAT CAROLINA INVESTORS MONEY SUPPLEMENTED
16 DURING ALL OF THIS TIME. THERE WERE A COUPLE OF
17 VALUATIONS THAT HOMEGOLD HAD DONE TO TRY TO DETERMINE THE
18 VALUE OF, THE ASSETS OF VALUES AND I DON'T UNDERSTAND THIS
19 IN A VERY DETAIL KIND OF WAY. THIS IS JUST A VERY GENERAL
20 UNDERSTANDING OF IT. A VALUATION OF HOMEGOLD, INC., TO
21 TRY TO DETERMINE TO WHAT IT WOULD BE WORTH, SO HOW MUCH
22 COULD IT BE SOLD FOR. SO, I AM AWARE OF SOME VALUATIONS
23 BEING DONE IN THAT PART.

24 Q DID YOU HEAR OF ANY NUMBERS ASSOCIATED WITH THE
25 VALUATIONS?

1 A I CAN'T REMEMBER THE SPECIFICS, BUT I DO REMEMBER
2 THAT ONE OF THE VALUATIONS WAS AROUND \$120 MILLION, MAYBE
3 SOMETHING LIKE THAT. AND THE HOMEGOLD FOLKS WERE PRETTY
4 UPSET, THAT WAS WAY TOO LOW AND WASN'T SATISFACTORY AND SO
5 THEY GOT ANOTHER COMPANY TO DO A VALUATION. AND IT CAME
6 BACK SUBSTANTIALLY MORE, \$160 MILLION OR SOMETHING IN THAT
7 RANGE.

8 Q WHAT WAS THE SIZE OF THE INTER-COMPANY DEBT AROUND
9 THIS TIME?

10 A WELL, AT THAT POINT AND TIME I REALLY, I REALLY CAN'T
11 TELL YOU BUT I DO REMEMBER FIGURES, I THINK A RELATIVE
12 FIGURE AND IT MAY THIS, THIS MAY BE A LOWER NUMBER THAN I
13 RECALL AND IT COULD OF BEEN HIGHER THAN THAT AT THE TIME
14 THAT THEY WERE TALKING ABOUT THE VALUATIONS, I DO REMEMBER
15 INTER-COMPANY DEBT FIGURE OF LIKE \$146 MILLION DOLLARS.

16 Q WHICH WOULD OF BEEN COVERED BY THE VALUE OF THE
17 HOMEGOLD MORTGAGE BUSINESS?

18 A YES, IF THAT WAS THE TRUE VALUE OF THE MORTGAGE
19 BUSINESS.

20 Q AFTER A VALUATION WAS DONE, DID YOU HEAR ABOUT A
21 PROPOSED SALE OF HOMEGOLD'S MORTGAGE BUSINESS?

22 A YES.

23 Q WHERE DID YOU HEAR ABOUT THAT?

24 A I HEARD ABOUT THAT FROM MR. SHEPPARD.

25 Q WHAT DID HE HAVE TO SAY?

1 A WELL, THAT WAS THE TIME, AROUND MID-2002 AS WELL,
2 WHERE WE HAD JUST GOTTEN SOME INFORMATION AND I CAN'T
3 REMEMBER SPECIFICALLY HOW IT OCCURRED. BUT THAT WAS IN
4 2002, I CAN'T REMEMBER IF IT WAS AT A BOARD MEETING OF
5 CAROLINA INVESTORS WHERE MR. SHEPPARD OR MR. STERLING OR
6 LARRY OWEN, WHOMEVER, HAD MENTIONED THAT HOMEGOLD WAS
7 LOOKING TO SELL HOMEGOLD, INC., THE FINANCE COMPANY. AND
8 THAT THERE WAS A DEAL BEING NEGOTIATED WITH IMPAC BANK OUT
9 IN CALIFORNIA, SO THAT WAS THE FIRST TIME WE HEARD ABOUT
10 THAT. MR. SHEPPARD PRESENTED THAT, INDICATED THAT HE WAS
11 IN NEGOTIATIONS AND SO FORTH. AND THAT WAS PRETTY MUCH
12 IT, BUT THERE WAS SOME INFORMATION IN TERMS THAT HE DID
13 TELL US THE GENERAL TERMS, HE THOUGHT HE WAS GOING TO BE
14 ABLE TO SELL IT FOR AROUND \$185, \$186 MILLION AND THAT WAS
15 PRETTY MUCH SOME PRELIMINARY KIND OF INFORMATION BECAUSE
16 AT THAT POINT AND TIME WE UNDERSTOOD IT TO BE STILL UNDER
17 NEGOTIATIONS. MONTHS WENT BY AND THAT WAS PROBABLY AROUND
18 AUGUST, SO WE HAD AUGUST, SEPTEMBER, OCTOBER AND WE ARE
19 NOT HEARING ANYTHING, THE CAROLINA INVESTORS BOARD WERE
20 ASKING QUESTIONS ABOUT WHAT IS HAPPENING WITH THIS
21 NEGOTIATION. AND THIS IS THE TIME IN WHICH THERE HAD
22 BEEN, THIS, THE PREVIOUS MONTHS, THE MONTHS PRECEDING THIS
23 ACTIVITY WAS THE TIMES WHERE MR. SHEPPARD'S ATTENDANCE OF
24 THE BOARD HAD BEEN DIMINISHED TO SOME DEGREE OR A LITTLE
25 LESS FREQUENT. SO, I REMEMBER VERY VIVIDLY WE TOLD LARRY

1 OWEN IN OUR NOVEMBER MEETING, WE WANT MR. SHEPPARD THERE,
2 WE DEMANDED THAT HE BE THERE TO LARRY OWEN. SO, HE WAS AT
3 THE MEETING IN NOVEMBER. AND THAT IS WHEN HE INFORMED US
4 THAT THE DEAL WITH THE IMPAC BANK OUT ON THE WEST COAST,
5 SOMEWHERE IN CALIFORNIA, HAD FALLEN THROUGH, THAT IT
6 WASN'T GOING TO MATERIALIZE.

7 Q WHAT DID MR. SHEPPARD HAVE TO SAY THEN?

8 A THAT IS WHEN HE HAD HIS CONCEPT OF WHAT HE FELT
9 HOMEGOLD NEEDED TO DO BECAUSE THIS WAS A SITUATION WHERE
10 IT WAS NOT PRESENTED TO US IN TERMS OF LET ME TELL YOU
11 WHAT I THINK IS A GOOD IDEA, AND SEE WHAT YOU THINK ABOUT
12 IT, I WOULD LIKE TO TAKE A VOTE AND YOUR SUPPORT. IT WAS
13 PRETTY MUCH LIKE THE SITUATION WITH THE OPENING OF THE
14 OFFICES, IT WAS SORT OF LIKE INFORMATION GIVEN AND THEN
15 THAT WAS IT. BUT HE WAS TELLING US THAT HE FELT LIKE
16 SINCE THE DEAL HAD NOT MATERIALIZED WITH THE BANK IN
17 CALIFORNIA, THE BEST THING FOR HOMEGOLD TO DO WOULD BE FOR
18 HIM TO LEAVE HOMEGOLD, RESIGN AS CHAIRMAN, CEO, WHAT ALL
19 THE DIFFERENT POSITIONS HE HELD. AND TO BUY HOMEGOLD,
20 INC., AND TO BASICALLY START IT UP AS ANOTHER COMPANY
21 CALLED EMMCO WHICH HE EVENTUALLY DID. AND, AGAIN, WE
22 WEREN'T ASKED WHAT DO YOU THINK ABOUT THIS, I NEED A VOTE,
23 I NEED YOUR APPROVAL, IT WAS NOTHING LIKE THAT. THAT WAS
24 FACILITATED LATER BY HOMEGOLD AND WE WERE NOT INVOLVED IN
25 THE TERMS OF THAT NEGOTIATION WITH HOMEGOLD AND MR.

1 SHEPPARD'S AGREEMENT, NOTHING.

2 Q DID YOU BELIEVE THE DEFENDANT WHEN HE TOLD YOU ABOUT
3 IT?

4 A YES, I BELIEVED, HE HAD PRESENTED SOMETHING HE
5 THOUGHT WOULD WORK. AND QUITE FRANKLY, YOU KNOW, HOMEGOLD
6 AND CAROLINA INVESTORS WERE PRETTY DESPERATE AT THAT TIME.

7 Q SO, WHAT WAS SUPPOSE TO HAPPEN WHEN HE LEFT WITH
8 EMMCO?

9 A I REMEMBER THE FUNDAMENTAL ASPECTS OF THAT BECAUSE WE
10 WERE NOT INVOLVED WITH ANY OF THE DETAILS. ALL OF THAT
11 TRANSACTION OCCURRED WITH HOMEGOLD AND MR. SHEPPARD, NOT
12 WITH CAROLINA INVESTORS. BUT WE WERE TOLD THERE THAT IF
13 HE BOUGHT THE COMPANY THAT HE WOULD PAY THE, HE WOULD PAY
14 HOMEGOLD BACK, ONCE HE GOT IT AND GOT STARTED HE WOULD
15 THEN PAY HOMEGOLD. AND I REMEMBER A FIGURE OF \$205, \$210
16 MILLION RATHER THAN \$185. IT WOULD PAY, WELL WITH WHAT HE
17 WOULD PAY, MAYBE THAT WAS THE INTEREST THAT WAS ATTACHED
18 TO \$185 OR SOMETHING, THAT HE WOULD PAY THAT TO HOMEGOLD,
19 EMMCO WOULD PAY THAT BACK TO HOMEGOLD OVER A PERIOD OF
20 FIVE YEARS AND THEN HOMEGOLD WOULD THEN, OF COURSE, WOULD
21 BE, AS HE PAID IT BACK OVER THOSE YEARS THAT HOMEGOLD
22 WOULD BE DISTRIBUTING THAT BACK TO CAROLINA INVESTORS TO
23 TAKE CARE OF THAT INTER-COMPANY DEBT.

24 Q HOW DID YOU FEEL ABOUT THAT?

25 A IT SOUNDED, AT THE TIME IT SOUNDED GOOD AND SOUNDED

1 LIKE A VIABLE OPTION. I GUESS, IT WAS THE BEST OF ALL
2 LOUSY VIABLE OPTIONS WE HAD TO CONSIDER, I GUESS.

3 Q DID YOU SAY, DID YOU GET TO VOTE ON THIS PLAN?

4 A NO.

5 Q DID YOU EVER HEAR ABOUT A BUSINESS CALLED FLEXCHECK?

6 A YES.

7 Q WHO TOLD YOU ABOUT THAT?

8 A THAT WAS IN AND ABOUT THAT TIME AS WELL. I THINK, IT
9 WAS SOMEWHERE BETWEEN THAT TIME FRAME. MR. SHEPPARD HAD
10 ATTENDED A BOARD MEETING AND TOLD US THAT HE HAD PEOPLE DO
11 RESEARCH AND LOOKING INTO THE FLEXCHECK, THE PAYCHECK,
12 WEEKLY CHECK KIND OF LENDING BUSINESS AND THAT IT WAS VERY
13 POSSIBLE AND THAT HE WANTED TO OPEN UP A BUSINESS IN THAT
14 AREA.

15 Q DID YOU AS A BOARD MEMBER HAVE AN OPINION ON THAT?

16 A YES, I HAD A VERY SPECIFIC OPINION ABOUT IT AND MY
17 OPINION WAS THAT CAROLINA INVESTORS DID NOT NEED TO BE
18 ASSOCIATED WITH THAT KIND OF BUSINESS BECAUSE FROM MY
19 PERSPECTIVE IT IS A BUSINESS THAT REALLY EXPLOITS SLOW
20 INCOME PEOPLE AND WE JUST, I DID NOT WANT TO BE INVOLVED
21 IN ANY KIND OF ENTITY THAT WOULD, COULD BE ASSOCIATED WITH
22 THAT KIND OF BUSINESS.

23 Q WELL, DID YOU SPEAK UP?

24 A YES.

25 Q DID YOU TELL THE DEFENDANT?

1 A YES, SIR.

2 Q WHAT DID YOU SAY TO HIM?

3 A WELL, ESSENTIALLY WHAT I JUST SAID, THAT IS NOT A
4 BUSINESS THAT WE NEEDED TO BE GETTING INTO. AND IT IS NOT
5 THE KIND OF BUSINESS THAT WE WANT TO BE AFFILIATED WITH.

6 Q WELL, THEN WHAT HAPPENED?

7 A WE LEARNED LATER THAT HE HAD SPENT SOMEWHERE IN THE
8 NEIGHBORHOOD OF \$10 MILLION DOLLARS TO OPEN UP A FLEXCHECK
9 BUSINESS, IT WAS AROUND NEWBERRY, SOME BUSINESS, SPENT
10 SOMEWHERE AROUND \$10 MILLION DOLLARS TO DO THAT.

11 Q WELL, YOU SAID HOW YOU FELT?

12 A YES, SIR.

13 Q DID YOU GET A CHANCE TO VOTE ON THAT?

14 A NO, SIR.

15 Q OVER THE YEARS THAT YOU SERVED ON THE BOARD, HOW MANY
16 YEARS WAS IT?

17 A ON THE CAROLINA INVESTORS BOARD?

18 Q YES, SIR.

19 A PROBABLY ABOUT TWO AND A HALF TO THREE YEARS.

20 Q HOW MANY MEETINGS DID YOU MISS?

21 A I THINK I MAY OF MISSED ONE MEETING DURING THAT TIME.

22 Q DID YOU PAY ATTENTION WHEN YOU WERE THEY?

23 A YES SIR, VERY MUCH SO.

24 Q DID YOU TAKE IT SERIOUSLY?

25 A YES SIR, ABSOLUTELY.

1 Q LOOKING BACK, DID YOU KNOW EVERYTHING THERE WAS TO
2 KNOW ABOUT WHAT WAS GOING ON WITH HOMEGOLD AND CAROLINA
3 INVESTORS?

4 A NO, WHAT I UNDERSTOOD WAS LIMITED TO THE QUESTIONS
5 THAT I ASKED AT BOARD MEETINGS, ABOUT WHAT IS THE BOTTOM
6 LINE, WHAT ARE WE LOSING, WHAT ARE YOU DOING TO, WHAT ARE
7 YOU DOING TO MOVE IT FORWARD TO MOVE IT BACK TO
8 PROFITABILITY. THERE WAS SO MANY OTHER THINGS THAT
9 HAPPENED, THAT WAS GOING ON WITH HOMEGOLD THAT HAPPENED
10 AND I DIDN'T LEARN UNTIL I HAD READ THE FORENSIC
11 ACCOUNTING REPORT AFTER THE BANKRUPTCY OCCURRED.

12 Q MR. SHARPE, I AM GOING TO HAND YOU WHAT HAS BEEN
13 MARKED AS STATE'S NUMBER 143, DO YOU RECOGNIZE IT?

14 A I DO, YES SIR.

15 Q WHAT IS IT?

16 A IT IS A CERTIFICATE, I GUESS³ A DEBENTURE, I AM NOT
17 SURE WHAT THE RIGHT TERM IS BUT--

18 Q WHO OWNED IT?

19 A IT WAS OWNED BY MYSELF AND MY WIFE, ACTUALLY IT WAS
20 OWNED BY MY SON, WE WERE THE CUSTODIAN FOR MY SON.

21 MR. MYRICK: THE STATE WOULD LIKE TO OFFER STATE'S
22 143 IN EVIDENCE.

23 THE COURT: ANY OBJECTION?

24 MR. GRIFFIN: NO, YOUR HONOR.

25 THE COURT: STATE'S 143 IS ADMITTED.

1 (WHEREUPON, STATE'S EXHIBIT NO. 143 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q PLEASE CONTINUE, YOU WERE TELLING THE JURY WHAT IT
4 WAS?

5 A WELL, THIS WAS AN INVESTMENT THAT I HAD MADE A FEW
6 YEARS EARLIER. WE HAD PUT \$10 THOUSAND DOLLARS IN
7 CAROLINA INVESTORS FOR MY SON'S COLLEGE EDUCATION. AND
8 THIS PARTICULAR NOTE HERE INDICATES THERE WAS \$13,181.98.
9 BY THE TIME EVERYTHING FINISHED WITH THE BANKRUPTCY, IT
10 WAS SOMEWHERE, BETWEEN \$15 TO \$16 THOUSAND DOLLARS. BUT
11 THIS WAS MONEY PUT IN THAT ACCOUNT FOR MY SON'S COLLEGE
12 EDUCATION.

13 Q DO YOU REMEMBER WHEN CAROLINA INVESTORS CLOSED ITS
14 DOORS?

15 A YES, SIR.

16 Q TELL THE JURY ABOUT IT.

17 A WELL, I WILL TALK ABOUT THE, MAYBE TO GIVE SOME FRAME
18 OF REFERENCE. YOUR QUESTION IS SPECIFIC, DO I REMEMBER
19 WHEN THEY CLOSED THE DOORS. I WAS OUT OF TOWN WHEN IT
20 ACTUALLY, THE NEWS BROKE THAT THEY WERE FILING BANKRUPTCY,
21 I WASN'T THERE DURING THAT TIME BUT I WAS PRESENT AT THE
22 MARCH, TWO MARCH CONFERENCE CALLS. WE HAD, IF I COULD
23 BACK UP JUST A SECOND. WE HAD BEEN IN A FEBRUARY CAROLINA
24 INVESTORS BOARD MEETING, WE HAD NEVER SEEN THE MINUTES OF
25 THE FEBRUARY MEETING BECAUSE WE HAD NEVER HAD A MEETING

1 AFTER FEBRUARY, PRIOR TO THE CONFERENCE CALLS. SO, THOSE
2 MINUTES I HAVE NEVER SEEN. WE HAD A MEETING ON FEBRUARY
3 26TH AND WE WERE TOLD AT THAT POINT AND TIME BY MS. MILLER
4 AND MR. FERRELL THAT EVERYTHING WAS LOOKING GOOD, HOMEGOLD
5 WAS NO LONGER USING CAROLINA INVESTORS MONEY AND THAT
6 HOMEGOLD WOULD TURN PROFIT IN THE FIRST TIME IN A FEW
7 YEARS BY THE END OF THE SECOND QUARTER. THIS IS IN
8 FEBRUARY OF '03 AND WE WERE TOLD THAT HOMEGOLD WAS REALLY
9 DOING WELL, THINGS WERE MOVING FORWARD AND WE WOULD, AND
10 HOMEGOLD WOULD TURN A PROFIT BY THE END OF THE SECOND
11 QUARTER, SO WE ARE TALKING ABOUT FROM FEBRUARY TO JUNE OF
12 '03, THIS TIMELINE WE ARE TALKING ABOUT. SO, QUITE
13 FRANKLY, I REMEMBER DON AND MYSELF LEAVING THAT MEETING,
14 TALKING ABOUT THAT, SAYING THIS IS REALLY GREAT NEWS AND
15 IT LOOKS LIKE THINGS ARE TURNING AROUND.

16 Q NOW, THE DEFENDANT WASN'T THERE AT THAT MEETING?

17 A I DON'T RECALL WHETHER HE WAS OR NOT, I DON'T THINK
18 HE WAS BUT I DON'T RECALL.

19 Q HE HAD ALREADY LEFT FOR EMMCO BY THAT TIME, HADN'T
20 HE?

21 A YES.

22 Q AND YOU WERE STILL EXPECTING FOR EMMCO TO PAY YA'LL
23 BACK, RIGHT?

24 A YES.

25 Q PLEASE GO ON.

1 A IN MARCH OF THAT SAME YEAR, MARCH 20TH, LESS THAN A
2 MONTH LATER, WE ARE CALLED TO LARRY OWEN'S OFFICE, DON
3 BOBO AND I WERE THERE FOR THE CONFERENCE CALL AS WELL AS
4 LARRY. I WAS CALLED IN MY OFFICE BY LARRY OWEN TO ASK IF
5 I COULD MEET AT HIS OFFICE IMMEDIATELY THAT MORNING. SO,
6 I CAN'T RECALL IF I ASKED HIM, MY FIRST RESPONSE WAS, IS
7 EVERYTHING OKAY. AND HE SAID, EVERYTHING IS OKAY, I THINK
8 WE HAVE GOT, WE NEED TO DO A CONFERENCE CALL. SO, I WENT
9 TO THE MEETING THAT MORNING, IT WAS PROBABLY AROUND 10:30
10 ON THAT THURSDAY MORNING, MARCH 20TH. AND WE WERE IN A
11 CONFERENCE CALL WITH KAREN MILLER, FORREST FERRELL AND
12 JACK STERLING FROM HOMEGOLD. AND THEY WERE TELLING US
13 THAT EVERYTHING WAS OKAY, EVERYTHING WAS STILL LOOKED
14 OKAY, EVERYTHING LOOKED GOOD. THAT THEY REMEMBER VERY
15 SPECIFICALLY THREE AREAS THAT WE WERE TOLD THAT THERE WAS
16 MONEY ACCESSIBLE, TO PROVIDE CASH^A FLOW THAT WOULD BE
17 HELPFUL FOR HOMEGOLD TO CONTINUE AND THAT SORT OF THING.
18 MS. MILLER SAID HOMEGOLD WAS EXPECTING ABOUT A \$1.2 OR A
19 \$1.6 MILLION PAYMENT FROM EMMCO AND THAT WAS ONE THING SHE
20 TOLD US THAT THEY WERE EXPECTING. THE OTHER WAS THAT BY
21 THE NEXT WEEK HOMEGOLD WAS EXPECTING TO HAVE FULL CASH,
22 ABOUT \$800 THOUSAND DOLLARS WORTH OF MORTGAGES, SO THEY
23 WOULD HAVE THAT CASH ON HAND. AND SHE ALSO MENTIONED THAT
24 THEY THOUGHT THAT, THAT THE \$1.5 OR \$1.6 MILLION DOLLARS
25 THAT HAD BEEN, THAT WAS IN AN ESCROW ACCOUNT FROM A

1 SETTLEMENT OF A LAWSUIT IN NORTH CAROLINA WOULD BE
2 AVAILABLE IF HOMEGOLD NEEDED IT, THAT THEY WOULD BASICALLY
3 DEFAULT IF THEY NEEDED IT AND THEY WOULD DEFAULT ON THAT
4 DEPOSIT, THAT ESCROW ACCOUNT. AND SO THOSE, I REMEMBER
5 IT, AND I WROTE IT DOWN ON MY NOTES. AND I REMEMBER VERY
6 SPECIFICALLY THOSE WERE THREE AREAS THAT SHE SAID THERE
7 WOULD BE MONEY AVAILABLE IN ORDER FOR HOMEGOLD TO
8 CONTINUE. SO, EVERYTHING STILL LOOKS GOOD, NO PROBLEM.
9 THAT IS MARCH 20TH, LESS THAN A MONTH LATER THAT WE HAVE
10 BEEN TOLD IN FEBRUARY THAT HOMEGOLD WOULD TURN PROFIT BY
11 THE END OF THE SECOND QUARTER. WELL, THE NEXT DAY I GOT
12 ANOTHER CALL FROM MR. OWEN SAYING, CAN YOU BE BACK IN THE
13 OFFICE, IT WAS AN AFTERNOON CALL, I THINK. SO, I RETURNED
14 TO THE OFFICE AND MR. BOBO AND MR. OWEN AND I WERE THE
15 THREE THERE AS I RECALL. AND WE WERE ON A CONFERENCE CALL
16 AT THAT POINT AND TIME WITH FORREST FERRELL, KAREN MILLER
17 WHO WAS THE FINANCE PERSON AT THAT TIME, AND TWO
18 ATTORNEYS. SO, WHEN THEY INTRODUCED TWO ATTORNEYS, IN MY
19 FIRST THOUGHT WAS THIS DOESN'T SOUND TOO GOOD. AND IT
20 TURNED OUT NOT TO BE GOOD AT ALL. MR. STERLING WHO WAS ON
21 A CONFERENCE CALL THE PRIOR DAY ON THURSDAY WAS NOT THERE,
22 THEY INFORMED US THAT HE HAD, SINCE TALKING TO US THAT HE
23 HAD RESIGNED THE NIGHT BEFORE AND DIDN'T TELL US ON
24 THURSDAY OR RESIGNED THURSDAY NIGHT. SO, WE WERE ON THE
25 PHONE CONFERENCE CALL WITH MS. MILLER, MR. FERRELL AND TWO

1 ATTORNEYS, I DON'T RECALL THE NAMES OF THE ATTORNEYS.
2 WHAT HAPPENED WITH THAT PARTICULAR CONFERENCE CALL WAS
3 THAT WE WERE INFORMED THAT HOMEGOLD HAD DECIDED TO FILE
4 BANKRUPTCY. AND WE POSED QUESTIONS, I POSED QUESTIONS
5 LIKE HOW COULD THIS HAPPEN, FEBRUARY THE 26TH YOU ARE
6 TELLING US YOU ARE DOING FINE AND NOT USING CAROLINA
7 INVESTORS MONEY. BY THE END OF THE SECOND QUARTER OF THIS
8 YEAR YOU ARE GOING TO TURN A PROFIT, YESTERDAY YOU TOLD US
9 THAT EVERYTHING IS STILL OKAY AND YOU GOT MONEY AVAILABLE.
10 HOW COULD THIS BE, WE NEVER REALLY GOT ANY KIND OF
11 RESPONSE ON THAT BUT THE, THE MAJOR ISSUE WAS MR. OWEN
12 SAYING TO THEM OVER THE PHONE, WHAT IN THE WORLD IS
13 CAROLINA INVESTORS SUPPOSE TO DO. AND THE RESPONSE WAS,
14 WE DON'T KNOW, THAT IS UP TO YOU. AND THE QUESTION THEN
15 WAS, CAROLINA INVESTORS IS A SUBSIDIARY OF HOMEGOLD. HOW
16 IS, WHY WOULD THAT BE SEPARATE, WHY WOULDN'T THAT BE A
17 PART OF ALL PROCEEDINGS IN TERMS OF THE LEGAL
18 REPRESENTATION AND THAT SORT OF THING. AND WE WERE TOLD,
19 ONE ATTORNEY SAID, I AM SORRY, WE CAN'T ADVISE YOU ON
20 THAT, WE ARE ATTORNEYS FOR HOMEGOLD. AND THEN WE KEPT
21 ASKING QUESTIONS OUT OF DESPERATION, QUITE FRANKLY. AND
22 THEN POSED A QUESTION AND I THINK IT MIGHT OF BEEN ME
23 ASKING, WELL HYPOTHETICALLY, OFF THE RECORD, IF YOU ARE
24 NOT, WHAT WOULD YOU RECOMMEND WE DO. AND THE ATTORNEY
25 SAID, WHAT WE RECOMMEND YOU TO DO IS THAT CAROLINA

1 INVESTORS GET THEIR OWN ATTORNEY AND LOOKING TO FILE FOR A
2 CONSERVATORSHIP. AND THAT IS THE FIRST TIME I HAD EVER
3 HEARD THAT TERM.

4 Q MR. SHARPE, DID YOU KNOW THAT THE DEFENDANT HAD BEEN
5 TALKING TO A NORTH CAROLINA LAWYER ABOUT A CONSERVATORSHIP
6 FOR CAROLINA INVESTORS?

7 A NO, SIR. I HAD NO IDEA THAT WAS OCCURRING.

8 Q AND WERE YOU SURPRISED BY ALL OF THIS?

9 A YES, SIR. IT WAS ONE OF THOSE TRAUMATIC THINGS I HAD
10 EVER EXPERIENCED IN MY LIFE.

11 Q AND THEN THE BOARD MEETINGS WHEN THE DEFENDANT WAS
12 PRESENT, DID HE EVER GIVE YOU ANY INDICATION THAT THINGS
13 WERE ANYTHING BUT GOOD?

14 A NO, SIR.

15 Q I AM GOING TO HAND YOU WHAT HAS BEEN IDENTIFIED AS
16 STATE'S 133, DO YOU RECOGNIZE IT?

17 A YES.

18 Q WHAT IS IT?

19 A IT IS THE MINUTES OF A BOARD MEETING FROM CAROLINA
20 INVESTORS MEETING ON NOVEMBER THE 19TH OF 2002.

21 MR. MYRICK: YOUR HONOR, WE ARE GOING TO MOVE THAT
22 INTO EVIDENCE.

23 THE COURT: ANY OBJECTION?

24 MR. GRIFFIN: NO OBJECTION.

25 THE COURT: STATE'S 133 IS ADMITTED.

1 (WHEREUPON, STATE'S EXHIBIT NO. 133 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q MR. SHARPE, ON THE LAST SENTENCE ON THE FIRST FULL
4 PARAGRAPH THERE, DOES IT SAY HOW MUCH THE ASSETS ARE?

5 A YES, SIR.

6 Q AS OF 9/30/02?

7 A YES.

8 Q HOW MUCH WAS THE TOTAL ASSETS?

9 A IT IS INDICATED TO BE \$296,647.00.

10 Q NO, SIR. COUNT THOSE ZEROS AGAIN, IF YOU WOULD.

11 A I AM SORRY, \$296,647,000.00.

12 Q SO, IS THAT WHAT YOU WERE TOLD ON NOVEMBER OF 2002?

13 A YES, SIR.

14 Q AND AT THE TOP OF THAT MINUTES, IT SAYS WHO ALL WAS
15 THERE?

16 A YES, SIR.

17 Q TELL THE JURY WHO WAS ALL THERE?

18 A RONALD J. SHEPPARD, DONALD C. BOBO, DANNY SHARPE,
19 FORREST FERRELL, KAREN MILLER.

20 Q ON PAGE TWO, THAT FIRST FULL PARAGRAPH TALKS ABOUT
21 THE EMMCO DEAL?

22 A YES, SIR.

23 Q WOULD YOU READ THAT THIRD SENTENCE TO THE JURY?

24 A THE STOCK WOULD REDUCE THE INTER-COMPANY DEBT BY \$25
25 MILLION DOLLARS.

1 Q AND THE NEXT ONE AS WELL?

2 A THE REMAINING INTER-COMPANY DEBT WILL BE PAID OVER A
3 FIVE YEAR PERIOD BY QUARTERLY PAYMENTS BASED ON ONE-HALF
4 THE EARNINGS OF THE NEW COMPANY.

5 Q AND YOU THOUGHT THIS IS WHAT WAS GOING TO HAPPEN?

6 A YES, SIR.

7 MR. MYRICK: I BEG THE COURT'S INDULGENCE FOR JUST A
8 MOMENT.

9 Q WOULD YOU LOOK AT THIS, MR. SHARPE, AND TELL ME IF IT
10 SAYS ANY WHERE IN HERE THAT THE DEFENDANT, MR. SHEPPARD,
11 WAS GOING TO GET CASH UP FRONT?

12 A NO SIR, THERE IS NO, I CAN TELL YOU. I HAVEN'T READ
13 THIS IN A WHILE.

14 Q WHY DON'T YOU TAKE A MOMENT AND READ IT SO WE CAN ALL
15 BE CERTAIN.

16 A OKAY. ON THIS PAGE THERE IS NO INFORMATION ABOUT
17 THAT AT ALL.

18 Q LET'S MAKE SURE WE LOOK AT THE WHOLE DOCUMENT.

19 A OKAY. NO SIR, THERE IS NO INDICATION THAT THERE IS
20 ANY INDICATION AT ALL, ANY INFORMATION THAT WOULD ADDRESS
21 MR. SHEPPARD PRESENTING ANY KIND OF CASH UP FRONT AS A
22 PART OF THIS PROPOSAL.

23 Q AND YOU DIDN'T KNOW THAT?

24 A NO SIR, I HAD NO IDEA.

25 Q THAT IS ALL I HAVE FOR YOU, MR. SHARPE.

1 THE COURT: COUNSEL, STEP UP FOR JUST A MINUTE,
2 PLEASE.

3 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
4 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
5 JURY.)

6 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
7 WE WILL BREAK FOR THE DAY. DO NOT READ OR WATCH OR LISTEN
8 OR TALK TO ANYONE ABOUT THE CASE, DON'T DO ANY RESEARCH.
9 I HAVE CHECKED, WE WILL BE ABLE TO START FIRST THING
10 MONDAY MORNING. WE WILL START AT 9:30 MONDAY MORNING AND
11 WE WILL CONTINUE AT THAT TIME. HAVE A GOOD WEEKEND, WE
12 WILL SEE YOU MONDAY. EVERYONE ELSE STAY SEATED, PLEASE.

13 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
14 THE DAY.)

15 THE COURT: WE WILL SEE YOU ALL ON MONDAY AT 9:30.
16 MR. SHARPE, DON'T DISCUSS YOUR TESTIMONY DURING THE BREAK,
17 WE WILL SEE YOU ON MONDAY. WE WILL RECESS UNTIL MONDAY AT
18 9:30.

19 (WHEREUPON, THE TRIAL WILL RESUME ON MONDAY AT 9:30
20 A.M.)

21 THE COURT: ANYTHING BEFORE WE GET STARTED?

22 MS. EVANS: YOUR HONOR, OUR NEXT WITNESS AFTER MR.
23 SHARPE IS MS. OWEN. AND I DID BRING THAT I WANTED TO MAKE
24 A MOTION THAT SINCE THERE IS NO COOPERATION AGREEMENT TO
25 MAKE SURE THAT MR. GRIFFIN IS NOT ABLE TO BRING UP THE

1 AMOUNT OF TIME SHE WOULD OF BEEN FACING, SINCE THERE IS NO
2 PLEA AGREEMENT I THINK IT WOULD IRRELEVANT TO BRING UP HOW
3 MUCH TIME SHE OR MR. OWEN WERE FACING. CLEARLY RELEVANT,
4 HOW MUCH TIME THEY GOT AND OTHER THINGS REGARDING THAT BUT
5 SINCE THERE IS NO PLEA AGREEMENT BETWEEN EITHER MR. OWEN
6 AND MS. OWEN, AND I AM NOT SURE IF THE JURY IS GOING BACK
7 OUT BEFORE WE HEAR FROM MS. OWEN. I WOULD MAKE THAT
8 MOTION AT THIS TIME.

9 THE COURT: MR. GRIFFIN.

10 MR. GRIFFIN: YOUR HONOR, AS I UNDERSTAND IT MS. OWEN
11 PLEAD GUILTY, I HAVE TO RELY ON THE STATE TO ADVISE ME
12 THAT THERE WAS NO PLEA AGREEMENT AND THAT IS WHAT THEY
13 HAVE ADVISED AND I HAVE NO FURTHER INFORMATION BEYOND
14 THAT.

15 THE COURT: AND I BELIEVE THAT IS WHAT WAS PUT ON THE
16 RECORD AT THE TIME OF THE PLEA, ALSO.

17 MR. GRIFFIN: I WOULD BRING OUT, INQUIRE OF HER IF
18 SHE HAS ANY OTHER MOTIVATION FOR TESTIFYING SUCH AS HOPE
19 OF LENIENCY TOWARD HER HUSBAND COMING UP FOR PAROLE.

20 THE COURT: I DON'T THINK THAT WOULD BE ANY PROBLEM
21 WITH THAT. THE STATE WOULD NOT OPPOSE THAT.

22 MS. EVANS: NO, YOUR HONOR.

23 THE COURT: AND THE WITNESS THAT WAS ON THE STAND ON
24 THURSDAY, IF YOU WILL COME BACK UP AND HAVE A SEAT. WE
25 WERE IN CROSS-EXAMINATION, IS THAT RIGHT?

1 MR. GRIFFIN: YES, SIR.

2 THE COURT: BRING THE JURY IN, PLEASE.

3 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
4 APPROXIMATELY 9:50 A.M.)

5 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
6 HOPE YOU HAD A GOOD WEEKEND. FOR THE JUROR WHO REPORTED
7 AN INAPPROPRIATE COMMENT ON THE ELEVATOR ON THURSDAY, I
8 APPRECIATE THAT, I WILL DEAL WITH THAT AND THANK YOU FOR
9 MAKING THAT REPORT. WE WILL CONTINUE WITH THE TESTIMONY,
10 MR. GRIFFIN.

11 CROSS-EXAMINATION

12 BY MR. GRIFFIN:

13 Q MR. SHARPE, GOOD MORNING.

14 A GOOD MORNING.

15 Q YOU WERE ON THE BOARD OF CAROLINA INVESTORS AT THE
16 BEGINNING OF 1998?

17 A YES, THE LATER PART.

18 Q YOUR BACKGROUND, SIR, YOU SERVE ON THE BOARD OF A
19 NUMBER OF CIVIC ORGANIZATIONS UP IN THE PICKENS COUNTY
20 AREA, PREVIOUSLY?

21 A YES.

22 Q AND YOU ARE ALSO ON THE, YOU WERE ON THE BOARD OF
23 TRUSTEES OF THE PICKENS COUNTY SCHOOL BOARD?

24 A YES, SIR.

25 Q AND YOU ARE THE EXECUTIVE DIRECTOR OF, IT WAS A

1 PICKENS COUNTY ALCOHOL?

2 A BEHAVIORAL HEALTH SERVICES IN PICKENS COUNTY.

3 Q AND THAT IS A ENTITY THAT YOU REPORT TO A BOARD OF
4 DIRECTORS, I TAKE IT?

5 A YES, SIR.

6 Q AND YOU HAVE A MASTERS DEGREE IN ORGANIZATIONAL
7 MANAGEMENT, IS THAT CORRECT?

8 A YES.

9 Q AND WORKING WITH ORGANIZATIONS AND REPORTING TO
10 BOARDS AND SERVING ON BOARDS WAS NOTHING NEW TO YOU IN
11 1998, WAS IT?

12 A NOT IN A NONPROFIT ARENA, IT WAS NOT.

13 Q SO, YOUR PRIOR EXPERIENCE HAS BEEN IN A NONPROFIT
14 ARENA?

15 A YES SIR, NOT A FINANCIAL ARENA.

16 Q AND WITH REGARD TO YOUR SERVICE ON THE BOARD OF
17 CAROLINA INVESTORS DID YOU HAVE, I THINK YOU TESTIFIED
18 EARLIER, LAST WEEK THAT THIS WAS, IT WAS AN ADVISORY BOARD
19 AS DESCRIBED TO YOU?

20 A YES, SIR.

21 Q DID YOU EVER HAVE A CHANCE TO REVIEW THE BYLAWS OF
22 CAROLINA INVESTORS WHICH PROVIDED THAT THE BOARD OF
23 DIRECTORS SHALL HAVE ULTIMATE AUTHORITY OVER THE CONDUCT
24 AND MANAGEMENT OF BUSINESS AND AFFAIRS OF CORPORATIONS?

25 A NO, SIR. I HAVE NEVER SEEN THOSE BYLAWS AT ANY TIME.

1 Q DID YOU EVER ASK TO SEE THE BYLAWS?

2 A NO.

3 Q WHO ADVISED YOU THAT THIS WAS ONLY AN ADVISORY ROLE
4 THAT YOU WERE PLAYING ON THE BOARD OF DIRECTORS OF
5 CAROLINA INVESTORS?

6 A WELL, AT THE TIME THAT I WAS TALKING TO LARRY OWEN
7 ABOUT CONSIDERING TO SERVE ON THE BOARD, THE CONVERSATION
8 WAS AROUND THE PUBLIC RELATIONS ASPECT OF IT AND ADVISORY
9 ASPECT OF IT DURING THAT TIME, IT WAS VERY PRELIMINARY IN
10 PART OF THE CONVERSATION WITH HIM.

11 Q AND YOU, YOU ACCEPTED THE OFFER OF THE POSITION, HE
12 OFFERED THIS SPOT ON THE BOARD?

13 A WELL, AT THAT POINT AND TIME, NO. HE DIDN'T HAVE THE
14 AUTHORITY TO OFFER IT, HE HAD TO, AS I UNDERSTOOD IT, HE
15 HAD TO ASK IF I WAS INTERESTED AND THEN TOOK IT BACK TO
16 THE HOMEGOLD BOARD. BECAUSE THE²HOMEGOLD BOARD HAD THE
17 AUTHORITY, AS I UNDERSTAND IT, TO APPOINT CAROLINA
18 INVESTORS BOARD MEMBERS. APPOINTMENT WOULD HAVE COME FROM
19 THE FULL OR THE MAJORITY OF THE HOMEGOLD BOARD.

20 Q AND DO YOU BELIEVE IT WAS THE MAJORITY OF THE
21 HOMEGOLD BOARD OR THE CAROLINA INVESTORS BOARD?

22 A NO SIR, THE AUTHORITY WAS WITH THE HOMEGOLD BOARD.

23 Q SO, THEY ELECTED THE BOARD MEMBERS OF CAROLINA
24 INVESTORS?

25 A THAT IS MY UNDERSTANDING.

1 Q AND THEN WHEN YOU CAME ON BOARD THE BOARD CONSISTED
2 OF MR. OWEN, MR. MORRIS, MR. STERLING, MR. GIDDENS WAS ON
3 THE BOARD ALSO?

4 A YES.

5 Q AND YOURSELF?

6 A YES, THAT'S THE MEMBERS, YES.

7 Q AND THAT COMPOSITION OF THE BOARD STAYED THE SAME
8 UNTIL SOMETIME IN 2000 AFTER THE HOMESENSE/HOMEGOLD
9 MERGER, CORRECT?

10 A YES, IT STAYED PRETTY MUCH CONSTANT UNTIL MR. GIDDENS
11 LEFT.

12 Q AND THEN HE LEFT ABOUT MAY OF 2000?

13 A SHORTLY AFTER THE MERGER.

14 Q AND RIGHT, AND MR. MAST WENT ON BOARD BRIEFLY IN LIEU
15 OF MR. GIDDENS SPOT, DID HE NOT?

16 A WELL, HE, I UNDERSTOOD MR. MAST TO BE THE CHIEF
17 FINANCIAL OFFICER SO I DON'T KNOW WHETHER THAT CONSTITUTED
18 A POSITION ON THE BOARD OR NOT. I KNEW HE WAS AN OFFICER
19 OF HOMEGOLD BUT I DIDN'T KNOW WHETHER HE WAS A MEMBER OF
20 THE BOARD OR NOT. I UNDERSTOOD HIM TO BE THERE IN THE
21 CAPACITY OF THE CHIEF FINANCIAL OFFICER.

22 Q AND IN 1998, AS YOU WENT TO THE BOARD MEETINGS, YOU
23 WOULD ASK QUESTIONS ABOUT HOW HOMEGOLD IS DOING
24 FINANCIALLY, WOULD YOU NOT?

25 A YES, SIR.

1 Q AND YOU KNEW WHEN YOU CAME ON BOARD THAT THERE, THAT
2 HOMEGOLD OWED CAROLINA INVESTORS AT LEAST SOME \$80 MILLION
3 DOLLARS, DID YOU NOT?

4 A I DID NOT KNOW INITIALLY BECAUSE THE INITIAL
5 INTER-OFFICE, INTER-COMPANY DEBT RATHER WAS, THAT
6 TRANSPIRED BEFORE ME COMING ON THE BOARD.

7 Q SO, IS IT YOUR TESTIMONY THAT YOU DIDN'T KNOW THE
8 ACTUAL AMOUNT OF THE DEBT IN '98 OR '00.

9 A WHEN I CAME IN I DIDN'T EVEN KNOW THERE WAS A DEBT.

10 Q AND THE LATER PART OF '98, BUT ONCE YOU BEGIN SERVING
11 ON THE BOARD YOU LEARNED THERE WAS A DEBT?

12 A YES, SIR.

13 Q AND YOU LEARNED THAT IT WAS QUITE A SUBSTANTIAL
14 AMOUNT OF MONEY?

15 A YES, SIR.

16 Q AND YOU ALSO LEARNED THAT ^hFOR THE YEAR ENDING 1998,
17 IN OPERATIONS HOMEGOLD LOST APPROXIMATELY \$100 MILLION
18 DOLLARS?

19 A WELL, I KNEW THEY LOST A SUBSTANTIAL AMOUNT OF MONEY,
20 I COULDN'T REMEMBER THE EXACT FIGURE BUT I KNOW IT WAS A
21 SUBSTANTIAL AMOUNT, YES SIR.

22 Q THE FACT WASN'T KEPT FROM YOU THAT THEY LOST MONEY IN
23 1998?

24 A NO, SIR. I LEARNED THAT INFORMATION FROM THE
25 QUESTIONS THAT I WOULD ASK AT THE BOARD MEETINGS.

1 Q AT EACH BOARD MEETING HOMEGOLD WOULD BRING A CHIEF
2 FINANCIAL OFFICER TO ANSWER YOUR QUESTIONS AND OTHER BOARD
3 MEMBER QUESTIONS, WOULD THEY NOT?

4 A YES.

5 Q AND THEN IN 1999 HOMEGOLD LOST ANOTHER \$35 MILLION
6 DOLLARS IN OPERATIONS?

7 A WELL, I KNOW THEY CONTINUED TO LOSE MONEY, I ASSUME
8 THAT FIGURE IS CORRECT, YES SIR.

9 Q AND I THINK YOU DESCRIBED IT IN YOUR DIRECT TESTIMONY
10 ON FRIDAY THAT THERE WAS A SLOW BLEED AND IT WAS CRITICAL
11 AND FRANKLY DIRE, THAT YOU NEEDED TO GET A PLAN TO TURN
12 THINGS AROUND AND THAT WAS YOUR IMPRESSION OF THE
13 SITUATION PREDATING THE MERGER WITH MR. SHEPPARD'S
14 COMPANY, CORRECT?

15 A NO, NOT PREDATING THE CONDITION PRIOR TO MR.
16 SHEPPARD'S MERGER, NO SIR. THAT^h WAS AFTER THE MERGER.

17 Q AFTER THE MERGER?

18 A YES, SIR.

19 Q SO, YOU WERE, AFTER THE MERGER YOU WERE WELL AWARE
20 THAT THERE WAS A SLOW BLEED, THE COMPANY WAS IN CRITICAL
21 SHAPE AND IN DIRE NEED TO TURN IT AROUND?

22 A YES, SIR.

23 Q AND YOU LEARNED THAT THROUGH THESE BOARD MEETINGS AND
24 OTHER FINANCIAL INFORMATION MADE AVAILABLE TO YOU THROUGH
25 THE PUBLIC FILINGS AND OTHER WAYS, CORRECT?

1 A NO, PRIMARILY THROUGH THE INFORMATION PROVIDED AT
2 BOARD MEETINGS, THAT IS WHAT I, I DIDN'T GET ANY
3 INFORMATION FROM ANY SOURCES, IT WAS THERE.

4 Q SO, ONCE AGAIN, AT THE BOARD MEETINGS THE CHIEF
5 FINANCIAL OFFICER OF HOMEGOLD WOULD BE PRESENT FOLLOWING
6 MAY ON FORWARD IN 2000 TO ANSWER YOUR QUESTIONS AND ANY
7 OTHER BOARD MEMBERS QUESTIONS REGARDING THE ACTUAL
8 FINANCIAL CONDITION OF HOMEGOLD, CORRECT?

9 A YES, SIR.

10 Q AND YOU ASKED QUESTIONS?

11 A YES, SIR.

12 Q AND YOU TOOK YOUR DUTY SERIOUS, DID YOU NOT?

13 A YES, SIR.

14 Q AND THROUGH THOSE INQUIRIES YOU LEARNED THAT THE
15 COMPANY, HOMEGOLD, HAD CONTINUED TO LOSE MONEY AT EVERY
16 QUARTER, CORRECT?

17 A YES.

18 Q AND THAT THE INTER-COMPANY CONTINUED TO GROW,
19 CORRECT?

20 A YES, SIR.

21 Q AND THAT YOU WERE AWARE THAT THE EMMCO TRANSACTION,
22 THAT WAS THE BEST OF ALL LOUSY OPTIONS AVAILABLE TO
23 CAROLINA INVESTORS?

24 A AT THAT POINT AND TIME THAT IS THE WAY I PERCEIVED IT
25 FROM MY PERSONAL POINT OF VIEW.

1 Q AND BECAUSE THE COMPANY WAS IN DIRE FINANCIAL
2 SITUATION?

3 A WELL, YES, IT WAS IN DIRE FINANCIAL SITUATION BUT
4 MOST OF THAT HAD TO DO WITH THE ALLEGED DEAL WITH IMPAC
5 BANK, NOT TURNING OUT TO BE THE DEAL THAT MR. SHEPPARD
6 THOUGHT IT WAS GOING TO BE. AND I DON'T KNOW ALL THE
7 DETAILS OF THAT BECAUSE HE REALLY NEVER SHARED ANY REAL
8 DEFINITIVE INFORMATION ABOUT THAT BEYOND WHAT I HAVE
9 ALREADY TESTIFIED TO. BUT THAT WAS THE, THE DIRE
10 CONDITION OF THE COMPANY WAS CERTAINLY PART OF IT BUT THAT
11 WAS ATTRIBUTED TO OR AT LEAST RELATED TO THE DEAL THAT WAS
12 SUPPOSE TO HAVE BEEN PUT TOGETHER WITH THIS BANK ON THE
13 WEST COAST THAT DIDN'T MATERIALIZE.

14 Q YOU TESTIFIED ON FRIDAY THAT YOU AND THE BOARD OF
15 CAROLINA INVESTORS WERE NOT CONSULTED REGARDING THE EMMCO
16 TRANSACTION?

17 A WE WERE NOT CONSULTED IN TERMS, WE WERE INFORMED THAT
18 MR. SHEPPARD WAS INTERESTED IN THE BEST OPPORTUNITY TO
19 TURN THE COMPANY AROUND OR THE BEST OPPORTUNITY TO RECOUP
20 THE INTER-COMPANY DEBT WOULD BE FOR MR. SHEPPARD TO BUY
21 HOMEGOLD, INC. WHICH WAS THE SUBSIDIARY, THE SUBPART
22 LENDING PART OF HOMEGOLD. FOR HIM TO BUY IT AND THEN OPEN
23 A COMPANY HE REFERRED TO AS EMMCO AND THEN HE WOULD PAY
24 BACK OVER TIME THE INTER-COMPANY DEBT FROM HIS PROFIT IN
25 THAT COMPANY.

1 Q NOT ONLY WERE YOU INFORMED, YOU WERE ASKED TO GIVE
2 YOUR APPROVAL OF THAT TRANSACTION?

3 A NO, NO SIR. WE WERE NOT ASKED TO GIVE AN APPROVAL,
4 WE WERE JUST INFORMED OF WHAT THE INTENT WAS.

5 Q AND YOU NEVER AUTHORIZED A BOARD RESOLUTION APPROVING
6 THAT TRANSACTION?

7 A NO SIR, NOT TO MY RECALL.

8 Q I AM GOING TO SHOW YOU WHAT HAS BEEN MARKED FOR
9 IDENTIFICATION, IT IS DEFENDANT'S EXHIBIT NUMBER 14 AND
10 ASK IF YOU CAN IDENTIFY THAT DOCUMENT?

11 A IT IS A DOCUMENT--

12 Q IS IT A BOARD RESOLUTION?

13 A IT APPEARS TO BE, YES SIR.

14 Q DOES IT BEAR YOUR SIGNATURE?

15 A YES, IT DOES.

16 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO MOVE
17 DEFENDANT'S EXHIBIT 14 INTO EVIDENCE.

18 THE COURT: ANY OBJECTION?

19 MR. MYRICK: NO, SIR.

20 THE COURT: DEFENDANT'S 14 IS ADMITTED.

21 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 14 WAS ADMITTED
22 INTO EVIDENCE.)

23 Q WILL YOU READ THE TITLE OF THE DOCUMENT TO THE JURY,
24 PLEASE, SIR.

25 A ACTION BY UNANIMOUS WRITTEN CONSENT OF THE BOARD

1 DIRECTORS OF THE CAROLINA INVESTORS, INCORPORATED.

2 Q AND WE JUST SUMMARIZED FOR THE JURY WHAT UNANIMOUS
3 CONSENT IS AUTHORIZING?

4 A IT IS APPROVING THE SELL OF THE RETAIL OPERATIONS TO
5 EMMCO CREDIT CORPORATION.

6 Q AND IT BEARS YOUR SIGNATURE?

7 A YES SIR, IT DOES.

8 Q SO, YOU DID, MR. SHARPE?

9 A YES SIR, I DID, I JUST DID NOT RECALL IT, HONESTLY
10 DID NOT RECALL IT.

11 Q SO, YOU WERE CONSULTED, YOU DID VOTE ON IT AND YOU
12 DID APPROVE THE EMMCO TRANSACTION?

13 A YES, SIR.

14 Q THANK YOU. NOW, YOU ALSO TESTIFIED THAT YOU WERE NOT
15 PRESENT AT THE MARCH, SOME DATE IN MARCH MEETING AT THE
16 WYCHE FIRM IN 2002?

17 A YES, SIR.

18 Q BUT THAT, BUT YOU DID RECALL AND YOU DID TESTIFY THAT
19 PRIOR TO THE ISSUANCE OF THE CAROLINA INVESTORS PROSPECTUS
20 IN THE SPRING OF 2002 THAT YOU DID MEET AND DISCUSS THE
21 GOING CONCERN AS A BOARD?

22 A THERE WAS CONVERSATIONS ABOUT THAT, YES SIR.

23 Q AND IN FACT THE BOARD VOTED TO AUTHORIZE THE SELL OF
24 DEBENTURES, DID IT NOT, ONCE AGAIN TO REREGISTER FOR THE
25 SELL OF DEBENTURES OF CAROLINA INVESTORS NOTES FOR THE

1 YEAR OF 2002, CORRECT?

2 A WOULD YOU REPEAT YOUR FIRST PART OF YOUR QUESTION.

3 Q IN 2002, FOLLOWING THE MEETING AT THE WYCHE LAW FIRM
4 THE BOARD VOTED, HAD A RESOLUTION TO ISSUE ONCE AGAIN A
5 NEW ROUND OF NOTES AND DEBENTURES TO BE SOLD TO THE PUBLIC
6 IN SOUTH CAROLINA?

7 A I DON'T RECALL.

8 Q I AM GOING TO SHOW YOU WHAT IS MARKED AS DEFENDANT'S
9 EXHIBIT NUMBER 15 FOR IDENTIFICATION PURPOSES AND ASK IF
10 YOU CAN IDENTIFY THAT DOCUMENT. LET ME ASK YOU FIRST,
11 DOES IT BEAR YOUR SIGNATURE?

12 A YES, SIR.

13 Q IS IT A BOARD RESOLUTION OF CAROLINA INVESTORS BOARD?

14 A I HAVEN'T HAD A CHANCE TO READ IT TOTALLY BUT IT HAS
15 THE WORD, RESOLVED, SO I PRESUME IT WOULD BE A RESOLUTION.

16 Q I DON'T WANT TO RUSH YOU, PLEASE TAKE YOUR TIME AND
17 READ IT TO A DEGREE THAT IS NECESSARY, SIR.

18 A IT APPEARS TO BE A RESOLUTION, YES SIR.

19 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO MOVE INTO
20 EVIDENCE DEFENDANT'S 15.

21 THE COURT: ANY OBJECTION?

22 MR. MYRICK: NO OBJECTION.

23 THE COURT: DEFENDANT'S 15 IS ADMITTED.

24 (WHEREUPON, DEFENDANT'S EXHIBIT NO. 15 WAS ADMITTED
25 INTO EVIDENCE.)

1 Q AND, MR. SHARPE, IS DEFENDANT'S EXHIBIT 15, IS THAT A
2 BOARD RESOLUTION AUTHORIZING THE ISSUANCE OF SERIES 2003
3 NOTES AND DEBENTURES TO BE SOLD IN SOUTH CAROLINA?

4 A YES, SIR.

5 Q AND THE TOP PARAGRAPH IT HAS AN EFFECTIVE DATE, I
6 BELIEVE, MARCH 22ND OF 2002, DOES IT NOT?

7 A YES, SIR.

8 Q IS THERE A DATE WHERE YOUR SIGNATURE IS, SIR?

9 A NO, SIR. THERE IS NOT A DATE NEAR THE SIGNATURE.

10 Q AND DO YOU RECALL WHEN THE PROSPECTUS WOULD OF BEEN
11 REGISTERED FOR THAT YEAR OF 2002?

12 A I WOULD PRESUME THAT WOULD BE TOWARD THAT YEAR,
13 TOWARD THE END OF 2002 BUT I DON'T RECALL, TO BE HONEST
14 WITH YOU.

15 Q I WILL SHOW YOU STATE'S EXHIBIT 50, SIR. AND IT IS
16 THE PROSPECTUS FOR SERIES OF 2003³ FLOATING RATE NOTES.
17 AND I WILL ASK YOU FIRST, IS THAT RESOLUTION RELATED TO
18 THE 2003 FLOATING RATE NOTES?

19 A YES, SIR.

20 Q IF YOU COULD LOOK AT THE TOP RIGHT HAND CORNER OF
21 THIS DOCUMENT, IT IS STAMPED IN FROM THE SECURITIES
22 COMMISSION AND TELL THE JURY WHAT THAT DATE IS.

23 A APRIL 8TH OF 2002.

24 Q SO PRIOR TO APRIL 8TH OF 2002 THE BOARD, CAROLINA
25 INVESTORS MET AND VOTED TO APPROVE REGISTERING THESE 2003

1 DEBENTURES, CORRECT?

2 A YES, SIR.

3 Q AND AT THAT TIME GOING CONCERN INFORMATION DISCLOSES
4 THE WYCHE FIRM MEETING, HAD BEEN DISCUSSED WITH YOU, HAD
5 IT NOT?

6 A I DON'T RECALL WHEN IT WAS DISCUSSED, IT WAS LATER
7 THAN THIS THOUGH BECAUSE I WAS NOT AWARE OF THE WYCHE LAW
8 FIRM MEETING AND WAS NOT AWARE OF THE GOING CONCERN FOR
9 SEVERAL MONTHS. SO, I DON'T KNOW HOW IT RELATES TO THIS
10 TIME FRAME.

11 Q MR. SHARPE, DID YOU NOT TESTIFY ON FRIDAY THAT THE
12 GOING CONCERN LANGUAGE WAS DISCUSSED WITH YOU PRIOR TO THE
13 ISSUANCE OF THE PROSPECTUS?

14 A YES SIR, I AM NOT CHANGING THAT AT ALL. I AM JUST
15 SAYING, YOU ARE ASKING HOW IT WAS RELEVANT TO THIS
16 TIMELINE AND I AM TELLING YOU IT WAS MUCH LATER THAN THIS
17 TIMELINE OF MARCH OR APRIL, BEFORE I LEARNED ABOUT THE
18 ISSUE OF GOING CONCERN.

19 Q AND THIS WAS BACK IN 2002?

20 A YES, SIR.

21 Q AND WE ARE IN 2007, CURRENTLY?

22 A YES, SIR.

23 Q AND THE FILING DATE OF THAT PROSPECTUS WAS 2002?

24 A APRIL THE 8TH OF 2002.

25 Q AND THE DATE OF YOUR BOARD RESOLUTION IS EFFECTIVE

1 MARCH OF 2002?

2 A YES, SIR.

3 Q AND YOU UNDERSTAND THAT THE WYCHE MEETING WAS ALSO IN
4 MARCH OF 2002?

5 A I DON'T KNOW WHEN IT WAS, I WASN'T THERE, I DON'T
6 KNOW.

7 Q SO, BUT THE TIMELINE, WE KNOW SOME STOCK, THE CLEAR
8 DATES ON THIS TIMELINE WOULD BE THE FILING OF THIS
9 PROSPECTUS, CORRECT?

10 A YES SIR, IF YOU WILL GIVE ME JUST A SECOND. I AM NOT
11 UNDERSTANDING THE TIMELINE WITH THIS PARTICULAR DOCUMENT
12 AS THIS HAVING TO DO WITH THIS PROSPECTUS. I THOUGHT THIS
13 WAS A DEBENTURE, ARE YOU SAYING THAT THIS DOCUMENT IS
14 ADDRESSING THE PROSPECTUS, IS THAT WHAT YOU ARE SAYING,
15 THE GOING CONCERN IN THE PROSPECTUS?

16 Q MR. SHARPE, THE RECORDS SAY THAT DOCUMENT IS THE
17 PROSPECTUS.

18 A THAT IS WHAT I AM ASKING YOU, I DON'T UNDERSTAND WHAT
19 THIS DOCUMENT IS, I AM JUST TRYING TO CLARIFY IT SO I CAN
20 RECONCILE THE RELATIONSHIP WITH THESE DATES. YOU ARE
21 TELLING ME THIS DOCUMENT IS THE PROSPECTUS IN ESSENCE?

22 Q THE STATE'S EXHIBIT IS THE PROSPECTUS.

23 A THEN THAT WOULD OF BEEN DISCUSSED PRIOR TO THIS BASED
24 ON THIS. I DIDN'T UNDERSTAND WHAT THIS DOCUMENT WAS IN
25 TERMS OF THE PROSPECTUS.

1 Q BUT YOU WERE NOT AT THE WYCHE MEETING?

2 A NO, SIR.

3 Q AND BUT CLEARLY YOU WERE CONSULTED, DISCUSSED THE
4 GOING CONCERN LANGUAGE AND WAS KNOWLEDGABLE ABOUT THAT
5 PRIOR TO THE ISSUANCE OF THE PROSPECTUS?

6 A YES, SIR.

7 Q THANK YOU. YOU ALSO TESTIFIED PREVIOUSLY THAT THERE
8 WOULD BE TIMES WHERE SIX MONTHS WOULD GO BY WITHOUT HAVING
9 A CAROLINA INVESTORS BOARD MEETING?

10 A THERE WERE TIMES WHERE THERE WERE MORE LAPSE IN TIME
11 THAN A QUARTER, YES SIR.

12 Q WELL, DO YOU RECALL A BOARD MEETING ON MAY THE 2ND OF
13 2000?

14 A NO SIR, NOT RIGHT OFF HAND I DON'T.

15 Q DO YOU KNOW IF THERE WAS A BOARD MEETING ON AUGUST
16 THE 16TH OF 2000?

17 A I CAN'T TELL YOU FROM MEMORY, NO SIR.

18 Q DO YOU KNOW IF THERE WAS A BOARD MEETING ON OCTOBER
19 THE 27TH OF 2000?

20 A I CAN'T TELL YOU IF THERE WAS, I PRESUME THERE MUST
21 OF BEEN.

22 Q AND DO YOU KNOW IF THERE WAS A BOARD MEETING ON
23 JANUARY THE 23RD OF 2001?

24 A I PRESUME SO, I CAN'T TELL YOU THE LITANY OF THOSE
25 DATES.

1 Q AND THEN THERE WAS A MEETING PRIOR TO APRIL OF 2002,
2 I AM SORRY. YOU RECALL THERE BEING A BOARD MEETING ON MAY
3 THE 15TH OF 2001?

4 A AGAIN, I DON'T RECALL SPECIFICALLY THE DATES.

5 Q IN 2001, SIR, WOULD THERE HAD BEEN A MEETING TO DO A
6 SIMILAR RESOLUTION AUTHORIZING THE FILING OF A PROSPECTUS
7 IN THE YEAR OF 2001 WITH THE SOUTH CAROLINA SECURITIES
8 COMMISSION?

9 A I WOULD PRESUME BASED ON THE TIMELINE YOU JUST
10 PRESENTED IN CORRELATING THAT PROSPECTUS, A PREVIOUS
11 MEETING YOU REFERRED TO THE WYCHE LAW FIRM THAT I DIDN'T
12 ATTEND THAT WOULD BE THE SAME TIME FRAME, SO I WOULD
13 PRESUME THAT SAME PROCESS WOULD OCCUR.

14 Q YOU SAID YOU DON'T RECALL THERE BEING A MEETING ON
15 MAY THE 15TH, 2001 BUT YOU ARE NOT GOING TO QUARREL WITH
16 IT?

17 A NO SIR, I AM NOT SAYING THAT I DON'T RECALL THAT
18 SPECIFIC DATE, IF THERE ARE MINUTES TO THAT EFFECT THEN
19 CLEARLY A MEETING OCCURRED.

20 Q AND AUGUST 14TH, 2001, DO YOU RECALL THERE BEING A
21 MEETING?

22 A I DON'T RECALL A DATE, NO SIR, IF THE MINUTES
23 INDICATE THAT THERE WAS CLEARLY THERE WAS.

24 Q AND THEN IN NOVEMBER OF 2001 DO YOU RECALL IF THERE
25 WAS A MEETING NOVEMBER OF 2001?

1 A I DO REMEMBER MINUTES FROM NOVEMBER 20TH OF 2001, YES
2 SIR.

3 Q AND THEN WE TALKED ABOUT THE PROSPECTUS IN THE FILING
4 OF THE SPRING OF 2002?

5 A YES, SIR.

6 Q AND DO YOU RECALL THERE BEING A JUNE 18TH, 2002
7 MEETING OF CAROLINA INVESTORS VIA TELECONFERENCE?

8 A JUNE 18?

9 Q 2002, YES, SIR.

10 A I DON'T RECALL IT, IT MUST HAVE OCCURRED. JUST ONE
11 THING THAT IS A MATTER OF CLARITY, I TALKED ABOUT, THERE
12 WERE LAPSE, THE TIME THAT I RECALL THE LAPSE WERE LATER IN
13 2002 TOWARD THE END OF THE COMPANIES TIMELINE.

14 Q DO YOU RECALL A MEETING IN AUGUST 22ND IN 2002?

15 A I DON'T RECALL THE SPECIFIC DATE.

16 Q AND DO YOU RECALL THERE BEING A MEETING IN NOVEMBER?

17 A I DO RECALL A MEETING IN NOVEMBER. I DID REFERENCE
18 IN MY PREVIOUS TESTIMONY THAT THERE WAS A MEETING IN MID
19 2002 SO I PRESUME THAT WOULD BE THE AUGUST MEETING THAT
20 YOU ARE TALKING ABOUT, WHERE WE TALK ABOUT THE DEAL WITH
21 THE IMPAC BANK. AND THERE WAS NO COMMUNICATION AFTER THAT
22 FOR A WHILE AND THAT IS WHEN WE DEMANDED A MEETING IN
23 NOVEMBER WITH MR. SHEPPARD TO COME IN AND GIVE US AN
24 UPDATE ON THAT.

25 Q AND THERE WAS A MEETING IN AUGUST 22ND, 2002 AND THEN

1 A FEW MONTHS LATER IN NOVEMBER 19TH OF 2002?

2 A YES, SIR.

3 Q AND THEN IN FEBRUARY THE 22ND OF 2003?

4 A YES.

5 Q YOU ATTENDED ALL OF THOSE MEETINGS EXCEPT PERHAPS
6 ONE, CORRECT?

7 A YES SIR, I THINK SO.

8 Q AND MR. SHEPPARD ATTENDED ALL OF THOSE MEETINGS?

9 A I DON'T RECALL IF HE ATTENDED ALL OF THEM OR NOT. I
10 KNOW HE ATTENDED SOME, YES.

11 Q IF HE WAS THERE WOULD HIS ATTENDANCE BE REFLECTED IN
12 THE MINUTES?

13 A IT SHOULD BE, YES SIR. I MEAN I RECALL FOR THE MOST
14 PART, DURING HIS EARLY TENURE WITH THE COMPANIES MERGER,
15 HE ATTENDED MEETINGS. IT WAS TOWARD THE LATER PART OF THE
16 DEMISE THAT HIS ATTENDANCE SEEMED⁵ TO DIMINISH.

17 Q IF HE WAS THERE IT WOULD BE REFLECTED?

18 A YES, SIR.

19 Q YOU RECALL HIM NOT BEING THERE?

20 A NO SIR, I DON'T RECALL HIM NOT BEING THERE, I JUST,
21 IF YOU WERE TO ASK ME, IF YOU GAVE ME A LIST OF DATES AND
22 SAID TELL ME WHICH ONE OF THESE HE WAS THERE AND HE WASN'T
23 AND I WERE TO LOOK AT THEM, I COULDN'T TELL YOU THAT.

24 Q DO YOU RECALL SIGNING A LETTER THAT WAS SENT TO THE
25 SOUTH CAROLINA SECURITIES COMMISSION?

1 A I DON'T RECALL SIGNING ONE, I PROBABLY DID, BUT I
2 DON'T RECALL SPECIFICALLY.

3 Q DO YOU RECALL SIGNING A LETTER ON, THAT ALL THE BOARD
4 MEMBERS OF CAROLINA INVESTORS SENDS TO THE SECURITIES
5 COMMISSION IN APRIL OF 2002?

6 A I DON'T REMEMBER SIGNING ONE, BUT I HONEST TO
7 GOODNESS COULD NOT TELL YOU WHAT DATE IT WAS.

8 Q AND DO YOU RECALL REPRESENTING IN THAT LETTER THAT
9 THE CAROLINA INVESTORS BOARD WAS MONITORING THE POSITION
10 OF HOMEGOLD AND ITS ABILITY TO REPAY THE DEBT, CLOSELY
11 MONITORING THE CONDITION?

12 A WELL, I DON'T RECALL THOSE KINDS OF SPECIFICS,
13 OBVIOUSLY, NO SIR, I DON'T RECALL THAT KIND OF SPECIFICITY
14 OF IT. IT MAY BE IN THE LETTER BUT I DON'T RECALL THAT
15 KIND OF SPECIFIC THING.

16 Q WERE YOU CLOSELY MONITORING THE ABILITY OF CAROLINA
17 INVESTORS, THE ABILITY OF HOMEGOLD TO REPAY THE DEBT?

18 A WE WERE MONITORING THE INFORMATION THAT THEY GAVE US
19 IN TERMS OF, FROM MY PERSPECTIVE, HOW MUCH ARE WE LOSING,
20 WHEN ARE YOU GOING TO TURN IT AROUND, WHEN ARE YOU GOING
21 TO RETURN IT TO PROFITABILITY. THAT WAS MY QUESTIONING IN
22 TERMS OF TRYING TO MONITOR AND GET A FIX ON WHAT, WHAT
23 THEY WERE DOING TO TURN IT AROUND.

24 Q AND THERE WAS NOTHING ROSY ABOUT THE REPORTS COMING
25 FROM HOMEGOLD ON HOW MUCH THEY WERE LOSING, WERE THERE?

1 A NO, THERE IS NOTHING ROSY ABOUT THE NUMBERS WE WERE
2 LOOKING AT, THERE WAS ALWAYS A ROSY PERSPECTIVE GIVEN IN
3 TERMS OF THE PLAN TO TURN IT AROUND.

4 Q IN ACCORDANCE WITH COMMUNICATIONS THAT YOU WERE
5 GETTING FROM HOMEGOLD, THE FUTURE LOOKED BRIGHT BUT
6 CURRENT FINANCIAL SITUATION WAS DOWNRIGHT DISMAL, WAS IT
7 NOT?

8 A IT WAS CERTAINLY NEVER PRESENTED IN THOSE TERMS AND
9 FROM ALL PERSPECTIVE I WAS CONCERNED ABOUT THE FINANCIAL
10 CONDITION. BUT WE WERE NEVER TOLD THAT THE FINANCIAL
11 CONDITION OF OUR COMPANY IS DOWNRIGHT DISMAL. HOWEVER WE
12 HAVE A ROSY PLAN TO BRING IT BACK TO PROFITABILITY.

13 Q AND THAT IS FAR, MR. SHARPE, WHAT YOU WERE GIVEN WERE
14 THE RAW NUMBERS AND YOU COULD DRAW YOUR OWN CONCLUSION,
15 CORRECT?

16 A DRAW MY OWN CONCLUSIONS WITHIN THE CONTEXT OF THE
17 EXPLANATION I WAS GIVEN, YES.

18 Q AND THE RAW NUMBERS YOU WOULD AGREE WERE DOWNRIGHT
19 DISMAL?

20 A WELL, THE RAW NUMBERS WERE DEFINITELY CONCERNING, YES
21 SIR. I DON'T KNOW, AGAIN, I DON'T KNOW HOW YOU ARE
22 DELETING ANY CRITERIA FOR DISMAL VERSUS DIRE OR WHATEVER
23 THE CASE MAY BE. THEY WERE CERTAINLY SUFFICIENT TO BE
24 CONCERNED ABOUT, YES SIR.

25 Q AND SUFFICIENT ENOUGH FOR YOU TO DESCRIBE IN YOUR

1 DIRECT TESTIMONY AS BEING DIRE?

2 A YES.

3 Q NOW, AND YOU TESTIFIED THAT YOU HAD AN INVESTMENT IN
4 THE CAROLINA INVESTORS THAT YOU DID NOT WITHDRAW FOR YOU
5 AND YOUR WIFE OF \$10 OR \$15 THOUSAND DOLLARS, CORRECT?

6 A WELL, IT WAS, IN MY SON'S NAME, WE WERE CUSTODIAN, MY
7 WIFE AND I WERE CUSTODIAN FOR A COLLEGE FUND FOR MY SON.

8 Q BUT YOUR AGENCY, BEHAVIORAL HEALTH SYSTEMS OR SYSTEMS
9 OF PICKENS HAD \$200 TO \$300 THOUSAND DOLLARS IN CAROLINA
10 INVESTORS WHICH IT WITHDREW, CORRECT?

11 A THAT WAS SEVERAL YEARS BEFORE THAT, YES SIR, LONG
12 BEFORE WE EVER KNEW ANYTHING ABOUT THE CONDITION OF THE
13 COMPANY, I DON'T HAVE NO IDEA WHEN IT WAS. I DON'T EVEN
14 REMEMBER WHEN THE AGENCY WITHDREW THE FUNDS BUT AND HOW
15 THAT CORRELATED. BUT THE PRIMARY REASON THAT THE BOARD OF
16 DIRECTORS WITHDREW THAT MONEY, SEVERAL YEARS PRIOR TO ALL
17 OF THIS, WAS BECAUSE IT WAS NOT INSURED.

18 Q THAT THE INVESTMENT IN CAROLINA INVESTORS WAS NOT
19 INSURED?

20 A YES, SIR. BEEN A NON-PROFIT AGENCY IN THE BOARD,
21 THAT WAS A BOARD DECISION, THAT WAS NOT MY DECISION, THAT
22 WAS A BOARD DECISION OF BEHAVIORAL HEALTH SERVICES.

23 Q NOW, DID THE BOARD, DID YOU EVER OFFER UP TO THE
24 BOARD OF CAROLINA INVESTORS THAT PERHAPS WE SHOULD VOTE TO
25 STOP LOANING MONEY TO HOMEGOLD?

1 A NO SIR, I NEVER SPECIFICALLY SAID THAT BECAUSE THE
2 INFORMATION WE PROVIDED, PARTICULARLY WITH THE INFORMATION
3 FROM THE WYCHE LAW FIRM ON ONE OF THE INTER-COMPANY
4 TRANSACTION WAS THAT, THAT WAS THE ONLY MECHANISM THAT
5 WOULD PROVIDE FOR THE COMPANY TO POTENTIALLY RETURN TO
6 PROFITABILITY, IF THE MONEY DIDN'T CONTINUE THEN THERE IS
7 NO QUESTION AS TO WHAT WOULD OF HAPPENED.

8 Q SO, THE ADVICE YOU WERE RECEIVING FROM THE WYCHE LAW
9 FIRM WAS, IT WAS IN THE BEST INTEREST OF THE COMPANY,
10 CAROLINA INVESTORS TO CONTINUE?

11 A NO SIR, THAT IS NOT WHAT I SAID. WHAT WE RECEIVED
12 FROM THE WYCHE LAW FIRM WAS SIMPLY A LEGAL INSTRUMENT THAT
13 WOULD EXTEND THAT PROCESS. AND MY UNDERSTANDING OF THE
14 NECESSITY TO EVEN TO DO THAT WOULD BE, IN ORDER FOR
15 CAROLINA INVESTORS TO CONTINUE TO LOAN HOMEGOLD MONEY SO
16 THAT THEY WOULD HAVE THE CASH FLOW TO OPERATE ON. IF THEY
17 DIDN'T HAVE THE CASH FLOW TO OPERATE ON THEN IT WOULD OF
18 BEEN, THE BANKRUPTCY AT THAT POINT AND TIME WOULD OF BEEN
19 IMMINENT.

20 Q AND YOU UNDERSTOOD THAT HOMEGOLD, EXCUSE ME, CAROLINA
21 INVESTORS WAS RECEIVING MONEY IN AND IN RETURN AGREEING TO
22 PROVIDE INVESTORS EIGHT AND A HALF PERCENT INTEREST ON
23 THESE NOTES OR ON THE DEBENTURES?

24 A I CERTAINLY UNDERSTAND THAT THEY WERE CONTINUING TO
25 RECEIVE THE MONEY, I AM NOT SURE, THE INTEREST RATES

1 CHANGED FROM TIME TO TIME.

2 Q AND THE INTEREST RATES WERE SUBSTANTIALLY HIGHER,
3 WERE THEY NOT, THAN THE INTEREST RATES THAT YOU COULD GET
4 IN A BANK CD?

5 A THEY WERE HIGHER, I DON'T RECALL THE CORRELATION OF
6 WHAT THE OTHER INSTITUTIONS WERE OFFERING BUT THEY WERE
7 HIGHER, DEFINITELY HIGHER THAN THE CONVENTIONAL BANK WAS,
8 YES.

9 Q AND IT WAS SUCH A SPREAD TO THE DEGREE THAT CAROLINA
10 INVESTORS JUST ACCEPTED THE MONEY AND PUT IT IN AN
11 ACCOUNT, IN A FEDERAL INSURED INSTITUTION THERE WOULD BE
12 NO WAY TO GENERATE ENOUGH INTEREST TO REPAY THE INVESTOR
13 HIS PRINCIPLE PLUS THE INTEREST?

14 A I DON'T KNOW THAT, THERE IS NO WAY FOR ME TO KNOW
15 THAT.

16 Q YOU KNEW THAT CAROLINA INVESTORS HAD TO TAKE THAT
17 MONEY AND PUT IT TO WORK?

18 A YES.

19 Q THAT SITTING ON MONEY WAS NOT AN OPTION FOR CAROLINA
20 INVESTORS TO REPAY THE DEBT TO ITS INVESTORS?

21 A CLEARLY SITTING ON THE MONEY WOULD NOT HAVE BEEN
22 PRODUCTIVE, NO SIR.

23 Q JUST LASTLY, DID YOU ATTEND A MEETING AT THE CAROLINA
24 INVESTORS OFFICES WITH THE STAFF OF CAROLINA INVESTORS
25 WITH MR. OWEN AND MS. OWEN AND OTHERS WHERE THIS GOING

1 CONCERN LANGUAGE WAS DISCUSSED AND THE PROSPECTUS WAS
2 DISCUSSED?

3 A NO SIR, I WAS NOT AT THAT MEETING.

4 Q THAT IS ALL I HAVE.

5 THE COURT: REDIRECT.

6 MR. MYRICK: THANK YOU, YOUR HONOR.

7 REDIRECT EXAMINATION

8 BY MR. MYRICK:

9 Q ON FRIDAY, I HAD ASKED YOU IF YOU HAD VOTED ON THAT
10 EMMCO DEAL. WHAT I WOULD LIKE TO ASK YOU NOW, DID YOU
11 HAVE ANY INPUT INTO THE TERMS OF THAT DEAL?

12 A NO, SIR. IT IS INTERESTING THAT YOU ASK THAT
13 QUESTION BECAUSE SITTING HERE REALIZING THE ANSWER THAT I
14 GAVE TO THE DEFENSE ATTORNEY, WHAT I THOUGHT HE WAS ASKING
15 ME, DID HE APPROVE THE TERMS OF THAT DEAL. AND WE DID
16 NOT. THE NEGOTIATIONS BETWEEN HOMEGOLD BOARD AND MR.
17 SHEPPARD TO BUY HOMEGOLD, INC., AND OPEN A NEW COMPANY
18 WITH EMMCO, THAT IS WHAT I THOUGHT HE WAS TALKING ABOUT.
19 I DIDN'T THINK HE WAS TALKING ABOUT A RESOLUTION ON THE
20 SALE, I THOUGHT HE WAS TALKING ABOUT THE TERMS BETWEEN
21 HOMEGOLD BOARD AND MR. SHEPPARD AND WE WEREN'T PRIVY TO
22 THAT INFORMATION, WE HAD NO IDEA WHAT THE HOMEGOLD BOARD
23 AND MR. SHEPPARD HAD WORKED OUT. I READ IT LATER, AS I
24 MADE REFERENCE TO BEFORE, IN THE FORENSIC ACCOUNTING
25 REPORT ON THE BANKRUPTCY IS WHEN I LEARNED WHAT THE TERMS

1 OF THE SALE OF THE BUSINESS TO MR. SHEPPARD WAS.

2 Q AND REMIND ME, DID YOU SAY YOU DIDN'T KNOW ANYTHING
3 ABOUT THAT \$3 MILLION DOLLARS THAT THE DEFENDANT TOOK WHEN
4 HE LEFT?

5 A NO SIR, I HAD NO IDEA. ONE THING, THINKING BACK ON
6 SOME OF THIS IS, I AM JUST TRULY AMAZED TO SEE--

7 MR. GRIFFIN: YOUR HONOR,--

8 THE COURT: WAIT, WAIT. SUSTAINED, YOU HAVE TO ASK A
9 QUESTION.

10 Q DID YOU UNDERSTAND THE TERMS UNDER WHICH THE
11 DEFENDANT TOOK EMMCO AND LEFT, WERE YOU GIVEN ALL THE
12 INFORMATION?

13 A NO, SIR.

14 Q YOU SERVE ON A VARIETY OF BOARDS IN PICKENS?

15 A YES, SIR. NON-PROFIT BOARDS, YES SIR.

16 Q HOW MANY MEETINGS DO YOU ATTEND A MONTH?

17 A A COUPLE MEETINGS A MONTH, SOMETIMES THREE.

18 Q AND HOW MANY MEETINGS THEN BETWEEN 2000 AND 2007?

19 A ON ALL OF THOSE BOARDS?

20 Q YES, SIR.

21 A I HAVE NO IDEA, A BUNCH.

22 Q DO YOU REMEMBER THEM ALL OFF THE TOP OF YOUR HEAD?

23 A NO, SIR.

24 Q YOU DO UNDERSTAND, THOUGH, THAT EMMCO WAS SUPPOSE TO
25 PAY YA'LL BACK.

1 MR. GRIFFIN: LEADING, YOUR HONOR, OBJECTION.

2 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.

3 Q MR. SHARPE, WHAT WERE THE TERMS, AS YOU UNDERSTOOD
4 THEM, WITH RESPECT TO EMMCO MAKING GOOD ON ITS DEBT TO
5 HOMEGOLD AND CAROLINA INVESTORS?

6 A MY UNDERSTANDING IN THAT NOVEMBER '02 MEETING FROM
7 MR. SHEPPARD AS HE PRESENTED THIS PROPOSAL TO US THAT HE
8 WOULD PAY BACK AND I RECALL IT WAS IN THE NEIGHBORHOOD OF
9 \$205, \$210 MILLION DOLLARS OVER A FIVE YEAR PERIOD OF
10 TIME, THAT WOULD INCLUDE WHAT THE INTER-COMPANY DEBT WAS
11 PLUS INTEREST AND THAT SORT OF THING OVER A FIVE YEAR
12 PERIOD OF TIME. THAT HE WOULD PAY THAT BACK TO HOMEGOLD
13 WHICH IN TURN WOULD PAY BACK CAROLINA INVESTORS FOR THE
14 INTER-COMPANY DEBT.

15 Q DID YA'LL GET PAID?

16 A NOT TO MY KNOWLEDGE, NO SIR.

17 Q THAT IS ALL I HAVE.

18 THE COURT: RECROSS.

19 RECROSS-EXAMINATION

20 BY MR. GRIFFIN:

21 Q MR. SHARPE, THIS RESOLUTION SAYS AND I WILL JUST READ
22 IT. IT SAYS, THE SALE TO EMMCO IS UNDER THE TERMS OF THE
23 PURCHASE AGREEMENT AS PRESENTED TO THE DIRECTORS AND IT IS
24 DATED DECEMBER 16TH OF 2002.

25 A YES, SIR.

1 Q IS IT YOUR TESTIMONY THAT YOU WERE NOT PRESENTED WITH
2 THIS PURCHASE AGREEMENT, THE TERMS OF THE PURCHASE
3 AGREEMENT.

4 A THE TERMS WERE JUST WHAT I TOLD YOU, IT WASN'T
5 ANYTHING ABOUT GIVING HIM \$3 MILLION DOLLARS AND NOT
6 REQUIRING COLLATERAL AND THE BUILDINGS, NO SIR, NONE OF
7 THAT WAS TALKED ABOUT THAT.

8 Q THIS IS DATED DECEMBER THE 16TH OF 2002?

9 A YES.

10 Q AND ARE YOU AWARE THAT MR. SHEPPARD HAD RESIGNED FROM
11 CAROLINA INVESTORS, HOMEGOLD IN NOVEMBER OF 2002?

12 A I DON'T RECALL WHEN HE RESIGNED, I KNEW HE HAD TO
13 RESIGN IN ORDER TO DO THIS DEAL. HE COULDN'T OF DONE IT
14 OTHERWISE.

15 Q AND HE DIDN'T VOTE ON THIS RESOLUTION?

16 A NO, WE JUST SIGNED IT, WE DIDN'T VOTE. BY SIGNATURE,
17 OBVIOUSLY, IS A FORM OF A VOTE, I GUESS.

18 THE COURT: ANYTHING FURTHER?

19 MR. MYRICK: NO, YOUR HONOR.

20 THE COURT: YOU MAY STEP DOWN. CALL YOUR NEXT
21 WITNESS.

22 MS. EVANS: YOUR HONOR, THE STATE CALLS ANNE OWEN TO
23 THE STAND.

24 ANNE OWEN, AFTER BEING DULY SWORN, TESTIFIED AS
25 FOLLOWS:

DIRECT EXAMINATION

BY MS. EVANS:

Q MS. OWEN, CAN YOU GIVE US A LITTLE BIT OF BACKGROUND ABOUT YOURSELF?

A I WAS BORN AND RAISED IN EASLEY, SOUTH CAROLINA. I ATTENDED EASLEY HIGH SCHOOL. I GRADUATED FROM GREENVILLE TECHNICAL COLLEGE IN BUSINESS ADMINISTRATION. I WAS MARRIED AND HAD THREE SONS, I WAS MARRIED AGAIN TO LARRY OWEN, I HAVE A STEP-DAUGHTER. I HAVE TWO STEP-GRANDCHILDREN AND TWO GRANDCHILDREN AND ONE ON THE WAY. I WORKED AT A FINANCE COMPANY IN EASLEY FOR A COUPLE OF YEARS AFTER GRADUATING FROM GREENVILLE TECHNICAL COLLEGE. THEN I WENT TO WORK FOR HENDERSON ADVERTISING IN GREENVILLE. I HAD MY BOYS DURING THAT TIME AND I DECIDED TO STAY HOME, SO I WAS A STAY AT HOME MOM UNTIL A NEIGHBOR OF MINE SAID THEY NEEDED SOMEONE TO WORK AT CAROLINA INVESTORS AND I WENT TO WORK AT CAROLINA INVESTORS MARCH THE 4TH OF 1991. AND I WORKED AT CAROLINA INVESTORS UNTIL JUNE THE 14TH OF 2003.

Q WHO IS LARRY OWEN?

A LARRY OWEN IS MY HUSBAND.

Q AND HOW LONG HAVE YA'LL BEEN MARRIED?

A WE HAVE BEEN MARRIED, WILL BE SEVEN YEARS MAY THE 6TH OF THIS YEAR.

Q OKAY. WITHOUT GOING TOO IN DEPTH BECAUSE THE JURY

1 HAS ALREADY HEARD ABOUT THIS, CAN YOU EXPLAIN TO THE JURY
2 WHAT YOU DID AT CAROLINA INVESTORS?

3 A I STARTED AT CAROLINA INVESTORS AS AN INVESTMENT
4 COUNSELOR IN THE GREENVILLE OFFICE AND I DON'T REMEMBER
5 THE DATES. BUT THAT WAS IN 1991, I THINK 1994 I WAS MOVED
6 TO THE PICKENS OFFICE, I WAS LATER PROMOTED TO ASSISTANCE
7 VICE-PRESIDENT. WHAT I DID AT THAT TIME, I WOULD OPEN
8 ACCOUNTS, GO OVER THEIR STATEMENT WITH INVESTORS, THE
9 COMPANY GREW AND WE HIRED MORE GIRLS SO I BEGAN TO
10 SUPERVISE THE DAILY ACTIVITIES OF THE OTHER INVESTMENT
11 COUNSELORS. I PREPARED REPORTS FOR MR. OWEN AND I
12 PREPARED SOME REPORTS FOR CERTAIN MEMBERS OF HOMEGOLD.

13 Q OTHER THAN WHAT YOU HAVE ALREADY TOLD US ABOUT YOUR
14 EDUCATIONAL BACKGROUND DID YOU HAVE ANY OTHER TRAINING
15 REGARDING WHAT YOU WERE DOING ON A DAY-TO-DAY BASIS AT
16 CAROLINA INVESTORS?

17 A I HAD NO TRAINING.

18 Q AND YOU SAID YOU STARTED IN 1991, WAS CAROLINA
19 INVESTORS OWNED BY A PARENT COMPANY IN 1991?

20 A IN 1991 THE OWNER OF CAROLINA INVESTORS WAS DWIGHT
21 HOLDER OUT OF PICKENS, SOUTH CAROLINA.

22 Q AND AT SOME TIME DID THAT CHANGE?

23 A RIGHT AFTER THAT I ATTENDED A STAFF MEETING IN
24 PICKENS AND KEITH GIDDENS WAS INTRODUCED TO US AND I WAS
25 INFORMED THEN A GROUP OF LOCAL BUSINESSMEN, GREENVILLE

1 BUSINESSMEN HAD PURCHASED CAROLINA INVESTORS.

2 Q AND YOU HAD JUST STARTED THERE?

3 A I HAD JUST STARTED THERE.

4 Q HOW LONG HAD YOU BEEN THERE?

5 A I DON'T THINK IT WAS EVEN A MONTH.

6 Q AND AFTER THAT TRANSITION DID MUCH CHANGE AT CAROLINA
7 INVESTORS?

8 A RIGHT THEN A LOT DIDN'T CHANGE BUT ABOUT 1995 THINGS
9 REALLY BEGIN TO CHANGE. THEY MOVED ALL THE OPERATION OUR
10 OF PICKENS TO GREENVILLE, EVERYTHING WENT TO GREENVILLE
11 EXCEPT THE INVESTMENTS.

12 Q AND AFTER THAT WAS MOVED TO GREENVILLE, ULTIMATELY
13 DID IT GET MOVED SOME PLACE ELSE?

14 A I BELIEVE IT WAS 2000 THEY MOVED TO LEXINGTON.

15 Q BESIDES THE MOVE OF THAT WHAT CHANGED ON A DAY-TO-DAY
16 BASIS AT CAROLINA INVESTORS?

17 A I DON'T UNDERSTAND THAT QUESTION.

18 Q HOMEGOLD MOVED TO GREENVILLE AND THEN YOU SAID
19 ULTIMATELY DOWN TO LEXINGTON. DID ANYTHING CHANGE ON A
20 DAY-TO-DAY BASIS ON WHAT YOU WERE DOING REGARDING CAROLINA
21 INVESTORS?

22 A PRIOR TO THEM MOVING TO GREENVILLE CAROLINA INVESTORS
23 DID MAKE LOANS BECAUSE WHEN I WAS IN THE BEREA OFFICE I
24 DID HELP THE MANAGER AT THAT TIME, WHO WAS ALSO A LOAN
25 OFFICER, I DID SOME LOAN CLOSINGS FOR HIM. SO, THAT PART

1 OF THAT, ALL OF THAT MOVED TO, I THINK, IT WAS EMERGENT
2 MORTGAGE.

3 Q BESIDES THE NOTES AND DEBENTURES, DID THAT CHANGE AT
4 CAROLINA INVESTORS, THE WAY YOU WOULD GO ABOUT SELLING THE
5 NOTES AND DEBENTURES AT CAROLINA INVESTORS?

6 A NO.

7 Q DID THAT STAY THE SAME?

8 A YES.

9 Q AND WHO WAS EARLE MORRIS AT THE COMPANY?

10 A EARLE MORRIS WAS CHAIRMAN OF THE BOARD AND HE CAME ON
11 IN, HE CAME INTO THE OFFICES LIKE THREE DAYS A WEEK. AND
12 I CAN'T REMEMBER WHAT YEAR THAT WAS BUT WHEN I FIRST
13 STARTED WORKING THERE I KNEW THAT MR. MORRIS WAS ON THE
14 BOARD BUT HE BECAME MORE A PART OF THE COMPANY, I GUESS
15 YOU WOULD SAY, HE WAS THERE IN THE PICKENS OFFICE ONE DAY,
16 HE WAS IN THE EASLEY OFFICE ONE DAY A WEEK AND HE WAS IN
17 THE GREENVILLE OFFICE ONE DAY A WEEK.

18 Q DID HE HAVE A PERMANENT OFFICE BY THAT TIME?

19 A HE DID, HE WAS UPSTAIRS, THE FORMER OFFICE OF MR.
20 HOLDER.

21 Q CAN YOU TELL THE JURORS WHAT THE AVERAGE AGE OF A
22 CAROLINA INVESTOR, ABOUT THE AVERAGE CAROLINA INVESTOR?

23 A WE DID A SURVEY ONE TIME AND THE AVERAGE AGE OF OUR
24 INVESTORS WAS 65 YEARS OR OLDER, WE DID HAVE A GOOD MANY
25 YOUNG INVESTORS BUT THE AVERAGE AGE WAS 65 OR OLDER.

1 Q AND WHAT KIND OF BACKGROUND DID THEY COME FROM?

2 A THE MAJORITY OF THEM WERE FARMERS, TEXTILE WORKERS,
3 MOSTLY RETIRED, PEOPLE JUST, YOU KNOW, GOOD HARDWORKING
4 PEOPLE THAT HAD SAVED ALL OF THEIR LIVES.

5 Q AND HOW LONG HAD SOME OF THOSE BEEN INVESTING?

6 A SOME OF THEM HAD BEEN INVESTING, WHEN WE CLOSED MY
7 HUSBAND HAD BEEN THERE 33 YEARS. AND SOME OF THEM HAD
8 BEEN INVESTING BEFORE MR. OWEN STARTED WORKING THERE.
9 THEY KNEW HIM WHEN HE CAME ON THE BOARD.

10 Q MS. OWEN, HAVE YOU PLEAD GUILTY TO EIGHT COUNTS OF
11 SECURITIES FRAUD?

12 A I DID.

13 Q AND THOSE INDIVIDUAL EIGHT COUNTS TO SPECIFIC
14 INVESTORS?

15 A YES.

16 Q AND HAVE YOU PROMISED ANYTHING IN EXCHANGE FOR YOUR
17 TESTIMONY HERE TODAY?

18 A NO, I HAVE NOT.

19 Q DO YOU HOPE THAT IN SOME WAY YOUR COOPERATION WILL
20 HELP YOUR HUSBAND IN ANY WAY?

21 A NOT REALLY.

22 Q LET'S MOVE ON. AT SOME POINT DID YOU BECOME AWARE OF
23 THE HOMEGOLD/HOMESENSE MERGER?

24 A YES, I DID.

25 Q AND HOW DID YOU BECOME AWARE OF THAT?

1 A FROM MY HUSBAND, MR. OWEN.

2 Q LET ME JUST ASK YOU THIS, WHAT WAS YOUR TITLE AT
3 CAROLINA INVESTORS?

4 A IN 2000 MY TITLE WAS SENIOR VICE-PRESIDENT OF
5 INVESTMENTS.

6 Q OKAY. BUT ON A DAY-TO-DAY BASIS WAS IT WHAT YOU DID,
7 PREVIOUSLY WHAT YOU JUST TOLD THE JURY WHAT YOU DID?

8 A YES, I WAS A VICE-PRESIDENT IN TITLE ONLY. WE WENT
9 THROUGH A COMPUTER CONVERSION AND I WAS WORKING A LOT OF
10 OVERTIME AND AT THAT TIME THEY PROMOTED ME TO ASSISTANT
11 VICE-PRESIDENT, THAT WAS KEITH GIDDENS WHO WAS, AT THAT
12 TIME KEITH WAS CEO OF CAROLINA INVESTORS. MR. GIDDENS
13 PROMOTED ME TO ASSISTANT VICE-PRESIDENT, I WAS WORKING A
14 LOT OF OVERTIME AND THEY PUT ME ON SALARY SO I KNOW THAT
15 THEY PROMOTED ME TO ASSISTANT VICE-PRESIDENT ONLY TO LOWER
16 WHAT I WAS MAKING. BECAUSE THE NEXT YEAR MY PAY
17 DECREASED.

18 Q WERE YOU ON THE BOARD OF CAROLINA INVESTORS?

19 A I WAS NEVER ON THE BOARD OF CAROLINA INVESTORS.

20 Q AND AFTER 2000 DID YOU EVER GO DOWN TO HOMEGOLD TO
21 ATTEND ANY HOMEGOLD MEETINGS?

22 A NO, I DID NOT.

23 Q LET'S GO TO THE HOMEGOLD/HOMESENSE MERGER, DID YOU
24 EVER MEET THE DEFENDANT AT THAT MERGER?

25 A I MET MR. SHEPPARD ONE TIME.

1 Q AND WHERE WAS THAT?

2 A HE CAME TO A MEETING IN PICKENS, CAROLINA INVESTORS
3 BOARD MEETING AND HE WAS, YOU KNOW, TAKEN AROUND THE
4 BUILDING AND I REMEMBER HIS STOPPING AT MY DOOR AND BEING
5 INTRODUCED TO ME.

6 Q BESIDES THAT ONE INTRODUCTION DID YOU HAVE ANY OTHER
7 MEETINGS WITH THE DEFENDANT?

8 A I NEVER HAD ANY OTHER MEETINGS WITH MR. SHEPPARD.

9 Q IN THE YEAR OF 2000 WHAT IS THE RELATIONSHIP BETWEEN
10 HOMEGOLD AND HOMESENSE FROM A BUSINESS STRUCTURE
11 RELATIONSHIP.

12 A BETWEEN HOMESENSE?

13 Q HOMEGOLD AND CAROLINA INVESTORS, I APOLOGIZE.

14 A HOMEGOLD IS THE PARENT COMPANY OF CAROLINA INVESTORS.

15 Q AND WERE YOU AWARE PREVIOUSLY, BEFORE THE MERGER, AS
16 TO WHAT WAS KNOWN AS THE INTER-COMPANY DEBT?

17 A I WAS.

18 Q WERE YOU IN CHARGE OF ANYTHING THAT HAD TO DEAL WITH
19 THAT?

20 A NO, I WAS NOT.

21 Q YOU WERE AWARE, HOWEVER, BY SEEING THE BALANCE SHEET
22 THAT IT KEPT ON INCREASING?

23 A I KNEW THAT THERE WERE LOSSES, YES, AND THAT THOSE
24 LOSSES DID INCREASE, YES.

25 Q WHAT I AM TALKING ABOUT IS THE INTER-COMPANY LOAN,

1 DID THAT INCREASE?

2 A I KNEW THAT INCREASED, YES.

3 Q DID YOU HAVE ANY ASSETS TO THE FINANCIAL BOOKS AT
4 HOMEGOLD?

5 A NO, I DID NOT.

6 Q IF YOU WANTED TO GET FINANCIAL INFORMATION ABOUT
7 HOMEGOLD, HOW WOULD YOU HAVE TO GET IT?

8 A USUALLY I GOT MY INFORMATION ABOUT HOMEGOLD, THE SAME
9 EVERYBODY GOT INFORMATION, IT WAS OFF THE INTERNET OR THE
10 NEWSPAPER.

11 Q YOU WERE AWARE OF THE FINANCIAL CONDITION OF
12 HOMEGOLD?

13 A YES.

14 Q DID THINGS GET WORSE FOR THE COMPANY IN THE YEAR OF
15 2001?

16 A IT DID.

17 Q AND HOW WERE YOU KEEPING UP WITH THAT?

18 A ON THE COMPUTER AND INTERNET.

19 Q AND WHAT ABOUT 2002?

20 A THE SAME WAY.

21 Q AND FROM WHAT YOU KNEW WAS HOMEGOLD STILL BORROWING
22 MONEY FROM CAROLINA INVESTORS?

23 A YES.

24 Q AND WHERE WAS THAT MONEY COMING FROM THAT CAROLINA
25 INVESTORS WAS BRINGING IN?

1 A IT WAS COMING IN FROM OUR INVESTORS, THE PEOPLE THAT
2 I WOULD WAIT ON A DAILY BASIS AND THEY WOULD COME IN AND
3 INVEST THEIR MONEY. WE WOULD DEPOSIT IT AND HOMEGOLD
4 WOULD TAKE IT.

5 Q THIS JURY HAS HEARD A LOT ABOUT CAROLINA INVESTORS
6 BUT JUST TELL US, WHAT IS, YOU SOLD NOTES AND DEBENTURES?

7 A WE SOLD NOTES AND DEBENTURES, THE DEBENTURES, WHEN I
8 FIRST STARTING WORKING THERE WE SOLD PROBABLY MORE
9 DEBENTURES THAN WE DID NOTES. AND THE DIFFERENCE WAS THE
10 DEBENTURES YOU COULD COME IN AND GET YOUR MONEY OUT AT ANY
11 TIME, NO PENALTY. THE FLOATING RATE NOTES, THE SENIOR
12 NOTES, YOU WOULD LOCK YOUR MONEY IN FOR A LONGER PERIOD OF
13 TIME AND GET A HIGHER INTEREST RATE.

14 Q THEY HAVE HEARD A LOT OF MATURING OF THESE AND
15 PENALTIES, JUST BRIEFLY EXPLAIN WHAT, HOW MANY YEARS WERE
16 THESE NOTES AND DEBENTURES FOR AND WHAT WOULD HAPPEN WHEN
17 THEY MATURED?

18 A IN 2002 AND PROBABLY I KNOW UNTIL WE CLOSED YOU WOULD
19 LOCK THEN IN FOR A YEAR. AND WHEN I FIRST STATED WORKING
20 AT CAROLINA INVESTORS YOU COULD LOCK A NOTE IN FOR FIVE
21 YEARS AND THE YEAR, YOU KNOW, THE RATE BACK THEN WAS, WE
22 WERE ON THE DOWNSIZE IN 1991. WHEN I STARTED WORKING
23 THERE PEOPLE WERE EARNING SIXTEEN PERCENT BUT WHEN WE
24 CLOSED I THINK IT WAS SOMEWHERE AROUND SEVEN PERCENT THAT
25 YOU LOCK IT IN. AND IF YOU TOOK IT OUT EARLY, SAME AS A

1 BANK, YOU WOULD LOSE A CERTAIN PERCENT OF YOUR INTEREST,
2 IF YOU TOOK IT OUT EARLIER.

3 Q SIMILAR TO WHAT A CD IS AT THE BANK?

4 A IT WAS SIMILAR TO A CD.

5 Q OKAY. BUT HIGHER INTEREST RATES?

6 A HIGHER INTEREST RATES, WE USUALLY AVERAGED TWO TO TWO
7 AND A HALF PERCENT HIGHER THAN THE BANKS.

8 Q WAS CAROLINA INVESTORS, AS FAR AS YOU KNEW, AFTER THE
9 TIME FRAME THAT WE TALKED ABOUT IN 1995, LOANING MONEY TO
10 ANYBODY ELSE BUT HOMEGOLD?

11 A AS FAR AS I KNEW THEY WERE NOT LOANING ANY MONEY TO
12 ANYONE ELSE.

13 Q LET'S DRAW OUR ATTENTION TO 2002, DO YOU REMEMBER
14 YOUR HUSBAND ATTENDING A MEETING AT THE WYCHE LAW FIRM?

15 A I DO.

16 Q DID YOU GO TO THAT MEETING?

17 A I DID NOT.

18 Q WERE YOU INVITED TO THAT MEETING?

19 A I WAS NOT.

20 Q WHAT HAPPENED AFTER THAT MEETING?

21 A WELL, THAT NIGHT WHEN I GOT HOME I HAD, AT THAT TIME
22 I HAD A SON THAT WAS LIVING WITH MY HUSBAND AND I. HIS
23 NAME IS KYLE AND HE CAME OUT AND HE SAID, MAN, YOU HAVE
24 HAD SEVERAL PHONE CALLS TONIGHT. YOU HAVE HAD CALLS FROM
25 JACK STERLING, YOU HAVE HAD A CALL FROM FORREST FERRELL

1 AND THERE WAS A CALL FROM KAREN MILLER AND A CALL FROM
2 RONNIE SHEPPARD.

3 Q LET ME STOP YOU THERE, HAD THE DEFENDANT EVER CALLED
4 YOUR HOUSE PREVIOUS TO THIS?

5 A NO.

6 Q TELL ME ABOUT THAT NIGHT.

7 A I THOUGHT, WHAT IN THE WORLD ARE ALL OF THESE PEOPLE
8 CALLING ME, I SAID, LARRY, WHAT ARE THEY CALLING HERE FOR.
9 AND HE DIDN'T REALLY, LARRY, WHEN WE GOT HOME THAT NIGHT
10 LARRY HAD A GARAGE THAT HE WORKED ON HIS CARS AND HAD A
11 TRACTOR. AND HE HAD GONE OUT THERE AND WAS PIDDLING WITH
12 HIS TRACTOR, HE WAS QUIET BUT HE DIDN'T SAY A WHOLE LOT.

13 Q DID YOU LATER LEARN?

14 A THE NEXT DAY I WENT TO WORK AND PAT EVETT IN OUR
15 ACCOUNTING DEPARTMENT CAME OVER AND ASKED ME, SHE SAID,
16 HOW IS LARRY. AND I SAID, HE IS FINE, WHY. AND SHE SAID,
17 WELL, SHANE SMITH AND SHANE SMITH⁴ WORKED, SHANE WAS
18 VICE-PRESIDENT OF FINANCE OF HOMEGOLD. SHE SAID SHANE
19 SAID THAT THEY GOT REAL CONCERNED ABOUT LARRY LAST NIGHT.
20 AND SO I WENT IN HIS OFFICE, I SAID, WHAT IS GOING ON.
21 AND I TOLD HIM WHAT SHE SAID. HE CALLED ME ANNIE, HE
22 SAID, ANNIE, I LOST IT YESTERDAY, I GOT PRETTY UPSET OVER
23 THERE. AND HE TOLD ME THAT THEY HAD A MEETING AND TO
24 DISCUSS THE GOING CONCERN LANGUAGE THAT WAS GOING TO BE
25 PUT IN THE PROSPECTUS. AND MY HUSBAND HAD WORKED FOR THAT

1 COMPANY, AT THAT TIME IT WAS 2002, 32 YEARS. HE CARED
2 ABOUT THOSE INVESTORS LIKE HIS FAMILY.

3 Q AND WHAT WAS HIS Demeanor, WHAT WAS HE LIKE THAT DAY
4 WHEN HE TOLD YOU WHAT HAPPENED AT THAT MEETING THE
5 PREVIOUS DAY?

6 A HE WAS VERY UPSET, HE SAID THAT THE AUDITORS HAD
7 DISCUSSED PUTTING GOING CONCERN LANGUAGE IN THE
8 PROSPECTUS. BUT I REMEMBER HIM DESCRIBING TO ME HOW MR.
9 SHEPPARD, MR. STERLING, I BELIEVE HE SAID MR. STERLING
10 SAID--

11 MR. GRIFFIN: YOUR HONOR, I OBJECT TO HEARSAY.
12 THE COURT: SUSTAINED.

13 Q MY QUESTION WAS MORE ABOUT HIS Demeanor, NOT WHAT HE
14 SAID ABOUT WHAT PEOPLE SAID.

15 A HE WAS UPSET BECAUSE THEY WERE GOING TO PUT AND THIS
16 IS WHAT HE TOLD ME, HE WAS UPSET ABOUT WHAT THEY WERE
17 GOING TO PUT IN THE PROSPECTUS BECAUSE IF THE LANGUAGE
18 WENT IN THE PROSPECTUS HOW THE PUBLIC WOULD PERCEIVE IT.
19 I COULD TELL THAT LARRY WAS UPSET BUT LARRY WAS ALSO
20 TRYING TO, HE WAS TRYING TO BE UPBEAT TO ME.

21 Q HAD YOU EVER HEARD THE TERM, GOING CONCERN, PRIOR TO
22 THAT?

23 A NO.

24 Q DO YOU HAVE AN ACCOUNTING BACKGROUND?

25 A NO.

1 Q DID YOU LATER LEARN MORE ABOUT GOING CONCERN?

2 A I HAVE LEARNED A LOT MORE ABOUT IT SINCE WE HAVE
3 CLOSED.

4 Q LET'S GO BACK TO RIGHT AFTER YOU FIND OUT THAT GOING
5 CONCERN IS BEING PUT IN THE PROSPECTUS. AT THIS POINT WAS
6 THERE A MEETING BETWEEN YOU AND YOUR INVESTMENT COUNSELORS
7 AND PEOPLE FROM HOMEGOLD AND MR. MORRIS?

8 A WE HAD A STAFF MEETING.

9 Q DO YOU REMEMBER APPROXIMATELY WHEN THAT WAS?

10 A I AM THINKING IT IS LIKE A WEEK OR SO AFTER THIS
11 MEETING, MAYBE, WE HAD TO HAVE IT PRIOR TO THE PROSPECTUS
12 GOING OUT. NORMALLY THAT PROSPECTUS WENT OUT THE FIRST OF
13 APRIL AND I BELIEVE AND I MAY BE WRONG. BUT I BELIEVE
14 THAT YEAR WE WERE A LITTLE BIT LATE WITH IT BECAUSE WE HAD
15 TO GET IT FINALIZED TO THE PRINTERS. SO, I WOULD SAY A
16 COUPLE OF WEEKS AFTER THAT MEETING, WE HAD THE STAFF
17 MEETING TO INFORM THE STAFF HOW ^{to} TO EXPLAIN THAT
18 PROSPECTUS.

19 Q AND WHO WAS AT THE MEETING?

20 A THE LADIES FROM ALL OF OUR DIFFERENT BRANCHES.

21 Q AND WHAT WAS THEIR TITLES?

22 A THEY WERE INVESTMENT COUNSELORS AND THEY WERE ALSO
23 ASSISTANT VICE-PRESIDENTS. EVERY ONE OF THE GIRLS HAD A
24 TITLE BECAUSE YOU HAD TO HAVE A TITLE, ACCORDING TO OUR
25 PROSPECTUS IN ORDER TO SELL, IT SAID, I BELIEVE, THESE

1 NOTES AND DEBENTURES ARE OFFERED BY OFFICERS AND DIRECTORS
2 OF THE COMPANY. SO, EVERY ONE OF US HAD TO HAVE A TITLE
3 IN ORDER TO SELL THEM.

4 Q WERE YOU REGISTERED TO SELL SECURITIES?

5 A NO, I WILL BE HONEST WITH YOU, I DIDN'T KNOW I WAS
6 SELLING SECURITIES. NOW, THAT MAY SOUND DUMB, I DIDN'T
7 KNOW I WAS SELLING SECURITIES. I THOUGHT PEOPLE WERE
8 COMING IN AND INVESTING A SAVINGS ACCOUNT, I DID NOT KNOW
9 THAT I WAS SELLING SECURITIES.

10 Q YOU JUST TOLD THE JURY THAT YOU PLEAD GUILTY TO EIGHT
11 COUNTS OF SECURITIES, TODAY SITTING HERE IN COURT, DID YOU
12 KNOW THAT YOU WERE SELLING SECURITIES?

13 A I DO NOW. I PLEAD GUILTY BECAUSE FIRST OF ALL, I
14 FELT A CERTAIN AMOUNT OF GUILT BECAUSE I FELT THAT I HAD A
15 RESPONSIBILITY TO THOSE PEOPLE. BUT I DIDN'T KNOW THAT I
16 WAS BREAKING SECURITIES LAW. AFTER SITTING DOWN WITH MY
17 ATTORNEY AND EXPLAINED TO ME THAT WHEN I WENT OUTSIDE OF
18 THAT PROSPECTUS AND TOLD THOSE PEOPLE--

19 MR. GRIFFIN: OBJECTION, YOUR HONOR.

20 THE COURT: SUSTAINED, ASK A QUESTION, COUNSEL.

21 Q DON'T SAY WHAT WAS TOLD, REALLY THAT YOU NOW
22 UNDERSTAND?

23 A I UNDERSTAND THAT I BROKE SECURITIES LAW. I TOLD
24 PEOPLE THINGS THAT, I TOLD THEM IT WAS SAFE BECAUSE I FELT
25 THAT IT WAS SAFE. I HAD MY OWN MONEY IN THE COMPANY, MY

1 MONEY WAS IN THE COMPANY WHEN IT CLOSED SO I THOUGHT IT
2 WAS SAFE AND THAT IS WHAT I WAS TELLING PEOPLE.

3 Q LET'S GO BACK TO THAT MEETING, WHO FROM HOMEGOLD CAME
4 TO THAT MEETING?

5 A FROM HOMEGOLD, JACK STERLING AND OUR CHIEF FINANCIAL
6 OFFICER AT THAT TIME WAS KEVIN MARTIN.

7 Q AND WHO WAS MR. STERLING AT THAT TIME?

8 A MR. STERLING WAS CHAIRMAN OF THE BOARD.

9 Q WAS THE DEFENDANT AT THAT MEETING?

10 A NO.

11 Q IN GENERAL TERMS, WHAT WAS THE PURPOSE OF THAT
12 MEETING?

13 A THE PURPOSE OF THAT MEETING WAS TO EXPLAIN TO ALL OF
14 THE LADIES AND TO ME HOW TO EXPLAIN TO OUR CUSTOMERS WHAT
15 THAT GOING CONCERN LANGUAGE MEANT.

16 Q AND WHO DID MOST OF THE TALKING AT THIS MEETING?

17 A LARRY OWEN, MY HUSBAND AND JACK STERLING.

18 Q AND BASED UPON WHAT YOU WERE TOLD AT THIS MEETING IS
19 THAT WHAT YOU DID AFTER THIS PROSPECTUS WAS ISSUED?

20 A YES.

21 Q AND WHAT TYPE OF INSTRUCTIONS WERE YOU GIVEN AT THAT
22 MEETING ABOUT THE PROSPECTUS?

23 A WE WERE TOLD THAT THE GOING CONCERN WAS NOT A
24 PREDICTION OF A FUTURE FAILURE, THAT IT WAS BASED ON
25 PREVIOUS LOSSES. AND IN THAT MEMO TO US IT HAD AN EXAMPLE

1 IN THERE. IT WAS KIND OF LIKE WHEN YOU GO TO THE DOCTOR
2 AND THE DOCTOR GIVES YOU A PRESCRIPTION FOR MEDICINE, THAT
3 THEY GIVE YOU THESE THINGS THAT COULD HAPPEN TO, THINGS
4 THAT COULD GO WRONG. AND THAT THE GOING CONCERN WAS KIND
5 OF LIKE THAT, IT DOESN'T MEAN THAT IT IS GOING TO HAPPEN,
6 BASED ON PREVIOUS LOSSES, IT IS POSSIBLE THAT IT COULD
7 HAPPEN. BUT ALL OF THESE DIFFERENT THINGS WERE IN PLACE
8 TO, YOU KNOW, TURN THINGS AROUND, IT WAS LIKELY THAT IT
9 WAS NOT GOING TO HAPPEN.

10 Q YOU JUST MADE REFERENCE TO A MEMO, WHO REVIEWED THAT
11 MEMO BEFORE THEY GAVE IT TO YA'LL?

12 A JACK STERLING, KEVIN MARTIN AND LARRY OWEN.

13 Q MS. OWEN, I AM GOING TO SHOW YOU THIS, IS THAT THE
14 MEMO YOU ARE REFERRING TO AND DON'T READ IT.

15 A THAT IS IT.

16 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
17 MARK THIS FOR IDENTIFICATION PURPOSES ONLY.

18 THE COURT: NUMBER 132 FOR IDENTIFICATION ONLY AT
19 THIS TIME.

20 (WHEREUPON, STATE'S EXHIBIT NO. 132 WAS MARKED FOR
21 IDENTIFICATION PURPOSES ONLY.)

22 Q AND, AGAIN, WHO AT THIS MEETING DID MOST OF THE
23 DISCUSSIONS FROM HOMEGOLD?

24 A JACK STERLING, KEVIN MARTIN WOULD OF SAID A FEW WORDS
25 BUT MOSTLY JACK STERLING.

1 Q DURING THIS TIME FRAME DID YOUR HUSBAND GO DOWN TO
2 HOMEGOLD, THIS IS NOW MOVING OUT OF 2002. LET ME ASK YOU
3 THIS, WHEN YOU HEARD ABOUT THAT GOING CONCERN, DID THAT
4 CONCERN YOU?

5 A IT DID.

6 Q AND HOW SO?

7 A I WAS AFRAID THAT PEOPLE WOULD PERCEIVE IT AS, THAT
8 THE COMPANY WOULDN'T KEEP GOING AND IF THEY SAW IT THAT
9 WAY THAT THEY WOULD ALL COME IN AND TAKE THEIR MONEY OUT
10 AND THE COMPANY WOULD FOLD UP.

11 Q AND DO YOU REMEMBER BEING INSTRUCTED TO SHOW A
12 CERTAIN PAGE IN THE PROSPECTUS?

13 A I HAD A COPY OF THE PROSPECTUS AND IT HAD MY NAME ON
14 IT AND I HAD IT HIGHLIGHTED AND WHAT TO EXPLAIN IN THAT
15 PROSPECTUS, THERE WAS ONE PAGE IN THERE WHERE I TOLD THEM
16 ABOUT THE APPRAISALS THAT HAD BEEN DONE ON HOMEGOLD RETAIL
17 MORTGAGE DIVISION, AND I BELIEVED THIS. I FELT LIKE THOSE
18 APPRAISALS WERE IN OUR PROSPECTUS. I BELIEVED THAT AND
19 ALSO IN THAT PROSPECTUS IT SAID THAT WE ARE CONTINUING TO
20 TRY TO GROW THE COMPANY BUT IN THE SAME PERIOD OF TIME, IF
21 WE CAN SELL IT WE WILL AND THE RETAIL DIVISION HAD BEEN
22 APPRAISED BETWEEN \$135 AND \$170 MILLION. AND AT THAT TIME
23 THAT WAS ENOUGH MONEY TO COVER THE DEBT THAT CAROLINA
24 INVESTORS OWED OR AT LEAST THAT IS WHAT I THOUGHT. SO,
25 YOU KNOW, I WAS SHOWING PEOPLE THAT.

1 Q AND DID YOU EVER SEE A COPY OF THE ACTUAL VALUATIONS
2 THAT THOSE NUMBERS CAME FROM?

3 A NO, I DIDN'T, I RELIED ON WHAT WAS IN THAT
4 PROSPECTUS.

5 Q DID YOU HAVE ANY SAY SO IN PREPARING OF THAT
6 PROSPECTUS?

7 A NO, I DID NOT.

8 Q DO YOU HAPPEN TO REMEMBER WHAT PAGE THAT WAS OF THAT
9 PROSPECTUS?

10 A IN MY MIND IT STANDS OUT F11, I THINK F11 ARE THOSE
11 RISK FACTORS AND WE WERE TOLD, MR. OWEN TOLD US TO BE SURE
12 WE POINTED OUT THE RISK FACTORS.

13 Q MOVING ON, DID ANYTHING GET, LET ME ASK YOU THIS, DID
14 YOU FOLLOW THOSE INSTRUCTIONS AND DID YOU DO THAT?

15 A YES, I WOULD TAKE THAT PROSPECTUS AND READ IT AND
16 STUDY IT AND TRY TO BE ABLE TO WHERE I COULD EXPLAIN IT TO
17 PEOPLE. AND I FOLLOWED THAT BECAUSE, I WAS ASKED A LOT OF
18 QUESTIONS AND I HAD TO BE PREPARED TO TELL PEOPLE WHAT I
19 THOUGHT THEY WERE SUPPOSE TO HEAR. SO, YES I DID, MR.
20 OWEN TOLD US THAT WAS FOR STAFF ONLY, NOT TO BE GIVING
21 THAT OUT TO THE PUBLIC. BUT IT WAS UP TO US TO
22 INTELLIGENTLY INFORM THE PEOPLE WHAT WAS GOING ON SO I
23 RELIED ON THAT A LOT.

24 Q WAS MR. STERLING THERE?

25 A YES, MR. STERLING WAS THERE AND HE WAS THE CHAIRMAN

1 OF THE BOARD OF HOMEGOLD. AND MR. STERLING NEVER SAID
2 ANYTHING IN THAT MEETING, THAT YOU CAN'T SAY THIS, YOU
3 CAN'T DO THAT, YOU CAN'T DO THAT. SO, YES, I RELIED ON,
4 IF THE HEAD OF YOUR PARENT COMPANY COMES IN YOU COUNT ON
5 WHAT THEY ARE TELLING YOU IS TRUE.

6 Q NOW, THAT WE ARE TALKING ABOUT PROSPECTUSES, HAD
7 CAROLINA INVESTORS NOTES AND DEBENTURES ONLY BEEN OFFERED
8 BY PROSPECTUS ONLY?

9 A AS LONG AS I WORKED THERE, YES.

10 Q AND DO YOU REMEMBER A INDIVIDUAL BY THE NAME OF DAVID
11 GAFFNEY?

12 A I DO.

13 Q AND DID HE COME UP AT SOME POINT OR DID HE HAVE
14 ANYTHING TO DO WITH THE PROSPECTUS?

15 A IT WAS MY UNDERSTANDING THAT MR. GAFFNEY, IN WORKING
16 WITH CARY HALL WITH THE WYCHE LAW FIRM, THEY STARTED THIS
17 LOG OR MADE US START A LOG WHERE WE HAD TO KEEP UP WITH
18 WHO WE GAVE THE PROSPECTUS TO. AND IN THE PAST, WHEN I
19 WORKED THERE, A LOT OF PEOPLE WOULD COME IN AND WE WOULD
20 TELL THEM THAT IT WAS OFFERED BY PROSPECTUS ONLY AND
21 PEOPLE WOULD SAY, I DON'T WANT THAT PROSPECTUS, I DON'T
22 NEED THAT, I DON'T WANT IT. AND A LOT OF PEOPLE WOULD NOT
23 TAKE IT BUT WE HAD TO, AFTER WORKING WITH DAVID GAFFNEY,
24 OUR IN-HOUSE ATTORNEY, WE HAD TO LOG, PUT THEIR NAME DOWN
25 AND SEE THAT WE AND KNOW THAT WE GAVE EACH PERSON A COPY

1 OF THAT PROSPECTUS.

2 Q AND WHO DID DAVID GAFFNEY WORK FOR?

3 A HE WORKED FOR HOMEGOLD.

4 Q GOING ON IN 2002, DID THINGS GET ANY BETTER FOR
5 HOMEGOLD?

6 A NO.

7 Q DID PEOPLE CONTINUE TO COME IN AND INVEST IN CAROLINA
8 INVESTORS?

9 A PEOPLE DID CONTINUE TO COME IN AND INVEST WITH US AND
10 DURING THAT PERIOD OF TIME PEOPLE WOULD ALSO COME IN AND
11 REDEEM THEIR ACCOUNTS.

12 Q DURING THIS TIME FRAME, DID YOU START HAVING
13 COMMUNICATIONS MORE FREQUENTLY WITH INDIVIDUALS AT
14 HOMEGOLD REGARDING THE STATUS OF CAROLINA INVESTORS AND
15 HOW MUCH YOU BROUGHT IN AND OUT EVERY DAY?

16 A I DID. WHEN I FIRST STARTED WORKING THERE, IT WAS
17 POLICY, IF YOU HAD A LARGE INVESTMENT AND YOU HAD TO LET
18 MR. OWEN KNOW. AND THEN WHEN HOMEGOLD OR EMERGENT WHICH
19 LATER BECAME HOMEGOLD, WHEN THEY MOVED THEIR HEADQUARTERS
20 AND THEN DOWN TO LEXINGTON, WE HAD TO LET THE CHIEF
21 FINANCIAL OFFICER KNOW IF THERE WAS A LARGE REDEMPTION.
22 BUT THEN AN ARTICLE CAME OUT IN THE GREENVILLE NEWS, IN
23 AUGUST, FROM THAT TIME ON I WOULD GET EMAILS AND PHONE
24 CALLS FROM FORREST FERRELL AND I BELIEVE FORREST WAS THE
25 PRESIDENT OF HOMEGOLD.

1 Q THE NEWSPAPER ARTICLE IN AUGUST, WHAT YEAR OF AUGUST?

2 A AUGUST OF 2002.

3 Q AND IN GENERAL TERMS, WAS IT GOOD NEWS IN THE
4 ARTICLE?

5 A THE ARTICLE WAS TERRIBLE, I CAN'T TELL YOU NOW WHAT
6 IT SAID BUT IT SCARED A LOT OF OUR INVESTORS AND THEY CAME
7 IN AND I THOUGHT THE COMPANY WAS GOING UNDER.

8 Q AND FROM THAT TIME FORWARD, TELL THE JURORS ABOUT THE
9 LEVEL OF COMMUNICATIONS BETWEEN YOU AND FORREST FERRELL.

10 A IT STARTED OFF AT THAT POINT DAILY AND THEN RAPIDLY
11 IT INCREASED TO SEVERAL TIMES A DAY UNTIL WHEN WE CLOSED
12 IT WAS ALMOST ON AN HOURLY BASIS, WANTING TO KNOW WHERE WE
13 STOOD FOR THE DAY, FOR THE HOUR.

14 Q AND WHO WAS FORREST FERRELL?

15 A I BELIEVE FORREST FERRELL WAS PRESIDENT OF HOMEGOLD.

16 Q AND DO YOU KNOW WHO FORREST FERRELL REPORTED TO?

17 A FORREST FERRELL REPORTED TO ~~FR~~RONNIE SHEPPARD.

18 Q WHAT HAPPENED TO FORREST FERRELL?

19 A FORREST FOUND OUT IN APRIL OF '04, AFTER WE CLOSED,
20 APRIL OF '03, FOUND OUT THAT HE HAD CANCER AND HE DIED
21 THREE MONTHS LATER.

22 Q AND SO THESE COMMUNICATIONS BETWEEN YOU AND FORREST
23 FERRELL AND EVEN AFTER THAT NEWS ARTICLE CAME OUT?

24 A YES.

25 Q WAS THERE A SERIES OF NEWS ARTICLES THAT CAME OUT

1 AROUND THIS TIME?

2 A THERE WAS ONE, THE ONE THAT I MENTIONED, AND I
3 BELIEVE LIKE A WEEK LATER, IT SEEMS LIKE AUGUST 23RD,
4 THERE WAS ONE LIKE A WEEK LATER THAT CAME OUT AND IT
5 CAUSED PEOPLE A LOT OF CONCERN ALSO.

6 Q WAS THAT BAD NEWS ABOUT HOMEGOLD?

7 A YES.

8 Q GOING BACK, MS. OWEN, BEFORE WE GET TO THOSE EMAILS,
9 DID YOU, WERE YOU, YOU WERE IN CHARGE OF THE INVESTMENTS.
10 WERE YOU AWARE OF WHAT OFFICERS AND DIRECTORS INVESTED IN
11 CAROLINA INVESTORS FROM HOMEGOLD?

12 A I WAS. IT WAS IN THE PROSPECTUS.

13 Q AND AS AN INVESTMENT COUNSELOR, DID YOU RECEIVE
14 QUESTIONS ABOUT THAT?

15 A THE INVESTORS ALWAYS WANTED TO KNOW WHY BOARD MEMBERS
16 DIDN'T INVEST, MORE OF THEM, OR WHY THEY DIDN'T HAVE MORE
17 MONEY IN THE COMPANY, YES.

18 Q LET ME SHOW YOU AN EMAIL, CAN YOU IDENTIFY THIS?

19 A YES.

20 Q IS IT AN EMAIL FROM YOU?

21 A YES.

22 MR. GRIFFIN: YOUR HONOR, CAN WE APPROACH.

23 THE COURT: YES.

24 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
25 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE

1 JURY.)

2 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
3 A PRETTY GOOD TIME FOR A BREAK SO I CAN DISCUSS THIS.
4 EVERYONE STAY SEATED WHILE THE JURY IS EXCUSED.

5 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
6 A BREAK.)

7 THE COURT: LET'S GET THE OBJECTION ON THE RECORD,
8 MR. GRIFFIN.

9 MR. GRIFFIN: YES SIR, YOUR HONOR, I DON'T KNOW THE
10 EXHIBIT NUMBER BUT THE STATE HAS OFFERED INTO EVIDENCE AN
11 EMAIL FROM ANNE OWEN TO LARRY OWEN WHICH BASICALLY A
12 HEARSAY COMMUNICATION BETWEEN THE TWO. AND I DON'T OBJECT
13 TO THE DOCUMENT, ITSELF, BEING AUTHENTIC BUT IT IS HEARSAY
14 AND THERE IS NO EXCEPTION TO THE HEARSAY RULE. AND I
15 OBJECT.

16 THE COURT: WELL, THIS DOCUMENT IS A COPY OF AN EMAIL
17 FROM THIS WITNESS TO LARRY OWEN AND YOU CAN CROSS-EXAMINE
18 ABOUT THAT BUT, THE OBJECTION IS OVERRULED. THIS WILL BE
19 MARKED WHATEVER THE NEXT EXHIBIT NUMBER IS AND WILL BE
20 ADMITTED.

21 MS. EVANS: AND, YOUR HONOR, THIS IS BETWEEN HER AND
22 HER HUSBAND. THE REST OF THE EMAILS THAT I INTENDED TO
23 GET INTO AND I WILL SHOW MR. GRIFFIN OVER THE BREAK, ARE
24 THE EMAILS THAT MS. OWEN WAS JUST REFERRING TO OF THE
25 COMMUNICATIONS FROM HER STAFF TO HER AND THEN FROM HER TO

1 MR. FORREST FERRELL AT HOMEGOLD. I DON'T KNOW IF MR.
2 GRIFFIN WANTS TO BE HEARD ON HIS OBJECTION AT THIS POINT
3 ABOUT THAT.

4 THE COURT: TAKE A LOOK AT THEM DURING THE BREAK AND
5 THEN I WILL DEAL WITH THEM WHEN WE START BACK. WE WILL
6 TAKE ABOUT TEN OR FIFTEEN MINUTES.

7 (WHEREUPON, A SHORT BREAK WAS TAKEN.)

8 THE COURT: MR. GRIFFIN.

9 MR. GRIFFIN: YOUR HONOR, THE EMAILS ARE REPORTS FROM
10 MS. OWEN TO FORREST FERRELL, THE STATUS REPORTS AND I NOT
11 ONLY OBJECT TO THOSE, SOME OF THOSE EMAILS THAT THEY WANT
12 TO OFFER, IT IS HEARSAY WITHIN HEARSAY ABOUT THE INVESTOR
13 CAME IN AND REPORTED THIS RUMOR, ONE WAS HOMEGOLD FILED
14 BANKRUPTCY, ONE WAS MR. SHEPPARD HAD RESIGNED FROM THE
15 COMPANY AND THE THIRD, I BELIEVE, WAS SOMETHING, RUMOR
16 THAT MR. SHEPPARD HAD PUT ALL HIS MONEY IN A SWISS BANK
17 ACCOUNT. I OBJECT TO THOSE, RUMORS AND IT IS JUST HEARSAY
18 WITHIN HEARSAY AND IN PARTICULARLY AS TO THE SWISS BANK
19 ACCOUNT. I OBJECT UNDER RULE 403, YOU CAN'T JUST PUT THAT
20 OUT THERE FOR THE JURY AND IT IS VERY DIFFICULT FOR ME TO
21 FORMULATE A RESPONSE THAT IS SOMETHING THAT IS JUST THROWN
22 UP IN THE AIR LIKE THAT. SO, UNDER 403 I HAVE ASKED THAT
23 BE STRICKEN.

24 THE COURT: MS. EVANS.

25 MS. EVANS: YOUR HONOR, CLEARLY IN STATE V. THOMPSON,

1 352, SC, 552 AND 559, SE 2ND, 77, IT IS A 2003 CASE WHICH
2 SAID CLEARLY RUMORS ARE ALLOWED IN BECAUSE THEY ARE NOT
3 GOING TO THE TRUTH OF THE MATTER ASSERTED. IT IS NOT
4 HEARSAY WITHIN HEARSAY BECAUSE IT IS MS. OWEN WRITING TO
5 MR. FERRELL ABOUT A RUMOR THAT SHE HEARD. A RUMOR IS
6 EXACTLY THAT AND STATE V. THOMPSON SAYS, IS THAT RUMORS
7 ARE NOT HEARSAY BECAUSE THEY ARE NOT GOING TO THE TRUTH OF
8 THE MATTER ASSERTED. AND WHAT THEY GO TO, FIRST OF ALL,
9 THE RECORD IS KEPT IN THE REGULAR COURSE OF BUSINESS SO IF
10 THE COURT WERE TO DETERMINE AS HEARSAY THEY WOULD BE
11 RECORDED AS REGULARLY CONDUCTED ACTIVITIES OR REGULAR
12 COURSE OF BUSINESS. THESE ARE EMAILS THAT SHE KEPT IN THE
13 REGULAR COURSE OF BUSINESS AND THIS VERIFIES THE EXACT
14 TESTIMONY, IS THAT AFTER THOSE ARTICLES THERE WAS DAILY,
15 IF NOT, MORE THAN TWICE A DAY EMAILS GOING TO FORREST
16 FERRELL. IT HAS BEEN RAISED BY THE DEFENDANT THAT MR.
17 SHEPPARD DID NOT KNOW THAT IT WAS^a GOING ON. I THINK THAT
18 SOME OF THE CROSS-EXAMINATION THAT IT WAS LARRY OWEN AND
19 NO ONE FROM HOMEGOLD THAT WAS TALKING TO YOU. CLEARLY,
20 THESE EMAILS DEMONSTRATE THAT THE INFORMATION IS BEING
21 RELAYED TO MR. FORREST FERRELL AND THAT THEY ARE KEEPING
22 IT CLEAR. AND AS FAR AS TO THOSE THREE EMAILS THAT HE
23 OBJECTS TO, THEY CLEARLY SAY THAT THEY ARE RUMORS AND IN
24 FACT THE ONE EMAIL ABOUT THE BANKRUPTCY IS 10/1/02 WHEN
25 THIS COURT HAS ALREADY FOUND OUT THAT THEY WERE ACTUALLY

1 CONSULTING WITH A BANKRUPTCY ATTORNEY.

2 THE COURT: IS THE INFORMATION IDENTIFIED IN THESE
3 EMAILS AS RUMORS OR THINGS THAT ARE BEING TOLD BY PEOPLE
4 COMING IN.

5 MS. EVANS: THE FIRST ONE ABOUT THE BANKRUPTCY SAYS,
6 LARRY GOT A PHONE CALL LAST NIGHT FROM OUR SECOND LARGEST
7 INVESTOR, HIS FRIEND'S BANKER TOLD HIM HOMEGOLD HAD
8 ALREADY FILED BANKRUPTCY. HE WAS OKAY AFTER LARRY TALKED
9 TO HIM AND IT IS AMAZING WHERE PEOPLE GET THEIR INFO.
10 THAT IS ONE OF THEM. THE SECOND ONE ABOUT THE SWISS BANK
11 ACCOUNT, IT IS BAD ENOUGH THAT WE HAVE TO FIGHT HOMEGOLD
12 RUMORS, NOW RONNIE SHEPPARD HAS MOVED ALL OF HIS MONEY TO
13 A SWISS BANK ACCOUNT. THIS WAS TOLD TO ME BY ONE OF THE
14 CURRENT GREENVILLE HOMEGOLD EMPLOYEES, AND IT SAYS,
15 SCREAM. AND THEN FORREST FERRELL WROTE BACK, BY CHANCE
16 CAN YOU FIND OUT WHO SAID IT. AND ANN WRITES BACK, ALL I
17 KNOW IS HE SAID IT. AND THE LAST ONE IS AN EMAIL NOVEMBER
18 THE 6TH WHERE SHE WRITES BACK, GOOD MORNING, FORREST. WE
19 ARE LOOKING PATHETIC. THE LATEST IS CEO HAS RESIGNED.
20 THIS WAS TOLD BY A LARGE INVESTOR BY A CPA. WHEN YOU READ
21 ALL OF THESE EMAILS, IN THE COURSE OF IT MS. OWEN IS
22 CLEARLY SAYING, WE DON'T KNOW WHERE THEY GET THIS
23 INFORMATION, THERE ARE RUMORS UP HERE RELAYING THAT
24 HOMEGOLD SO WHEN YOU SEE THEM IN CUMULATIVE IT CLEARLY
25 SHOWS THAT THIS IS ANOTHER, WHAT MS. OWEN BELIEVED TO BE A

1 RUMOR THAT SHE IS RELAYING TO THEM. AND I WILL TELL MR.
2 FERRELL, THAT IS ACTUALLY NOT A RUMOR, THAT IS TRUE OR
3 ANYTHING IN THESE EMAILS.

4 THE COURT: ANYTHING FURTHER, MR. GRIFFIN.

5 MR. GRIFFIN: THE SWISS BANK ACCOUNT, IT WAS FROM AN
6 HOMEGOLD EMPLOYEE AND THE RESPONSE SAYS, FIND OUT WHO IT
7 IS. THAT WOULD BE OFFERED FOR THE TRUTH OF THE MATTER
8 ASSERTED, THERE IS NO RUMOR THERE.

9 THE COURT: LET ME TAKE A LOOK AT THAT PARTICULAR
10 ONE. ON THE OTHERS, AT THIS POINT AND TIME THE OBJECTION
11 IS OVERRULED. LET ME TAKE A LOOK AT THIS ONE. ALL RIGHT,
12 THE OBJECTION ALSO ON THIS ONE WOULD BE OVERRULED.
13 EXAMINING IT UNDER 403 AND THIS IS ESTABLISHED AS A
14 BUSINESS RECORD, IT WOULD COME IN TO SHOW WHAT WAS GOING
15 ON. AND I THINK IT IS CLEAR FROM THIS THAT IT IS EVEN IN
16 QUOTES, "RONNIE HAS MOVED HIS MONEY TO A SWISS BANK
17 ACCOUNT." IT IS INDICATED THAT ~~IT~~ IT IS RUMORS GOING AROUND
18 IN THE AREA. FOR THAT REASON IT WOULD BE ADMITTED, THE
19 OBJECTION WOULD BE OVERRULED.

20 MS. EVANS: THANK YOU, YOUR HONOR.

21 THE COURT: GET THE JURY BACK IN. JUST PRIOR TO THE
22 BREAK THERE WAS AN EMAIL THAT WAS OBJECTED TO, I OVERRULED
23 THE OBJECTION. DOES IT HAVE A NUMBER AT THIS POINT AND
24 TIME?

25 MS. EVANS: IT DOES NOT, IT WILL BE THE NEXT NUMBER

1 THOUGH.

2 COURT REPORTER: IT WILL BE NUMBER 144.

3 MS. EVANS: YOUR HONOR, MAY WE APPROACH.

4 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
5 APPROXIMATELY 11:50 A.M.)

6 THE COURT: MS. EVANS, YOU MAY CONTINUE.

7 CONTINUE DIRECT EXAMINATION

8 BY MS. EVANS:

9 Q MS. OWEN, BEFORE WE TOOK A BREAK I SHOWED YOU AN
10 EMAIL, STATE'S EXHIBIT NUMBER 144. CAN YOU IDENTIFY THAT?

11 A I CAN.

12 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
13 MOVE STATE'S EXHIBIT NUMBER 144 INTO EVIDENCE.

14 THE COURT: ANY OBJECTION STATED PRIOR TO THE BREAK
15 IS OVERRULED, IT WILL BE ADMITTED.

16 (WHEREUPON, STATE'S EXHIBIT NO. 144 WAS ADMITTED INTO
17 EVIDENCE.)

18 Q CAN YOU READ THAT UP ON THE SCREEN THERE?

19 A YES.

20 Q OKAY. CAN YOU PLEASE TELL THE JUROR, WHAT IS THIS
21 ABOUT, THE VERY TOP LINE?

22 A WELL, A LOT OF INVESTORS WOULD ASK WHY THE TOP PEOPLE
23 AT HOMEGOLD, ALL THE TOP PEOPLE AT HOMEGOLD DID NOT HAVE
24 MONEY INVESTED. SO, I SENT LARRY OWEN AN EMAIL AND JUST
25 TOLD HIM THAT IT WOULD BE GOOD IF MR. SHEPPARD WOULD

1 INVEST SOME MONEY WITH CAROLINA INVESTORS. AND LATER MR.
2 SHEPPARD DID.

3 Q AND HOW MUCH WAS THAT INVESTMENT?

4 A HE INVESTED \$200 THOUSAND DOLLARS AND THEN I FOUND
5 OUT AFTER WE CLOSED THAT HE BORROWED IT FROM HOMEGOLD TO
6 INVEST IT WITH CAROLINA INVESTORS.

7 Q YOU RECEIVED A PERSONAL CHECK FROM MR. SHEPPARD FOR
8 THAT?

9 A YES.

10 Q MOVING ON I AM GOING TO SHOW YOU ANOTHER EMAIL DATED
11 4/24/2002, DO YOU RECOGNIZE THIS?

12 A YES.

13 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
14 HAVE THIS MOVED INTO EVIDENCE.

15 MR. GRIFFIN: SAME OBJECTION.

16 THE COURT: OVERRULED, 145 IS ADMITTED.

17 (WHEREUPON, STATE'S EXHIBIT NO. 145 WAS ADMITTED INTO
18 EVIDENCE.)

19 Q I KNOW EMAILS ARE KIND OF HARD, YOU HAVE TO READ THEM
20 FROM THE BOTTOM DOWN. CAN YOU PLEASE TELL THE JURY, WHO
21 IS TANYA ABERCROMBIE?

22 A TANYA WAS A VICE-PRESIDENT AND SHE WORKED AT OUR
23 BEREAS OFFICE IN GREENVILLE.

24 Q AND WHAT IS THE SUBJECT?

25 A THERE SHE IS ASKING ME, WHERE WE STAND FOR THE MONTH.

1 AND SHE SAYS, YESTERDAY, SHE KNEW THAT YESTERDAY WAS NOT
2 GOOD AT ALL. THAT IS THE MONEY BEING REDEEMED AT CAROLINA
3 INVESTORS.

4 Q SO, WHEN THESE EMAILS ARE TALKING ABOUT THE MONEY
5 BEING REDEEMED, THAT IS CAROLINA INVESTORS REDEMPTION AND
6 DEPOSITS?

7 A I WAS AT THE PICKENS OFFICE AND TANYA WAS AT THE
8 BEREA OFFICE AND THAT'S HOW WE COMMUNICATED WAS THROUGH
9 EMAILS.

10 Q AND THE SUBJECT OF THAT, WHAT IS THAT ABOUT?

11 A I DON'T RECALL, REMEMBER WHAT THE MEMO SAID, BUT IT
12 WAS SOMETHING ABOUT--

13 MR. GRIFFIN: OBJECTION, YOUR HONOR, SHE DOESN'T
14 KNOW.

15 THE COURT: WHAT IS THE OBJECTION, MR. GRIFFIN.

16 MR. GRIFFIN: SHE IS SPECULATED AND A MEMO WOULD BE
17 THE BEST EVIDENCE, UNDER THE BEST EVIDENCE RULE.

18 THE COURT: COME UP, COUNSEL.

19 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
20 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
21 JURY.)

22 Q DO YOU REMEMBER, WITHOUT GOING INTO SPECIFICALLY WHAT
23 THE MEMO WAS, JUST IN GENERAL TERMS WHAT THE MEMO WAS
24 REGARDING?

25 A THE MEMO WAS REGARDING THE SALE OF THE MORTGAGE

1 DIVISION, THE RETAIL DIVISION.

2 Q AND WHAT WAS YOUR RESPONSE AND WHAT IS THE DATE?

3 A THE DATE IS APRIL 24TH OF 2002 AND I AM TELLING TANYA
4 THAT THEY ARE KEEPING IT HUSH, HUSH BECAUSE THEY WANTED TO
5 KEEP THE MORTGAGE PERSONNEL MOTIVATED TO KEEP THE VOLUME
6 UP. IF THOSE EMPLOYEES THOUGHT THEY WERE BEING SOLD, THE
7 COMPANY WAS BEING SOLD THEN THEY PROBABLY WOULDN'T WORK AS
8 HARD, I WOULDN'T.

9 Q AND THEN DO YOU GO THROUGH THE TOTALS?

10 A AND THEN I GAVE HER THE TOTALS OF WHERE WE STOOD FOR
11 THE DAY.

12 Q AND I WILL SHOW YOU ANOTHER EMAIL AND THIS IS DATED,
13 MAY 6TH OF 2002. CAN YOU IDENTIFY THAT?

14 A YES.

15 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE INTO
16 EVIDENCE STATE'S 146.

17 THE COURT: SAME OBJECTION?

18 MR. GRIFFIN: YES, YOUR HONOR.

19 THE COURT: OVERRULED, STATE'S 146 IS ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 146 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q CAN YOU READ THAT?

23 A YES.

24 Q OKAY. AND WHAT IS THE DATE OF THAT?

25 A THE DATE IS MAY THE 6TH OF 2002.

1 Q IS THIS THE SAME TYPE OF MEMO REPORTING, WHO IS
2 KENNA?

3 A KENNA IS AT THE EASLEY OFFICE.

4 Q ALL RIGHT. AND IS SHE TALKING ABOUT WHAT IS GOING
5 ON?

6 A YES, SHE IS JUST LETTING ME KNOW THAT SHE OPENED UP
7 AN ACCOUNT FOR \$145 THOUSAND PLUS DOLLARS.

8 Q OKAY. AND IN GENERAL TERMS, IS THIS JUST TALKING
9 ABOUT KEEPING UP WITH WHAT WAS GOING ON AT THE VARIOUS
10 LOCATIONS DURING 2002?

11 A THAT IS EXACTLY WHAT IT IS.

12 Q I AM GOING TO SHOW YOU ANOTHER EMAIL, CAN YOU
13 IDENTIFY THAT?

14 A YES.

15 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVED INTO
16 EVIDENCE AS STATE'S 147.

17 MR. GRIFFIN: THE SAME OBJECTION.

18 THE COURT: SAME OBJECTION OVERRULED, STATE'S 147 IS
19 ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 147 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q WHAT IS THE DATE OF THAT?

23 A THE DATE OF THAT IS AUGUST THE 20TH OF 2002.

24 Q AND WHAT ARE, WHO IS LISA?

25 A LISA WORKED AT THE EASLEY OFFICE AND LARRY HAD

1 WYCHE LAW FIRM.

2 Q IS THAT JUST ABOUT, WAS THERE A SUPPLEMENT TO THE
3 PROSPECTUS THAT WAS DONE?

4 A YES, AND THEY WERE TELLING US TO ATTACH IT.

5 Q AND DID YOU TELL THE INVESTMENT COUNSELORS TO ATTACH
6 THAT PROSPECTUS?

7 A YES.

8 Q I WANT TO SHOW YOU THIS EMAIL DATED AUGUST THE 30TH,
9 CAN YOU IDENTIFY THAT?

10 A YES.

11 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
12 OFFER THIS AS STATE'S EXHIBIT NUMBER 149.

13 MR. GRIFFIN: SAME OBJECTION.

14 THE COURT: OVERRULED, STATE'S 149 IS ADMITTED.

15 (WHEREUPON, STATE'S EXHIBIT NO. 149 WAS ADMITTED INTO
16 EVIDENCE.)

17 Q AND BRIEFLY, MS. OWEN, WHO IS DEBRA MACKEY?

18 A DEBRA MACKEY AND SHE HAS COPIED JUDY PARKS, THEY WERE
19 AT THE ANDERSON OFFICE.

20 Q AND WHAT ARE THEY INFORMING YOU OF, WHO IS ROBERT G.
21 AND JUDY?

22 A THOSE WERE INVESTORS AT THE ANDERSON OFFICE AND SHE
23 WAS JUST UPDATING ME ON WHAT THEY, THEY HAD ONE CLOSING
24 OUT AND THAT WAS ROBERT G. AND JUDY GILSTRAP. AND SHE
25 SAID THEY WERE SCARED.

1 Q AND IS THIS PART OF WHAT YOU JUST TESTIFIED TO, WAS
2 TO KEEPING UP ONGOING AROUND THIS TIME, AT THE END OF
3 AUGUST?

4 A YES.

5 Q I AM GOING TO SHOW YOU AN EMAIL DATED AUGUST 30TH OF
6 2002. CAN YOU IDENTIFY THAT?

7 A YES.

8 MS. EVANS: YOUR HONOR, OFFER STATE'S EXHIBIT 150.

9 MR. GRIFFIN: SAME OBJECTION.

10 THE COURT: OVERRULED, STATE'S 150 IS ADMITTED.

11 (WHEREUPON, STATE'S EXHIBIT NO. 150 WAS ADMITTED INTO
12 EVIDENCE.)

13 Q AND IS THIS TALKING ABOUT THE SAME SUBJECT?

14 A THE SAME COUPLE.

15 Q AND WHAT IS THE DATE OF THIS?

16 A AUGUST THE 30TH AND THE GILSTRAP'S HAD DECIDED TO
17 LEAVE THEIR MONEY AND TO SEE WHAT HAPPENED WITH THE SELL
18 OF HOMEGOLD. AND THEN ANOTHER ONE CLOSED OUT AND HAD A
19 COUPLE OF WITHDRAWALS.

20 Q AND SO, WHAT THEY ARE TELLING YOU THAT THE GILSTRAP'S
21 FROM PREVIOUS EMAILS DECIDED TO STAY TO SEE WHAT WAS
22 HAPPENING WITH THE SELL OF HOMEGOLD?

23 A YES.

24 Q AND YOUR RESPONSE?

25 A I AM GLAD THE GILSTRAP'S DECIDED TO STAY.

1 Q AND WHAT IS THE LAST LINE BEFORE YOU SIGNED IT?

2 A IT IS ALMOST LIKE THESE PEOPLE FEED ON TRAGEDY.

3 Q IN GENERAL TERMS IN THE MIDDLE PARAGRAPH, WHERE IT
4 SAYS, IT IS AMAZING THE TALES, WHAT ARE YOU DISCUSSING
5 THERE?

6 A IT IS AMAZING THE TALES WE ARE HEARING. AND THAT GOES
7 TO AND WHAT I THOUGHT AND ALL THE INVESTMENT COUNSELORS
8 THOUGHT WERE RUMORS, YOU KNOW, FOR VARIOUS REASONS WHY
9 PEOPLE WERE COMING IN TO TAKE OUT THEIR MONEY, THEY HEARD
10 THIS OR THEY HEARD THAT.

11 Q AND YOU TALK ABOUT A SMALL TOWN, IS PICKENS A VERY
12 SMALL TOWN?

13 A PICKENS IS A VERY SMALL TOWN AND EASLEY USED TO BE.

14 Q AND THIS IS AN EMAIL DATED SEPTEMBER 9TH OF 2002.
15 CAN YOU IDENTIFY THAT?

16 A YES.

17 MS. EVANS: I WOULD LIKE TO MOVE THIS IN AS STATE'S
18 EXHIBIT 151.

19 MR. GRIFFIN: SAME OBJECTION.

20 THE COURT: SAME OBJECTION, OVERRULED, STATE'S 151 IS
21 ADMITTED.

22 (WHEREUPON, STATE'S EXHIBIT NO. 151 WAS ADMITTED INTO
23 EVIDENCE.)

24 Q AND, MS. OWEN, CAN YOU READ THAT?

25 A YES, THAT WAS SEPTEMBER THE 4TH OF 2002 AND WE, I WAS

1 JUST LETTING MR. FERRELL KNOW THAT WE WERE DOWN \$380
2 THOUSAND DOLLARS.

3 Q AND IS THAT SIMILAR TO WHAT YOU WERE TALKING ABOUT
4 WHERE YOU WOULD KEEP UP AFTER THOSE ARTICLES CAME OUT?

5 A YES.

6 Q AS OF 3:30 YOU WERE TELLING MR. FORREST?

7 A IT STARTED OUT IF WE WOULD LET THEM KNOW IF WE HAD A
8 LARGE WITHDRAWAL AND THEN IT GOT WHERE IT WAS JUST,
9 TOWARDS THE END ALMOST HOURLY LETTING MR. FERRELL KNOW
10 WHERE WE STOOD.

11 Q AND I AM GOING TO SHOW YOU AN EMAIL DATED 9/4/2002.
12 DO YOU RECOGNIZE THAT?

13 A YES.

14 MS. EVANS: YOUR HONOR, STATE'S EXHIBIT 152 INTO
15 EVIDENCE.

16 MR. GRIFFIN: SAME OBJECTION.

17 THE COURT: OVERRULED, STATE'S 152 IS ADMITTED.

18 (WHEREUPON, STATE'S EXHIBIT NO. 152 WAS ADMITTED INTO
19 EVIDENCE.)

20 Q AND JUST VERY BRIEFLY, WHAT IS THE DATE OF THAT ONE?

21 A SEPTEMBER THE 4TH OF 2002.

22 Q THE NEXT DAY, SAME THING?

23 A YES.

24 Q AND YOU REPORT ON DIFFERENT OFFICES?

25 A ONE LOSS WAS IN PICKENS AND ONE WAS IN EASLEY WHICH

1 WOULD PUT US \$1,230,000.00 IN THE RED.

2 Q AND WHEN YOU ARE TALKING ABOUT THE LOSSES, THIS IS
3 CAROLINA INVESTORS?

4 A THIS WAS WHAT, WHAT PEOPLE CAME IN TO INVEST LESS
5 WHAT WENT OUT THE DOOR AND WE WOULD END UP IN THE HOLE,
6 JUST THE MONEY THAT WAS COMING IN, GOING OUT AT CAROLINA
7 INVESTORS.

8 Q I AM GOING TO SHOW YOU AN EMAIL DATED SEPTEMBER THE
9 6TH OF 2002. CAN YOU IDENTIFY THAT?

10 A YES.

11 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
12 MOVE IN STATE'S EXHIBIT 153.

13 MR. GRIFFIN: SAME OBJECTION.

14 THE COURT: OVERRULED, STATE'S 153 IS ADMITTED.

15 (WHEREUPON, STATE'S EXHIBIT NO. 153 WAS ADMITTED INTO
16 EVIDENCE.)

17 Q THIS IS DATED SEPTEMBER THE 6TH OF 2002?

18 A YES. I CAN'T SAY WHO I SAID THAT TO. THAT WOULD OF
19 BEEN THE INVESTMENT COUNSELORS. FORREST WAS PRESSURING ME
20 FOR A TOTAL SO THE GIRLS HAD TO ENTER THEIR DAILY
21 TRANSACTION INTO A BLOCK AND THAT IS HOW I WOULD FIGURE
22 OUT WHAT THE TOTALS WERE. SO, I WAS ASKING THEM TO GET
23 THEIR BLOCKS DONE SO I COULD LET FORREST KNOW WHERE WE
24 STOOD.

25 Q AND WHEN YOU SAY, DO YOU HAVE ANY IDEA HOW DIFFERENT

1 IT IS FROM WHAT YOU SENT EARLIER, WOULD THAT BE EARLIER
2 THAT DAY?

3 A EARLIER THAT DAY.

4 Q AND THE BLOCKS ARE JUST THE REPORTS?

5 A WELL, SOME PEOPLE POST ON LINE, WE DID NOT POST ON
6 LINE, AS YOU COME ON AND MAKE YOUR DEPOSIT OR YOUR
7 INVESTMENT A LOT OF PLACES IT IS POSTED RIGHT THEN. BUT
8 OURS WE HAD TO DO IT, WHEN WE CLOSED OUT FOR THE DAY.
9 THEY DID THAT BY BUILDING A BLOCK.

10 Q OKAY. AND, AGAIN, SEPTEMBER 6TH OF 2002. CAN YOU
11 IDENTIFY THAT?

12 A YES.

13 MS. EVANS: YOUR HONOR, STATE'S 154 INTO EVIDENCE.

14 MR. GRIFFIN: SAME OBJECTION, YOUR HONOR.

15 THE COURT: OVERRULED, STATE'S 154 IS ADMITTED.

16 (WHEREUPON, STATE'S EXHIBIT NO. 154 WAS ADMITTED INTO
17 EVIDENCE.)

18 Q AND WHO IS THIS EMAIL TO?

19 A THAT ONE IS TO FORREST FERRELL AND I WAS EXCITED THAT
20 AT 1:30 WE WERE IN THE BLACK.

21 Q AND WHAT DOES THAT MEAN?

22 A THAT MEANS THAT WE WEREN'T, MONEY, THERE WAS MORE
23 MONEY COMING IN THAN WAS GOING OUT.

24 Q LET ME SHOW YOU ANOTHER ONE DATED SEPTEMBER THE 6TH
25 OF 2002. CAN YOU IDENTIFY THAT.

1 A YES.

2 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE THIS IN
3 AS STATE'S 155.

4 MR. GRIFFIN: SAME OBJECTION.

5 THE COURT: OVERRULED, STATE'S 155 IS ADMITTED.

6 (WHEREUPON, STATE'S EXHIBIT NO. 155 WAS ADMITTED INTO
7 EVIDENCE.)

8 Q IS THIS AN EMAIL TO FORREST FERRELL?

9 A IT IS. THERE WE HAD A CHECK READY FOR AN INVESTOR IN
10 BERE. NO, WE HAD A CHECK READY FOR A MAN AND TALKED HIM
11 INTO LEAVING IT AND THEN BERE, HAS HAD A RUSH THIS
12 AFTERNOON. THAT MEANS A LOT OF PEOPLE HAD COME IN TO
13 WITHDRAW THEIR MONEY.

14 Q THIS IS REFERRING TO AN INDIVIDUAL THAT YOU ALREADY
15 HAD A CHECK CUT FOR?

16 A RIGHT. WE WERE ABLE TO CONVINCE HIM TO LEAVE IT.

17 Q THE SAME DAY, CAN YOU IDENTIFY THIS?

18 A YES.

19 MS. EVANS: YOUR HONOR, STATE'S 156 INTO EVIDENCE.

20 MR. GRIFFIN: SAME OBJECTION.

21 THE COURT: OVERRULED, SAME OBJECTION, STATE'S 156 IS
22 ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 156 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q AND THIS IS AN EMAIL, THE SAME DAY, SEPTEMBER THE 6TH

1 OF 2002?

2 A YES.

3 Q AND IS THIS KIND OF WHAT YOU ARE TALKING ABOUT, AS IT
4 GOES FROM BIG INVESTORS TO ALMOST HOURLY REPORTS THAT YOU
5 ARE DOING WITH FORREST FERRELL?

6 A YES. AND THERE I AM TELLING HIM, SORRY IT IS RED BUT
7 IT IS MUCH BETTER THAN YESTERDAY.

8 Q AND AGAIN, THESE WERE ALL IN RESPONSE TO THOSE
9 ARTICLES THAT YOU PREVIOUSLY MENTIONED?

10 A YES.

11 Q I AM GOING TO SHOW YOU AN EMAIL DATED SEPTEMBER THE
12 11TH AND A RESPONSE ON SEPTEMBER THE 12TH. CAN YOU
13 IDENTIFY THAT?

14 A YES.

15 MS. EVANS: YOUR HONOR, AT THIS I WOULD LIKE TO MOVE
16 THIS IN AS STATE'S 157.

17 MR. GRIFFIN: DAME OBJECTION.

18 THE COURT: OVERRULED, STATE'S 157 IS ADMITTED.

19 (WHEREUPON, STATE'S EXHIBIT NO. 157 WAS ADMITTED INTO
20 EVIDENCE.)

21 Q MS. OWEN, THESE ARE NOT ALL OF THE EMAILS, ARE THESE
22 JUST A SAMPLE OF SOME OF THE EMAILS?

23 A JUST A SAMPLING OF IT.

24 Q OKAY. YOU ARE DISCUSSING THE BLOCKS, WHAT DID
25 HOMEGOLD TELL YOU TO BE THE CUTOFF DATES FOR THOSE?

1 A IT WAS AT 2:00 O'CLOCK AND THEY EXTENDED IT TO 4:00,
2 SO THAT WE COULD HAVE MORE MONEY GOING INTO THE BANK. AND
3 I WAS TELLING THE GIRLS, THAT IS GOING TO BE THE CUTOFF
4 UNTIL WE LET THEM KNOW OTHERWISE.

5 Q AND YOUR RESPONSE ON THE NEXT DAY, SEPTEMBER 12TH OF
6 2002?

7 A AND SEE THAT IS AT, I AM TELLING THEM TO START THEIR
8 BLOCKS. AS THEY WERE TAKING IN TRANSACTIONS I WAS TELLING
9 THEM TO GET THAT INTO THEIR BLOCK SO THAT I COULD LET
10 FORREST KNOW WHERE WE STOOD BECAUSE HE WOULD BE CALLING ME
11 AT 10:00 O'CLOCK.

12 Q SO, NOT ONLY ARE YOU SENDING HIM THE EMAILS, HE IS
13 ALSO CALLING YOU AT THIS TIME?

14 A IF HE DID NOT HEAR FROM ME HE WOULD CALL ME.

15 Q I AM GOING TO SHOW YOU AN EMAIL THE SAME DATE,
16 SEPTEMBER THE 12TH OF 2002. DO YOU RECOGNIZE THAT?

17 A YES.

18 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
19 MOVE INTO EVIDENCE STATE'S EXHIBIT 158.

20 THE COURT: THE SAME OBJECTION?

21 MR. GRIFFIN: YES, SIR.

22 THE COURT: OVERRULED, STATE'S 158 IS ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 158 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q IS THIS AN EMAIL TO FORREST FERRELL?

1 A YES.

2 Q AND I DRAW YOUR ATTENTION TO THERE, DOING A GOOD JOB,
3 WHAT WERE YOU ASKING FOR?

4 A I WAS ASKING FOR A RAISE FOR ONE OF THE LADIES THERE.
5 I COULDN'T GIVE A RAISE ON MY OWN, I HAD TO GO TO FORREST
6 TO GET THAT APPROVED.

7 Q AND WHAT YOU ALL WERE PAID AT CAROLINA INVESTORS, WHO
8 MADE THOSE DECISIONS?

9 A MR. OWEN HAD SOME DISCRETION ON IT BUT IT WAS
10 ULTIMATELY APPROVED BY HOMEGOLD. WE WERE CONTROLLED BY
11 HOMEGOLD.

12 Q THIS IS SEPTEMBER THE 16TH OF 2002. CAN YOU IDENTIFY
13 THAT?

14 A YES.

15 MS. EVANS: YOUR HONOR, WE WOULD LIKE TO MOVE IN
16 STATE'S EXHIBIT 159.

17 MR. GRIFFIN: SAME OBJECTION.

18 THE COURT: OVERRULED, STATE'S 159 IS ADMITTED.

19 (WHEREUPON, STATE'S EXHIBIT NO. 159 WAS ADMITTED INTO
20 EVIDENCE.)

21 Q THERE ARE STILL SEVERAL EMAILS BETWEEN THIS ONE AND
22 THAT ONE. CAN YOU TELL THE JURY WHAT THIS ONE IS ABOUT?

23 A THIS APPLIES TO WHAT I THOUGHT, I THOUGHT WAS PEOPLE
24 COMING UP WITH ALL KINDS OF TALES TO WHY THEY WERE TAKING
25 OUT MONEY. AND THAT IS WHAT WE THOUGHT, ONE PERSON WENT

1 INTO THE BEREA OFFICE AND CLOSED OUT TO BUY A PEANUT FARM,
2 THAT IS WHAT THEY SAID.

3 Q OKAY. AND SO THEY ARE NOT JUST KEEPING UP DAILY,
4 THEY ARE KEEPING UP WITH INVESTORS--

5 A WHY PEOPLE WERE TAKING THEIR MONEY OUT.

6 Q AND THIS ONE, SEPTEMBER 17TH OF 2002. CAN YOU
7 IDENTIFY THAT?

8 A YES.

9 MS. EVANS: YOUR HONOR, WE WOULD LIKE TO MOVE THIS IN
10 AS STATE'S EXHIBIT 160.

11 MR. GRIFFIN: SAME OBJECTION.

12 THE COURT: OVERRULED, STATE'S 160 IS ADMITTED.

13 (WHEREUPON, STATE'S EXHIBIT NO. 160 WAS ADMITTED INTO
14 EVIDENCE.)

15 Q CAN YOU PLEASE TELL THE JURY WHAT THAT SAYS?

16 A FORREST, \$178 THOUSAND DOLLARS OF BEREA'S REDEMPTIONS
17 WAS ONE MAN WHO SAID HIS SON WAS HAVING FINANCIAL
18 DIFFICULTY.

19 Q IS THAT JUST ANOTHER EXAMPLE OF INDIVIDUAL INVESTORS?

20 A YES.

21 Q I AM WANT TO SHOW YOU AN EMAIL DATED SEPTEMBER 23RD
22 OF 2002. CAN YOU IDENTIFY THAT?

23 A YES.

24 MS. EVANS: YOUR HONOR, WE WOULD LIKE TO MOVE THIS IN
25 AS STATE'S EXHIBIT 161.

1 MR. GRIFFIN: SAME OBJECTION.

2 THE COURT: OVERRULED, STATE'S 161 IS ADMITTEE.

3 (WHEREUPON, STATE'S EXHIBIT NO. 161 WAS ADMITTED INTO
4 EVIDENCE.)

5 Q WHO IS THIS TO?

6 A THIS IS TO FORREST FERRELL AND IT IS DATED SEPTEMBER
7 THE 23RD AND I AM TELLING HIM THAT THIS IS ONE DAY, ONE
8 MONTH FROM THE DAY THAT FIRST ARTICLE HIT AND WE LOST \$744
9 THOUSAND DOLLARS PLUS IN PICKENS AND \$1,033,000.00 IN
10 EASLEY.

11 Q AND GO UP, WHAT DO YOU SAY?

12 A LATEST RUMOR AND THIS IS THE RUMOR, IF YOU HAVE MONEY
13 IN CAROLINA INVESTORS YOU BETTER GET IT OUT, THEY WILL BE
14 BANKRUPT IN TWO WEEKS. AND, SEE, I THOUGHT THAT WAS A
15 RUMOR, I DIDN'T KNOW THAT WAS COMING TO PASS.

16 Q WHAT DID YOU SAY TO MR. FERRELL?

17 A I SAID, FORREST, SHOULD I TAKE OUT MY \$36 THOUSAND
18 DOLLARS.

19 Q AND WHAT ARE YOU TALKING ABOUT WHEN YOU SAY YOUR \$36
20 THOUSAND DOLLARS?

21 A I HAD, WHEN CAROLINA INVESTORS CLOSED I HAD ALMOST
22 \$47 THOUSAND DOLLARS INVESTED IN THE COMPANY WHICH I LOST.
23 I DIDN'T EVEN GET MY .18 CENTS ON THE DOLLAR LIKE THE
24 AVERAGE INVESTOR GOT. BUT THERE I AM ASKING HIM, PEOPLE
25 ARE SAYING WE ARE GOING TO BE BANKRUPT, SHOULD I GET MY

1 MONEY OUT.

2 Q DID YOU HAVE ANY IDEA THAT THIS TIME THAT HOMEGOLD
3 WAS CONSULTING WITH BANKRUPTCY COUNSEL?

4 A NO, I DID NOT.

5 Q AND HOW MUCH DID YOU LOSE WHEN THEY SHUT THE DOOR?

6 A RIGHT AT \$47 THOUSAND DOLLARS.

7 Q WHY DID IT INCREASE FROM THE \$36 FROM THIS EMAIL?

8 A I PUT THAT IN THERE AND THEN I HAD A SON WHO GOT
9 MARRIED ON JUNE THE 14TH, THREE MONTHS AFTER WE CLOSED.
10 AND WAS PUTTING MONEY INTO AN ACCOUNT FOR HIS WEDDING.
11 AND HE LOST THAT, HE DIDN'T GET HIS .18 CENTS ON THE
12 DOLLAR BECAUSE IT WAS IN MY NAME.

13 Q AND WHAT IS FORREST FERRELL'S RESPONSE?

14 A IT LOOKS LIKE OUR NORMAL MONDAY.

15 Q AND DID YOU KEEP YOUR MONEY?

16 A I LOST THAT PLUS ELEVEN THOUSAND SHARES OF WORTHLESS
17 HOMEGOLD STOCK.

18 Q I AM GOING TO SHOW YOU ONE THAT IS DATED OCTOBER THE
19 1ST OF 2002. CAN YOU IDENTIFY THAT?

20 A YES.

21 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE THIS IN
22 AS STATE'S 162.

23 MR. GRIFFIN: SAME OBJECTION.

24 THE COURT: OVERRULED, STATE'S 162 IS ADMITTED.

25

1 (WHEREUPON, STATE'S EXHIBIT NO. 162 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q AND, AGAIN, WHAT IS THE DATE OF THAT EMAIL?

4 A THAT ONE IS DATED OCTOBER THE 1ST OF 2002.

5 Q AND WHO IS IT TOO?

6 A IT IS TO FORREST AND I AM TELLING HIM, WHAT A GREAT
7 MONDAY, LARRY, MY HUSBAND GOT A PHONE CALL FROM OUR SECOND
8 LARGEST INVESTOR AND HIS FRIEND'S BANKER TOLD HIM THAT
9 HOMEGOLD HAD ALREADY FILED BANKRUPTCY. BUT HE WAS OKAY
10 AFTER LARRY TALKED TO HIM. AND I SAID, IT AMAZES ME WHERE
11 PEOPLE GET THEIR INFORMATION. I BELIEVED THAT ALL OF THIS
12 WAS RUMOR.

13 Q AND ANOTHER ONE, GOING INTO OCTOBER, DID THIS
14 CONTINUE, OCTOBER 2ND, OF 2002.

15 A YES.

16 MS. EVANS: YOUR HONOR, MOVE THIS IN AS STATE'S
17 EXHIBIT NUMBER 163.

18 MR. GRIFFIN: SAME OBJECTION.

19 THE COURT: OVERRULED, STATE'S 163 IS ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 163 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q WOULD YOU PLEASE TELL THE JURY WHAT YOU TELL MR.
23 FERRELL IN THIS ONE?

24 A FORREST, THIS IS WHERE WE ARE AND I REMEMBER TALKING
25 TO THIS MAN. HE WAS PULLING \$800 THOUSAND DOLLARS AND

1 LARRY WAS TALKING TO HIM AT THAT TIME. AND I TALKED TO
2 HIM, EXPLAINING TO HIM AND I REMEMBER THIS VIVIDLY. IN
3 OUR PROSPECTUS THERE WAS A PORTION THAT SPOKE OF THE
4 VALUATION, THE APPRAISALS OF THAT MORTGAGE DIVISION. AND
5 I WAS TELLING HIM THAT AND I WAS TELLING HIM WHAT I WAS
6 BEING TOLD FROM HOMEGOLD OFFICIALS, FORREST AND KAREN
7 MILLER. EVERYTHING IS GOING TO BE ALL RIGHT.

8 Q AND YOU WERE RELAYING THAT TO THE INVESTORS?

9 A I WAS RELAYING TO THAT INVESTOR. AND I REMEMBER HIS
10 NAME.

11 Q AND WHAT WAS HIS NAME?

12 A MR. CHILDERS.

13 Q AND IT WAS RELAYED TO YOU AND YOU ARE RELAYING IT
14 BACK TO HOMEGOLD?

15 A YES.

16 Q ARE YOU TALKING ABOUT ANOTHER INDIVIDUAL INVESTOR.
17 CAN YOU IDENTIFY THAT?

18 A YES.

19 MS. EVANS: YOUR HONOR AT THIS TIME I WOULD LIKE TO
20 MOVE THIS INTO EVIDENCE AS STATE'S EXHIBIT NUMBER 164.

21 MR. GRIFFIN: SAME OBJECTION.

22 THE COURT: OVERRULED, STATE'S 164 IS ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 164 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q AND WITHOUT GOING INTO GREAT DETAIL, ARE YOU RELAYING

1 TO MR. FERRELL WHAT IS GOING ON AT CAROLINA INVESTORS?

2 A RIGHT, THIS WAS AT THE BEREA, A CUSTOMER HAD AN IRA,
3 \$211 THOUSAND DOLLARS. AND HIS SON WAS ADVISING HIM TO
4 TAKE IT OUT. AND HE HAS IN THERE, YOU WANT ME TO READ
5 THAT?

6 Q YES.

7 A AND HIS REASON WAS, THE SAME PEOPLE THAT BROUGHT DATA
8 STREAM DOWN IS GOING TO DO THE SAME TO HOMEGOLD. AND I
9 PUT, WHATEVER, BECAUSE I THERE AGAIN, I BELIEVED IN, THERE
10 THE PERSON, THE PERSON THEY ARE REFERENCING THERE IS JACK
11 STERLING AND I BELIEVED IN MR. STERLING. I BELIEVED HE
12 WAS GOING TO--

13 Q DID JACK STERLING OWN DATA STREAM?

14 A HE WAS PART OF DATA STREAM, THAT IS WHO THEY WERE
15 REFERRING TO.

16 Q I AM GOING TO SHOW YOU AN EMAIL DATED OCTOBER THE
17 10TH. CAN YOU IDENTIFY THIS?

18 A YES.

19 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE INTO
20 EVIDENCE AS STATE'S EXHIBIT 165.

21 MR. GRIFFIN: SAME OBJECTION.

22 THE COURT: OVERRULED, STATE'S 165 IS ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 165 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q MS. OWEN, TELL THE JURY, WHAT IS THE SUBJECT OF THIS.

1 A THERE WE HAD AN INVESTOR TELL US, WELL, I AM SAYING
2 THERE IT IS BAD ENOUGH THAT WE HAVE TO FIGHT HOMEGOLD
3 RUMORS NOW. AND I HAVE GOT QUOTES BECAUSE THIS IS WHAT
4 THE PERSON SAID. "RONNIE HAS MOVED ALL OF HIS MONEY TO A
5 SWISS BANK ACCOUNT." THIS WAS TOLD TO ONE OF MY INVESTORS
6 BY A CURRENT GREENVILLE HOMEGOLD EMPLOYEE. WHAT I AM
7 REFERRING TO THERE IS IT IS BAD ENOUGH THAT WE HAVE TO
8 FIGHT RUMORS BUT THEN, YOU KNOW, WHERE IS THIS COMING
9 FROM.

10 Q AND WHAT IS FORREST FERRELL'S RESPONSE?

11 A BY CHANCE CAN WE FIND OUT WHO SAID IT. AND I PUT,
12 ALL I KNOW IS SHE LIVES IN PICKENS. THERE WAS SOMETHING
13 ELSE TO THAT.

14 Q OKAY.

15 A HE TOLD ME HE WAS STILL THERE, I CAN ASSURE YOU--

16 Q I THINK THERE IS ANOTHER EMAIL, I AM TRYING TO GO
17 THROUGH THIS QUICKLY. I AM GOING TO SHOW YOU AN EMAIL
18 GOING INTO NOVEMBER. CAN YOU IDENTIFY THAT?

19 A YES.

20 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN
21 STATE'S EXHIBIT NUMBER 166.

22 MR. GRIFFIN: SAME OBJECTION.

23 THE COURT: OVERRULED, STATE'S 166 IS ADMITTED.

24 (WHEREUPON, STATE'S EXHIBIT NO. 166 WAS ADMITTED INTO
25 EVIDENCE.)

1 Q GOING INTO NOVEMBER, WHAT IS THE DATE OF THIS ONE?

2 A THAT ONE IS DATED NOVEMBER THE 1ST OF 2002.

3 Q AND WHAT ARE YOU TELLING THEM?

4 A THERE I AM TELLING HIM THAT WE ARE LOSING A LARGE,
5 THIS WAS AN IRA AND THE PERSON LIVED IN WEST COLUMBIA AND
6 IT WAS \$332 THOUSAND DOLLARS. AND I WAS TELLING HIM, IF
7 WE COULD GET SOME GOOD NEWS FROM THEM THAT WE MIGHT COULD
8 CONVINCE THIS PERSON TO HANG ON.

9 Q AND AT THIS POINT WERE YOU UNDER THE IMPRESSION THAT
10 THERE WAS A SALE TO A CALIFORNIA BANK?

11 A YES.

12 Q I WILL SHOW YOU NOVEMBER 6TH OF 2002. IS THIS THE
13 EMAIL YOU WERE PREVIOUSLY REFERRING TO?

14 A YES.

15 Q CAN YOU IDENTIFY THAT?

16 A YES.

17 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN
18 STATE'S EXHIBIT NUMBER 167.

19 MR. GRIFFIN: SAME OBJECTION.

20 THE COURT: OVERRULED, STATE'S 167 IS ADMITTED.

21 (WHEREUPON, STATE'S EXHIBIT NO. 167 WAS ADMITTED INTO
22 EVIDENCE.)

23 Q AND PLEASE TELL THE JURY WHAT THIS IS ABOUT, THIS ONE
24 YOU WERE REFERRING TO EARLIER, THE FOLLOW-UP?

25 A THIS SAYS, THE LATEST IS, THE CEO WHICH WAS MR.

1 SHEPPARD HAS RESIGNED. THIS WAS TOLD TO A LARGE INVESTOR
2 BY HIS CPA. AND THEN FORREST REPLIES, WELL, I CAN ATTEST
3 THAT RJS, THAT IS RONALD J. SHEPPARD IS STILL HERE. STILL
4 ALL IN ALL THAT ONE IS NOT AS WILD AS SOME OF THEM. NOW,
5 THE DAY IS YOUNG, THE SUN HAS FINALLY CAME OUT AND IT IS
6 GOING TO BE A GREAT DAY. FORREST.

7 Q AND WHAT DO YOU DO THEN?

8 A TANYA, THIS SHOULD ANSWER MR. CAPPS' QUESTION, THAT
9 WAS THE INVESTOR THAT WAS TOLD THAT BY HIS CPA.

10 Q YOU ARE SENDING DOWN TO HOMEGOLD?

11 A I AM TRYING TO GET INFORMATION FROM THEM.

12 Q AND I AM GOING TO SHOW YOU AN EMAIL JUST A FEW DAYS
13 LATER, CAN YOU IDENTIFY THIS.

14 A YES.

15 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN
16 STATE'S EXHIBIT NUMBER 168.

17 MR. GRIFFIN: SAME OBJECTION.

18 THE COURT: OVERRULED, STATE'S 168 IS ADMITTED.

19 (WHEREUPON, STATE'S EXHIBIT NO. 168 WAS ADMITTED INTO
20 EVIDENCE.)

21 Q AND FOLLOWING UP ON THAT RUMOR DID YOU GET A
22 SUBSEQUENT EMAIL FROM, WHAT IS THIS EMAIL ABOUT?

23 A THAT ONE IS DATED NOVEMBER THE 20TH AND THAT WOULD BE
24 AFTER MR. SHEPPARD HAD FORMED EMMCO AND I WAS JUST, YOU
25 KNOW, LETTING THEM KNOW THAT RONNIE WOULD NO LONGER HAVE

1 ANYTHING TO DO WITH HOMEGOLD, EXCEPT MAKE EMMCO FLY AND
2 PAY US BACK, I THOUGHT.

3 Q AND EVEN AFTER THIS AND I AM ALMOST DONE, I AM GOING
4 TO SHOW YOU AN EMAIL 12/20/2002. CAN YOU IDENTIFY THAT.

5 A YES.

6 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN
7 STATE'S EXHIBIT NUMBER 169.

8 MR. GRIFFIN: SAME OBJECTION.

9 THE COURT: OVERRULED, STATE'S 169 IS ADMITTED.
10 (WHEREUPON, STATE'S EXHIBIT NO. 169 WAS ADMITTED INTO
11 EVIDENCE.)

12 Q AND DO THOSE EMAILS CONTINUE THROUGH 2002?

13 A YES.

14 Q AND THE SAME WITH FORREST FERRELL?

15 A RIGHT.

16 Q AND THESE ARE ABOUT SPECIFIC INDIVIDUALS?

17 A YES.

18 Q I AM GOING TO SHOW YOU DECEMBER 27TH OF 2002, CAN YOU
19 IDENTIFY THAT?

20 A YES.

21 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN
22 STATE'S EXHIBIT NUMBER 170.

23 MR. GRIFFIN: SAME OBJECTION.

24 THE COURT: OVERRULED, STATE'S 170 IS ADMITTED.
25

1 (WHEREUPON, STATE'S EXHIBIT NO. 170 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q AND THIS WILL BE THE LAST ONE, WE COULD BE HERE ALL
4 DAY GOING THROUGH THE EMAILS THAT YOU SENT TO HIM.

5 A YES.

6 Q WHAT IS THE DATE OF THAT?

7 A DECEMBER THE 27TH OF 2002 AND I AM JUST ASKING
8 FORREST TO TAKE A LOOK AT WHAT THE STAFF MADE PER HOUR
9 COMPARED TO WHAT WAS BEING PAID AT HOMEGOLD. AND THEN
10 THEY ARE BUSTING THEIR BUTTS TO GET MONEY AND THEN THEY
11 ARE BUSTING TO HOLD ON TO THE MONEY AND THEN, WHAT THEY
12 DID THEY CAME IN AND STOPPED PAYING ANY PORTION OF THE
13 EMPLOYEES INSURANCE. SO, THESE LADIES WERE HAVING TO GO
14 OUT AND PROVIDE FOR THEIR OWN INSURANCE AND I WAS JUST
15 ASKING HIM TO TAKE A LOOK AT IT AND SEE IF THERE WAS
16 ANYTHING THAT HE COULD DO TO OFFSET SOME OF THIS EXPENSE
17 THAT THE GIRLS WERE HAVING TO DO.

18 Q AND AT THIS POINT, IT IS PUBLICLY REPORTED OF WHAT
19 SOME OF THE SALARIES WERE AT HOMEGOLD?

20 A I KNEW WHAT THEY WERE AND THE GIRLS KNEW A LOT OF IT
21 BECAUSE PEOPLE WOULD TELL THEM WHAT THEY MAKE.

22 Q THAT IS JUST A SAMPLE OF WHAT HAPPENED AFTER THOSE
23 NEWSPAPER ARTICLES OCCURRED, THERE ARE SEVERAL OTHERS,
24 TALKING ABOUT OTHER INVESTORS?

25 A YES.

1 Q MS. OWEN, TAKE ME NOW TO, YOU READ THE EMAIL THAT HE
2 WAS RESIGNING, DO YOU REMEMBER THE DATE OF THE EMMCO
3 TRANSACTION WAS FINALIZED?

4 A NO, I DON'T, NOT EXACTLY.

5 Q LET'S GO INTO 2003. SAME THING, IS THAT STILL GOING
6 ON IN 2003?

7 A YES.

8 Q CAN YOU TELL THE JURORS ABOUT MARCH 21ST OF 2003?

9 A THAT MORNING KAREN MILLER CALLED AND SAID THAT WE HAD
10 \$80 THOUSAND DOLLARS TO WORK WITH. AND PRIOR TO THAT WE
11 WERE TOLD THAT THERE WERE SOME FUNDS COMING IN FROM
12 DIFFERENT AREAS. SO, THAT MORNING SHE SAID WE HAD \$80
13 THOUSAND DOLLARS TO WORK WITH. AND I, YOU KNOW, I THOUGHT
14 THAT AS LONG AS MONEY WAS COMING IN THAT THEY HAD MONEY,
15 AT THE END OF THAT DAY. I GUESS IS WHAT I AM TRYING TO
16 SAY HERE, IS I HAD NO IDEA.

17 Q WHAT HAPPENED ON MARCH 21ST?

18 A ON MARCH 21ST AT 2:00 OR 3:00 THEY CALLED AND TOLD,
19 FORREST AND KAREN CALLED AND SAID THEY HAD NO MORE MONEY.
20 NO MORE FUNDS FOR CAROLINA INVESTORS AND WE CALLED THE
21 STAFF AT EACH OFFICE AND TOLD THEM TO LOCK THEIR DOORS,
22 CLOSE THEIR DOORS AND SAY THAT WE WERE HAVING A STAFF
23 MEETING AND THAT WE WOULD BE IN CONTACT WITH THEM AS SOON
24 AS WE KNEW WHAT WAS GOING ON.

25 Q WHAT WAS IN YOUR MIND THAT DAY?

1 A IT WAS HORRIBLE, IT WAS HORRIBLE. MR. OWEN CAME DOWN
2 STAIRS AND SAID, ANNIE, THEY DROPPED THIS WHOLE THING IN
3 MY LAP AND I DON'T KNOW WHAT TO DO. AND I WENT UPSTAIRS
4 AND MR. SHARPE AND MR. BOBO, TWO OTHER BOARD MEMBERS WAS
5 IN HIS OFFICE AND MY HUSBAND WAS CRYING. AND HE LITERALLY
6 DID NOT KNOW WHAT TO DO. WE HAD TO CALL THE BEREA OFFICE,
7 LARRY DID, AND TELL THEM ABOUT THE CALL. AND HE ASKED
8 THEM TO NOT SAY ANYTHING UNTIL HE COULD TALK TO SOMEONE TO
9 FIND OUT WHAT HE WAS SUPPOSE TO DO. THEN WE CALLED THE
10 ANDERSON OFFICE AND THEN I WENT DOWNSTAIRS AND HAD TO TELL
11 THE GIRLS DOWNSTAIRS.

12 Q WHAT WAS THAT DAY LIKE FOR YOU?

13 A IT WAS HELL, LIKE HELL.

14 Q YOU PREVIOUSLY STATED THAT YOU PLEAD GUILTY TO EIGHT
15 COUNTS, THAT EIGHT INDIVIDUAL COUNTS?

16 A JUST EIGHT COUNTS TO LIEING TO INVESTORS BY ACTS OF
17 COMMISSION OR OMISSION AND IN MY MIND, MY ACTS WERE ACTS
18 OF OMISSION. I FAILED TO TELL THOSE PEOPLE EVERYTHING, I
19 GUESS I COULD OF TOLD THEM THAT I HAD DOUBTS. BUT I FELT
20 LIKE IF I TOLD THE FIRST PERSON, YOU KNOW, MR. CHILDERS OR
21 MR. SO AND SO, I HAVE DOUBTS. BUT I HAVE TO BELIEVE THESE
22 PEOPLE OR, THESE ARE BUSINESSMEN WITH DEGREES HANGING OFF
23 OF THEM THAT I DIDN'T HAVE. THESE ARE PEOPLE THAT I HAVE
24 LOOKED UP TO, THE PEOPLE THAT HAVE RUN THAT COMPANY. AND
25 I THOUGHT, YOU KNOW, I THOUGHT THEY WERE TELLING ME THE

1 TRUTH. I UNDERSTAND HOW THESE INVESTORS FEEL, THEY WERE
2 LIED TO, I WAS LIED TO. I LEFT \$47 THOUSAND DOLLARS IN
3 THAT COMPANY AND I HAVE PREVIOUSLY STATED I LOST 11
4 THOUSAND SHARES OF HOMEGOLD STOCK. I LOST MY JOB, I LOST
5 MY LIFE INSURANCE, I LOST MY HEALTH INSURANCE, I LOST MY
6 HOME. FOR TWO YEARS I LIVED WITH MY OLDEST SON AND HIS
7 FAMILY, I JUST NOW HAVE GOTTEN AN APARTMENT--

8 MR. GRIFFIN: YOUR HONOR,--

9 THE COURT: WAIT JUST A MINUTE.

10 MR. GRIFFIN: OBJECTION.

11 THE COURT: SUSTAINED.

12 Q MS. OWEN, MOVING ON, YOU SAID YOU PLEAD GUILTY, WERE
13 YOU SENTENCED BY THE COURT?

14 A YES, I WAS.

15 Q WAS THERE ANY DEAL BY THE STATE?

16 A THERE WAS NO DEAL.

17 Q WHAT WAS YOUR SENTENCE?

18 A I WAS SENTENCED TO 10 YEARS, SUSPENDED TO 5 YEARS OF
19 PROBATION, 90 DAYS IN THE GREENVILLE COUNTY DETENTION
20 CENTER AND 18 MONTHS OF HOME INCARCERATION.

21 Q ARE YOU STILL CURRENTLY--

22 A I AM ON HOME INCARCERATION.

23 Q DID YOU RECEIVE PERMISSION TO COME HERE TODAY?

24 A I DID. I CAN GO TO WORK, I WORK NOW. I CAN GO TO
25 CHURCH AND I GET TO GO TO THE GROCERY STORE.

1 Q AND AFTER THAT 18 MONTHS HOUSE ARREST, ARE YOU STILL
2 ON PROBATION?

3 A I WILL BE ON PROBATION UNTIL 2011.

4 Q AND WITH THAT PROBATION DO YOU HAVE TO WEAR
5 SOMETHING?

6 A AFTER THE 18 MONTHS IS UP I WILL NOT, I HAVE
7 COMPLETED 8 MONTHS OF WEARING AN ANKLE BRACELET.

8 Q IN FACT, YOU WEAR IT AT ALL TIMES?

9 A YES, THEY KNOW WHEN I GET 150 FEET AWAY FROM A BOX.

10 Q AND THEY KNOW YOU ARE HERE TODAY?

11 A YES, I HAD TO GET PERMISSION TO COME.

12 Q I DON'T HAVE ANY FURTHER QUESTIONS.

13 THE COURT: ALL RIGHT, MR. GRIFFIN.

14 CROSS-EXAMINATION

15 BY MR. GRIFFIN:

16 Q MS. OWEN, YOU BEGAN WORKING AT CAROLINA INVESTORS IN
17 1991?

18 A YES.

19 Q AND I THINK YOU TESTIFIED THE DAILY OPERATIONS DIDN'T
20 REALLY CHANGE ALL THE WAY THROUGH THE END?

21 A THEY CHANGED IN 1995 WHEN THEY MOVED EVERYTHING TO
22 GREENVILLE.

23 Q AND YOU, UP UNTIL 2000 YOU REPORTED OR YOUR HUSBAND
24 REPORTED TO MR. GIVENS, IS THAT CORRECT?

25 A UNTIL 2000, YES.

1 Q AND EVEN BACK BEFORE 2000 WHO HAD A LARGE INVESTMENT
2 CAME IN TO WITHDRAW THE MONEY, THAT INFORMATION WAS
3 REPORTED BACK TO HOMEGOLD TO EITHER MR. MAST OR TO MR.
4 GIDDENS?

5 A THE CHIEF FINANCIAL OFFICER, YES, WHICH WAS MR. MAST.

6 Q AND SO THAT HAPPENED WELL BEFORE 2000?

7 A YES.

8 Q AND IT CONTINUED AND YOU WENT THROUGH THESE EMAILS
9 AFTER 2000, CORRECT?

10 A IT WAS FREQUENT.

11 Q IT GOT PRETTY FREQUENT IN 1988, DOES IT NOT, 1998?

12 A NOT LIKE WE WERE DOING TO FORREST, NO.

13 Q THE WITHDRAWALS GOT FREQUENT IN 1998 WHEN HOMEGOLD
14 LOST ALMOST \$100 MILLION?

15 A THERE WAS A BRIEF PERIOD, YES, IN 1998 WHERE WE HAD
16 MAJOR LOSSES, YES.

17 Q AND DURING THAT BRIEF PERIOD OF MAJOR LOSSES, YOU ARE
18 REPORTING DAILY BACK TO MR. MAST?

19 A I WASN'T, NO. IF I HAD A LARGE, LIKE \$100 THOUSAND
20 DOLLARS OR MORE I HAD TO, BUT EVEN DURING THAT PERIOD IF
21 WE HAD JANE DOE COME IN AND TAKE OUT \$20 THOUSAND DOLLARS,
22 NO, I DIDN'T HAVE TO REPORT LIKE I WAS REPORTING IT TO MR.
23 FERRELL, NO.

24 Q AND THEN GOING FURTHER IN THE YEAR OF 2000, THERE WAS
25 A MERGER WITH MR. SHEPPARD'S COMPANY, DO YOU RECALL THAT?

1 A HOMESENSE, YES.

2 Q AND AT THAT POINT, I BELIEVE YOUR HUSBAND WAS OFFERED
3 ANOTHER JOB?

4 A YES.

5 Q WITH ANOTHER INVESTMENT GROUP, CORRECT?

6 A YES.

7 Q THE THAXTON GROUP?

8 A RIGHT.

9 Q AND HE SAT DOWN AND HE DIDN'T TALK TO MR. SHEPPARD
10 ABOUT THAT OPPORTUNITY, DID HE, HE SPOKE WITH MR.
11 STERLING?

12 A THAT IS MY RECOLLECTION, YES.

13 Q AND THEN WHEN THE GOING CONCERN LANGUAGE CAME OUT IN
14 THE PROSPECTUS AND THERE WAS A MEETING AT THE WYCHE FIRM
15 FOLLOWING UP THOSE MEETINGS AT CAROLINA INVESTORS, THERE
16 WAS MR. STERLING THERE TOO?

17 A YES.

18 Q AND IT WAS MR. KEVIN MARTIN WHO ATTENDED THAT
19 MEETING, CORRECT?

20 A YES.

21 Q AND MR. KEVIN MARTIN WAS THEN THE CFO OF HOMEGOLD?

22 A YES.

23 Q AND IT WAS AT THAT MEETING WHERE AN INTERNAL MEMO
24 THAT HAS BEEN MARKED FOR IDENTIFICATION PURPOSES, NOT YET
25 PUT INTO EVIDENCE, WAS CIRCULATED TO ALL THE EMPLOYEES AS

1 WELL AS MR. MARTIN AND MR. STERLING?

2 A YES.

3 Q AND DURING THAT MEETING MR. MARTIN DIDN'T SAY
4 ANYTHING NEGATIVE ABOUT THAT INTERNAL MEMO, DID HE?

5 A NO, HE DID NOT.

6 Q AND HE DIDN'T SUGGEST THAT THE INFORMATION IN THAT
7 INTERNAL MEMO WAS ANYTHING OTHER THAN ACCURATE, CORRECT?

8 A THAT'S RIGHT.

9 Q AND THE SAME GOES WITH MR. STERLING, HE DIDN'T
10 SUGGEST THAT ANYTHING IN THAT MEMO WAS INACCURATE OR
11 MISLEADING?

12 A NO, HE DID NOT.

13 Q AND I BELIEVE MR. BOBO WAS AT THAT MEETING?

14 A MR. BOBO WAS, MR. SHARPE WASN'T.

15 Q AND THE EMPLOYEES OF THE DIFFERENT OFFICES WERE THERE
16 IN ATTENDANCE AS WELL?

17 A YES.

18 Q AND AT THAT MEETING THE EMPLOYEES AND YOURSELF WERE
19 DIRECTED TO A SPECIFIC PAGE IN THE PROSPECTUS TO
20 UNDERSTAND AND TO READ AND TO BE ABLE TO POINT INVESTORS
21 TO THAT PAGE?

22 A RIGHT.

23 Q AND SO THAT IF AN INVESTOR CAME IN AND HAD A QUESTION
24 ABOUT THE GOING CONCERN OR ANYTHING THAT THEY HAD HEARD
25 THAT THE EMPLOYEES WERE DIRECTED TO READ THE PROSPECTUS

1 WITH THE INVESTOR?

2 A RIGHT.

3 Q AND YOU RECALL PAGE F11 SITTING HERE TODAY?

4 A YES.

5 Q WHAT FOUR YEARS LATER?

6 A YES.

7 Q AND DID YOU DO THAT WITH THESE INVESTORS?

8 A YES.

9 Q AND WHEN YOU WOULD MEET WITH THE INVESTORS YOU NEVER
10 TOLD A SINGLE INVESTOR THAT YOUR MONEY IS GUARANTEED, DID
11 YOU?

12 A NO, I DID NOT.

13 Q AND YOU TOLD EVERY SINGLE INVESTOR THAT YOUR MONEY
14 WAS NOT INSURED?

15 A WE TOLD EVERY INVESTOR THAT IT WAS NOT FEDERALLY
16 INSURED, NO INSURANCE.

17 Q AND THE, NOW AT A POINT AND TIME BEFORE 2000 THESE
18 PROSPECTUS, THE LEGAL DOCUMENT THAT YOU ARE GOING OVER,
19 WASN'T IT SYSTEMATICALLY PROVIDED TO EVERY CUSTOMER AT
20 CAROLINA INVESTORS?

21 A WE WERE TOLD TO GIVE EVERY INVESTOR A PROSPECTUS. A
22 LOT OF INVESTORS SAID, I DON'T WANT THAT, I DON'T WANT IT.
23 SO, WE DIDN'T GIVE THEM ONE OR WE DIDN'T FORCE THEM TO
24 TAKE ONE. BUT TOWARD THE END WE MADE THEM TAKE ON.

25 Q AND THAT STARTED AROUND 2000, DID IT NOT, WHEN MR.

1 GAFFNEY CAME ON BOARD?

2 A I AM THINKING IT WAS IN 2001.

3 Q AND THAT WAS SPEARHEADED BY MR. GAFFNEY?

4 A AND CARY HALL WITH THE WYCHE LAW FIRM. IT WAS MY
5 UNDERSTANDING THAT IT WAS CARY HALL AND DAVID GAFFNEY WAS
6 WORKING WITH HIM.

7 Q AND THERE WAS A PROCEDURE IN PLACE TO INSURE THAT
8 EVERY INVESTOR GOT A PROSPECTUS?

9 A YES.

10 Q AND EVERY POTENTIAL INVESTOR GOT A PROSPECTUS?

11 A YES.

12 Q AND THERE WAS A LOT OF CARDS KEPT FOR EACH INVESTOR
13 AND IT WAS CHECKED OFF BY THE EMPLOYEE TO VERIFY THAT
14 INVESTOR RECEIVED THE PROSPECTUS, CORRECT?

15 A THAT'S CORRECT.

16 Q YOU KNOW THAT MR. GAFFNEY CAME OVER TO HOMEGOLD, AS
17 LEGAL COUNSEL, FROM HOMESENSE?

18 A I DIDN'T KNOW THAT.

19 Q THE, NOW YOU DID PLEAD GUILTY TO A NUMBER OF
20 SECURITIES FRAUD CHARGES, CORRECT?

21 A I PLEAD GUILTY TO LIEING TO INVESTORS EITHER BY ACTS
22 OF COMMISSION OR OMISSION AND I COULDN'T SEPARATE THEM.

23 Q BUT INTENTIONALLY MISLEADING INVESTORS?

24 A NO, I DID INTENTIONALLY, THAT IS WHAT I JUST SAID. I
25 DIDN'T KNOW THAT I WAS MISLEADING INVESTORS. I THOUGHT

1 THAT COMPANY WAS SAFE AND BY TELLING THEM, I WASN'T
2 SUPPOSE TO DO THAT. I THOUGHT IT WAS, I WOULDN'T OF LEFT
3 \$47 THOUSAND DOLLARS OF MY OWN MONEY IN THAT COMPANY IF I
4 THOUGHT FOR ONE MINUTE THAT IT WASN'T SAFE. BUT I
5 SHOULDN'T OF TOLD PEOPLE THAT.

6 Q YOU WERE TELLING THEM THAT THIS WAS A SAFE
7 INVESTMENT?

8 A YES.

9 Q AND THE PROSPECTUS ON THE FACE CLEARLY IDENTIFIES AS
10 IT BEING A RISKY INVESTMENT?

11 A YES AND I ALSO WENT, I WENT THROUGH THAT TOO. BUT I
12 MEAN I WENT THROUGH THAT PROSPECTUS WHEN I TALKED TO AN
13 INVESTOR. I SPECIFICALLY WENT THROUGH THOSE RISK FACTORS
14 AND I ALSO BROUGHT OUT THAT ABOUT THOSE VALUATIONS. THEY
15 WOULD ASK ME, DO YOU BELIEVE, YOU FELT LIKE THIS IS OKAY.
16 AND I SAID, YES, I HAVE GOT MY OWN MONEY IN HERE, MY
17 MOTHER HAS HER MONEY IN HERE, I HAVE RELATIVES WHO HAVE
18 MONEY IN HERE, I THOUGHT IT WAS SAFE.

19 Q AND TO THIS DAY, HAVING PLEAD GUILTY, YOU DON'T
20 BELIEVE YOU WERE INTENTIONALLY MISLEADING THEM?

21 A NO, I WAS NOT INTENTIONALLY MISLEADING ANYONE. I
22 PASSED LIES THAT WERE TOLD TO ME ON DOWN TO THE INVESTOR.

23 Q THE AND YOU ONLY MET MR. SHEPPARD ONE TIME?

24 A ONE TIME.

25 Q AND WE WENT THROUGH--

1 A I SAW HIM ONE OTHER TIME BUT I SPOKE TO HIM ONE TIME.

2 Q WENT THROUGH A LOT OF EMAILS AND NOT A SINGLE EMAIL
3 WAS DIRECTED TO MR. SHEPPARD, HIS NAME MAY OF APPEARED IN
4 ONE OR TWO?

5 A NO, I DIDN'T DIRECT ANY EMAILS TO RONNIE SHEPPARD.

6 Q AND DURING THE COURSE OF YOUR EMPLOYMENT WHILE MR.
7 SHEPPARD WAS THERE, YOU NEVER SENT HIM A SINGLE EMAIL,
8 CORRECT?

9 A NO, I DID NOT.

10 Q NEVER, HE NEVER PICKED UP THE PHONE AND CALLED YOU
11 AND ASKED YOU A QUESTION ABOUT ANYTHING, CORRECT?

12 A NO, HE DID NOT.

13 Q YOUR DAILY CONTACTS WAS WITH MR. FERRELL?

14 A MR. FERRELL AND KAREN MILLER.

15 Q NOW, AT SOME POINT AND TIME YOU IDENTIFIED A
16 SUPPLEMENT TO THE PROSPECTUS IN ONE OF THESE EMAILS, DO
17 YOU RECALL THAT?

18 A I RECALL THE EMAIL, YES.

19 Q AND THE, DO YOU RECALL THAT YOUR HUSBAND DRAFTED A
20 LETTER THAT WENT WITH THE PROSPECTUS AND SAY IN THE FALL
21 OF 2002?

22 A I RECALL A LETTER, YES.

23 Q AND THAT LETTER HAD, WAS TO BE INCLUDED WITH THE
24 SUPPLEMENT?

25 A WE DIDN'T PUT IT IN THE PROSPECTUS BUT THEY COULD

1 GIVE IT TO THE INVESTOR, IT DID NOT GO IN THE PROSPECTUS
2 BUT THEY DID GIVE IT OUT.

3 Q AND DO YOU KNOW IF THAT LETTER WAS SHARED WITH MR.
4 STERLING?

5 A I KNOW THAT LETTER WAS SHARED WITH KAREN MILLER BUT I
6 CANNOT TESTIFY THAT I KNOW IT WAS SHARED WITH MR.
7 STERLING.

8 Q NOW, AT SOME POINT AND TIME AT CAROLINA INVESTORS
9 THERE WAS A BROCHURE OF SOME SORT THAT WAS CREATED?

10 A THE PEARL.

11 Q THE PEARL OF THE UPSTATE?

12 A YES.

13 Q AND THAT WAS CREATED BACK IN 1998?

14 A THAT WAS ORIGINALLY CREATED IN, EARLIER THAN THAT, I
15 BELIEVE, BY KEITH GIDDENS.

16 Q THAT WAS CREATED BY MR. GIDDENS?

17 A YES.

18 Q AND THAT WAS MADE AVAILABLE WITHIN THE OFFICES OF
19 CAROLINA INVESTORS?

20 A YES.

21 Q BEFORE 2000 IN ADDITION TO THAT YOU WERE ASKED TO
22 CREATE A FREQUENTLY ASKED QUESTION SHEET?

23 A BY MR. GIDDENS AND THAT WAS WHILE I WAS STILL IN THE
24 BEREA OFFICE WHICH WOULD OF BEEN 1992, 1993.

25 Q AND THIS FREQUENTLY ASKED QUESTION SHEET WAS ALSO

1 USED IN CONJUNCTION WITH THE PROSPECTUS AND THE SALES OF
2 THESE NOTES AND DEBENTURES?

3 A YES.

4 Q AND SO THESE MATERIALS AND WAS THERE A TIME BEFORE
5 2000 THAT LETTERS WERE DRAFTED TO GO ALONG WITH THE
6 PROSPECTUS?

7 A NO, NOT THAT I RECALL.

8 Q JUST THE PEARL OF THE UPSTATE?

9 A YES. WE WOULD GIVE OUT THE PEARL, THE QUESTIONS, THE
10 PROSPECTUS.

11 Q WHEN YOU SPOKE UP THESE VALUATIONS AND WHEN YOU WERE
12 SITTING WITH INVESTORS, WOULD YOU TAKE THEM TO THE PAGE OF
13 THE PROSPECTUS AND THE PARAGRAPH WHERE IT TALKED ABOUT THE
14 VALUATIONS?

15 A YES. NOT EVERY TIME BUT A GOOD BIT, YES.

16 Q BUT YOU FELT COMFORTABLE EXPLAINING THE VALUATIONS
17 BECAUSE IT WAS--

18 A BECAUSE IT WAS IN THE PROSPECTUS.

19 Q AND YOU KNOW THAT PROSPECTUS REQUIRES A LOT OF REVIEW
20 BEFORE IT GETS FILED?

21 A I THOUGHT, YES.

22 Q YOU FELT LIKE YOU COULD RELY UPON THAT DOCUMENT AND
23 TALK TO INVESTORS?

24 A YES, I DID.

25 Q YOU MENTIONED THAT MR. SHEPPARD INVESTED \$200

1 THOUSAND DOLLARS IN CAROLINA INVESTORS?

2 A YES.

3 Q WITH A PERSONAL CHECK?

4 A THAT IS WHAT WE RECEIVED, YES, MERIDETH CASTEEN
5 MAILED IT TO US.

6 Q AND THEN YOU SAID SUBSEQUENTLY THAT YOU HAD BEEN
7 PROVIDED SOME INFORMATION THAT HE RECEIVED A LOAN FROM
8 HOMEGOLD?

9 A I WAS TOLD BY A MEMBER OF THE SECURITIES COMMISSION,
10 SOMETIME AFTER WE CLOSED, THEY ASKED ME IF I KNEW IT WAS A
11 LOAN FROM HOMEGOLD AND I DID NOT.

12 Q SO, YOU ARE JUST GOING ON WHAT SOMEONE FROM THE
13 SECURITIES COMMISSION TOLD YOU?

14 A YES.

15 Q AND YOU WEREN'T INVOLVED IN THE LOAN TRANSACTION?

16 A NO.

17 Q YOU DON'T KNOW WHAT THE PROCEEDS OF THAT LOAN WAS
18 USED FOR OTHER THAN WHAT YOU WERE LEAD TO BELIEVE BY
19 SOMEONE AT THE SECURITIES COMMISSION?

20 A RIGHT.

21 Q THAT IS ALL I HAVE, THANK YOU.

22 THE COURT: REDIRECT.

23 REDIRECT EXAMINATION

24 BY MS. EVANS:

25 Q WHEN YOU WERE TOLD ABOUT THE VALUATIONS AT, ELLIOTT

1 DAVIS DISAGREED WITH THEM, THAT THEY COULD BE MISLEADING?

2 A ASK THAT QUESTION AGAIN.

3 Q WHEN YOU WERE TOLD TO POINT OUT THE VALUATIONS, AT
4 THAT POINT AND TIME WERE YOU AWARE THAT ELLIOTT DAVIS
5 DISAGREED WITH PUTTING THOSE VALUATIONS IN THE PROSPECTUS.

6 MR. GRIFFIN: OBJECTION, YOUR HONOR, IT IS A LEADING
7 QUESTION, IT IS NOT ACCURATE.

8 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.
9 YOU CAN ASK HER WHAT HER UNDERSTANDING WAS BUT SHE CAN'T
10 TESTIFY.

11 Q WHAT WAS YOUR UNDERSTANDING ABOUT THE REVIEW PROCESS
12 OF THAT PROSPECTUS. MR. GRIFFIN JUST ASKED YOU, YOU WENT
13 THROUGH A REVIEW PROCESS. DO YOU KNOW WHAT THAT REVIEW
14 PROCESS WAS?

15 A NOT REALLY.

16 Q SO, YOU NEVER HEARD--

17 A I KNEW IT WAS REVIEWED BY THE WYCHE LAW FIRM AND IT
18 WAS REVIEWED BY ELLIOTT DAVIS. I THOUGHT THAT THEY
19 APPROVED IT.

20 Q DID ANYONE TELL YOU ANYTHING DIFFERENTLY ABOUT THOSE
21 VALUATIONS?

22 A I KNEW THAT THEY CAME FROM MORE THAN ONE PLACE, THAT
23 IS CBIZ AND DELOITTE AND TOUCHE, THAT IS THE EXTENT OF
24 WHAT I KNOW.

25 Q NO ONE TOLD YOU AT THE TIME ABOUT THAT PROSPECTUS,

1 ANYTHING ABOUT WHAT ELLIOTT DAVIS THOUGHT ABOUT THOSE
2 VALUATIONS BEING PUT IN THERE?

3 A NO.

4 Q I AM GOING TO SHOW YOU WHAT HAS ALREADY BEEN MARKED
5 AS STATE'S EXHIBIT NUMBER 65, MR. GRIFFIN ASK YOU THAT YOU
6 WERE TOLD ABOUT A LOAN. COULD YOU LOOK AT THAT AND REVIEW
7 THAT MATERIAL, HAVE YOU EVER SEEN THAT BEFORE?

8 A NO, I HAVE NOT.

9 Q CAN YOU REVIEW THAT AND SEE WHAT THAT IS?

10 A THIS IS AN ACCOUNTS PAYABLE CHECK REQUEST FROM
11 HOMEGOLD, INCORPORATED PAYABLE TO RONALD J. SHEPPARD AS AN
12 EMPLOYEE FOR \$200 THOUSAND DOLLARS ON APRIL THE 18TH,
13 2002.

14 Q AND I AM GOING TO SHOW YOU THE THIRD PAGE OF THAT
15 EXHIBIT, HAVE YOU EVER SEEN THAT BEFORE?

16 A NO, I HAVE NOT.

17 Q CAN YOU REVIEW THAT AND IS THAT WHAT YOU ARE
18 REFERRING TO BEFORE?

19 A YES.

20 Q OKAY. AND WHAT IS THAT?

21 A THIS IS A PROMISSORY NOTE THAT RONALD J. SHEPPARD
22 PROMISES TO PAY \$200 THOUSAND DOLLARS TO HOMEGOLD BEFORE
23 JULY 15TH OF 2002. AND HOMEGOLD HOLDS HIM AS COLLATERAL,
24 A SAVINGS CERTIFICATE FROM CAROLINA INVESTORS.

25 Q AND WHAT IS THE DATE OF THE PROMISE TO PAY BACK?

1 A APRIL THE 18TH OF 2002.

2 Q AND WHAT DATE WAS THIS PROSPECTUS ISSUED AND IT SHOWS
3 THIS \$200 THOUSAND DOLLARS INVESTMENT?

4 A APRIL THE 1ST OF 2002.

5 Q AND HOW MANY DAYS LATER WAS THAT LOAN?

6 A 17 DAYS, NOT EVEN THREE WEEKS.

7 Q I DON'T HAVE ANYTHING FURTHER.

8 THE COURT: ANY FURTHER QUESTIONS?

9 MR. GRIFFIN: NO, YOUR HONOR.

10 THE COURT: YOU MAY STEP DOWN. MADAM FORELADY AND
11 LADIES AND GENTLEMEN, YOUR LUNCH IS HERE, WE WILL TAKE
12 ABOUT AN HOUR FOR LUNCH. DON'T DISCUSS THE CASE, YOU ARE
13 EXCUSED TO YOUR JURY ROOM. EVERYONE IN THE COURTROOM STAY
14 SEATED WHILE THE JURY IS EXCUSED.

15 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
16 A LUNCH BREAK.)

17 THE COURT: WE WILL BREAK UNTIL 2:00 O'CLOCK.

18 (WHEREUPON, A LUNCH BREAK WAS TAKEN.)

19 THE COURT: IS THE STATE READY?

20 MS. EVANS: YES, YOUR HONOR.

21 THE COURT: THE DEFENSE?

22 MR. GRIFFIN: YES, SIR.

23 THE COURT: GET THE JURY IN, PLEASE.

24 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
25 APPROXIMATELY 2:10 P.M.)

1 THE COURT: CALL YOUR NEXT WITNESS, PLEASE.

2 MS. EVANS: THE STATE CALLS LARRY OWEN TO THE STAND.

3 LARRY OWEN, AFTER BEING DULY SWORN, TESTIFIED AS
4 FOLLOWS:

5 DIRECT EXAMINATION

6 BY MS. EVANS:

7 Q STATE YOUR NAME, PLEASE.

8 A LARRY CEBHAS OWEN.

9 Q PLEASE SPELL YOUR NAME.

10 A LARRY, L-A-R-R-Y; CEBHAS, C-E-B-H-A-S; OWEN, O-W-E-N.

11 Q WILL YOU PLEASE TELL THE JURY A LITTLE BIT ABOUT YOUR
12 BACKGROUND AND YOUR WORK EXPERIENCE.

13 A I GRADUATED FROM EASLEY HIGH SCHOOL IN 1962 AND IN
14 APRIL OF 1962 I WENT TO WORK FOR FIRST NATIONAL BANK IN
15 EASLEY. I WORKED AT FIRST NATIONAL BANK THROUGH FEBRUARY
16 OF 1967 AT WHICH TIME I TOOK THE EXAMINATION AND BECAME A
17 NATIONAL BANK EXAMINER FOR THE U.S. TREASURY DEPARTMENT.
18 I WORKED AT U.S. TREASURY DEPARTMENT THROUGH MARCH OF 1970
19 AT WHICH TIME I CAME WITH CAROLINA INVESTORS. AND I WAS
20 WITH CAROLINA INVESTORS FOR 33 YEARS.

21 Q AND WHAT WAS YOUR RESPONSIBILITIES AND DUTIES AT
22 CAROLINA INVESTORS.

23 A WELL, WHEN I FIRST STARTED WITH THE COMPANY IN 1970 I
24 WAS MANAGER OF THE EASLEY BRANCH OFFICE. IN OCTOBER OF
25 '74 I TOOK OVER THE DAILY OPERATIONS OF THE CORPORATION IN

1 PICKENS. AND I WAS REALLY RESPONSIBLE FOR ALL LENDING,
2 ALL INVESTMENT ACTIVITIES, ALL LENDING ACTIVITIES,
3 COLLECTIONS, HIRING AND FIRING, MOST POLICY DECISIONS, ALL
4 OF THAT UP THROUGH THE TIME THAT HOMEGOLD CAME ON BOARD IN
5 1991.

6 Q AND WHEN DID YOU BECOME PRESIDENT OF CAROLINA
7 INVESTORS?

8 A I BELIEVE IT WAS IN MAY OF 1988 OR '89.

9 Q AND YOU WERE STILL PRESIDENT OF CAROLINA INVESTORS, I
10 THINK IT WAS CALLED EMERGENT AT THE TIME THAT HOMEGOLD
11 TOOK OVER CAROLINA INVESTORS?

12 A THAT'S CORRECT.

13 Q AND BEFORE WE GO ANY FURTHER, MR. OWEN, HAVE YOU
14 PLEAD GUILTY TO ONE COUNT OF A SCHEME OR ARTIFICE TO
15 DEFRAUD?

16 A YES.

17 Q AND HOW MANY COUNTS OF SECURITIES FRAUD HAVE YOU
18 PLEAD GUILTY TO?

19 A 21 COUNTS.

20 Q AND ARE YOU CURRENTLY INCARCERATED?

21 A YES, I AM.

22 Q AND WHAT TYPE OF SENTENCE ARE YOU SERVING?

23 A I AM SERVING A 8 YEAR SENTENCE IN CAMPBELL.

24 Q AND HAS THE STATE PROMISED YOU ANYTHING IN EXCHANGE
25 FOR YOUR TESTIMONY HERE TODAY?

1 A NO.

2 Q BASED UPON YOUR CORPORATION ARE YOU HOPING THAT
3 PERHAPS THAT MIGHT HELP YOU DOWN THE ROAD?

4 A I WOULD CERTAINLY HOPE IT WOULD HELP WHEN I COME UP
5 FOR PAROLE.

6 Q BUT HAS THE STATE PROMISED YOU ANYTHING?

7 A NO, THEY HAVE NOT.

8 Q OKAY. LET'S GO BACK AND WE WILL TALK ABOUT THAT A
9 LITTLE BIT LATER. HOW MANY INDIVIDUAL COUNTS DID YOU
10 PLEAD TO?

11 A 21.

12 Q AND THAT IS INDIVIDUAL COUNTS OF SPECIFIC INVESTORS?

13 A THAT'S CORRECT.

14 Q THIS JURY HAS ALREADY HEARD ABOUT THE BACKGROUND OF
15 CAROLINA INVESTORS. FROM YOUR PERSPECTIVE AND WHILE YOU
16 WERE EMPLOYED THERE, BRIEFLY JUST EXPLAIN TO THE JURY WHAT
17 YOU DID IN YOUR ROLE EVERY DAY.

18 A WELL, AGAIN, IT VARIED FROM EARLY ON IN THE COMPANY
19 WHEN I WAS INVOLVED WITH MAKING LOANS, I DID A LOT OF
20 APPRAISALS, I TRAVELED AROUND THE UPSTATE APPRAISING HOMES
21 AND APPROVING LOAN APPLICATIONS. AFTER HOMEGOLD CAME ON
22 BOARD THEY BROUGHT PEOPLE IN AND HIRED PEOPLE TO DO THOSE
23 FUNCTIONS. SO, I WASN'T REQUIRED TO DO THAT AS MUCH. THE
24 LAST 10 OR 12 YEARS MY JOB HAD DIMINISHED TO THE POINT
25 THAT I WAS ONLY RESPONSIBLE FOR OUR INVESTORS.

1 Q AND PRIOR TO THE MERGER, CAROLINA INVESTORS WAS THE
2 ONE DOING THE LOANS, LOANING OUT THE MONEY?

3 A THAT'S CORRECT. WE DID REAL ESTATE LOANS, FIRST AND
4 SECOND MORTGAGE LOANS ALL OVER THE UPSTATE.

5 Q AND WHO WAS THE FOUNDER OF CAROLINA INVESTORS?

6 A DWIGHT HOLDER.

7 Q AND IS MR. HOLDER THE ONE THAT SOLD TO HOMEGOLD, OR
8 THE MERGER AT THE TIME?

9 A YES, HE WAS.

10 Q JUST, BRIEFLY, EXPLAIN ABOUT THE NOTES AND
11 DEBENTURES. AND WE WILL GO THROUGH THE PERIOD OF 1991 AND
12 BEYOND THAT CAROLINA INVESTORS WERE SELLING.

13 A WELL, THE COMPANY STARTED IN 1963 PAYING SIX PERCENT
14 ON SUBORDINATED DEBENTURES. THAT WAS THE ONLY SINGLE
15 INSTRUMENT THAT THEY HAD BACK IN THOSE DAYS. AND AT THAT
16 TIME THE BANKS WERE PAYING THREE PERCENT INTEREST AND
17 CAROLINA INVESTORS OPENED UP PAYING SIX PERCENT INTEREST.
18 AND HISTORICALLY MAINTAINED A PRETTY GOOD LEAD OVER THE
19 LOCAL FINANCIAL INSTITUTIONS DURING ITS ENTIRE LIFETIME.

20 Q LET ME STOP YOU THERE. HOW WAS CAROLINA INVESTORS
21 ABLE TO PAY OUT A HIGHER INTEREST WHEN YOU ARE TALKING
22 ABOUT THOSE EARLIER DAYS THAN THE BANKS WERE?

23 A WELL, MOST OF THE BANKS WERE MAKING SIMPLE INTEREST
24 LOANS TO INDIVIDUALS AND WHEN CAROLINA INVESTORS FIRST
25 OPENED FROM 1963 UP THROUGH 1970 THEY MADE CEMETERY

1 RELATED LOANS. AND THOSE LOANS WERE FOR PEOPLE TO BUY
2 CEMETERY LOTS AND MONUMENTS AND MARKERS AND THAT SORT OF
3 THING THAT WAS RELATED TO THE CEMETERY BUSINESS. AND
4 THOSE TYPE LOANS CARRIED AN INTEREST RATE ANYWHERE FROM
5 TEN AND A HALF PERCENT TO THIRTEEN PERCENT. WE COULD PAY
6 SIX PERCENT AND STILL HAVE A GOOD PROFIT MARGIN.

7 Q AND WHEN YOU WENT TO THE SUBPRIME MONEY MARKET WAS IT
8 BASICALLY THE SAME CONCEPT?

9 A GENERALLY, YES. THE INTEREST RATE WASN'T QUITE AS
10 HIGH.

11 Q AND FROM YOUR INVOLVEMENT, WHAT WAS CAROLINA
12 INVESTORS POLICY ABOUT PEOPLE COMING IN AND GETTING THEIR
13 NOTES OR DEBENTURES, GETTING THEIR MONEY BACK FROM THAT?

14 A WELL, IT WAS ORIGINALLY CALLED A FIVE MINUTE RULE BUT
15 IT WAS LATER UNINTENTIONALLY CONVERTED TO A FIFTEEN MINUTE
16 RULE BY MR. HOLDER. HE HAD ALWAYS TOLD US THAT HE WOULD
17 NEVER WITHHOLD A PERSON'S MONEY SIMPLY BECAUSE THEIR
18 MATURITY HAD NOT ARRIVED. SO, WE JUST ALWAYS HAD AN
19 UNWRITTEN UNDERSTANDING THAT A PERSON COULD WALK IN AND
20 GET THEIR MONEY WITHIN A FIVE MINUTE PERIOD. AND AS I
21 SAID, LATER ON IT BECAME FIFTEEN MINUTES.

22 Q AND THROUGHOUT THE HISTORY TO THE DAY THAT IT CLOSED,
23 DID THAT POLICY CHANGE?

24 A NO.

25 Q AND EXPLAIN, DID THEY HAVE TO PAY A PENALTY OR DID

1 THEY JUST GET THEIR MONEY?

2 A IT DEPENDED. IF IT WAS A DEBENTURE ACCOUNT WHICH WAS
3 THE, PEOPLE LIKED A PASS BOOK ACCOUNT, WHERE YOU COULD PUT
4 MONEY AND NEXT WEEK IF YOU HAD TO HAVE IT YOU COULD COME
5 BACK AND GET IT. THAT IS WHAT WE CALLED A DEMAND TYPE OF
6 ACCOUNT. WE ALSO HAD TWO OR THREE FIXED MATURITY
7 ACCOUNTS, ONE YEAR, TWO YEAR, THREE YEAR. AND THE
8 INTEREST RATE WAS GRADUATED DEPENDING ON HOW MANY YEARS
9 YOU WERE WILLING TO TIE THE MONEY UP. IF YOU BROKE THE
10 CONTRACT AND NEEDED YOUR MONEY BEFOREHAND, IF IT WAS FOR
11 SICKNESS OR SOMETHING, SOME DIRE NEED, WE DIDN'T IMPOSE A
12 PENALTY. IF YOU JUST NEEDED TO BUY A CAR OR SOME LAND OR
13 SOMETHING OR SOMETHING LIKE THAT WE DID IMPOSE A PENALTY
14 OF ONE-THIRD OF THE AMOUNT OF INTEREST THAT YOU HAD EARNED
15 FOR THE PERIOD THAT WE HAD IT.

16 Q AND WHEN THE INVESTORS WOULD COME IN HOW WOULD THEY
17 GET THEIR INVESTMENT, WHAT WOULD THEY GET FOR IN RETURN
18 FOR THEIR INVESTMENT INTO CAROLINA INVESTORS?

19 A WE WERE REQUIRED TO GIVE EACH INVESTOR A PROSPECTUS.
20 AND A PROSPECTUS IS BASICALLY A BOOKLET WHICH TELLS ABOUT
21 THE COMPLETE HISTORY OF THE COMPANY, FROM ITS
22 ORIGINATIONAL STRUCTURE DOWN TO THE TYPE OF BUSINESS THAT
23 WE DID AS FAR AS LENDING AND THE TYPE OF INVESTMENT
24 PROGRAMS THAT WE HAD INCLUDED WITH FINANCIAL STATEMENTS.

25 Q LET'S TALK ABOUT GIVING OUT A PROSPECTUS. HAD YOU

1 ALWAYS BEEN TOLD TO GIVE OUT PROSPECTUS'?

2 A YES.

3 Q DO YOU REMEMBER DAVID GAFFNEY?

4 A YES, I DO.

5 Q WHO IS DAVID GAFFNEY?

6 A DAVID GAFFNEY WAS THE IN-HOUSE ATTORNEY FOR HOMEGOLD.

7 Q AND LATER ON AFTER THE HOMEGOLD/HOMESENSE MERGER DID
8 HE COME UP AND DISCUSS WITH YOU ABOUT THE PROSPECTUS AND
9 GIVING THEM OUT?

10 A HE DID. THAT RESULTED FROM A TELEPHONE CALL THAT I
11 HAD WITH CARY HALL WITH THE WYCHE LAW FIRM. I WAS TALKING
12 WITH CARY ABOUT HOW MANY NEW ACCOUNTS THAT WE HAD OPENED.
13 AND I TOLD HIM THAT THIS WAS ALONG ABOUT MAY OF 2001. AND
14 I HAD TOLD HIM WE HAD ALREADY GIVEN OUT ALL THE
15 PROSPECTUS' THAT WE HAD PRINTED. AND I TOLD HIM THAT WE
16 HAD OPENED CLOSE TO 2,000 NEW ACCOUNTS. AND HE SAID, HOW
17 MANY PROSPECTUS HAVE YOU GIVEN OUT AND I SAID ALL 500 OF
18 THEM. AND HE REALIZED THEN THAT ALL OF OUR INVESTORS THAT
19 CAME IN AND OPENED NEW ACCOUNTS DID NOT TAKE A PROSPECTUS.
20 SO, DAVID GAFFNEY CAME UP AND WE DEVELOPED A PROGRAM
21 WORKING WITH THE WYCHE FIRM WHEREBY WE HAD MORE
22 PROSPECTUS' PRINTED AND WE ACTUALLY STARTED A FORMAL
23 PROCEDURE REQUIRING THE INVESTOR TO SIGN FOR THE
24 PROSPECTUS WHEN THEY OPENED UP A NEW ACCOUNT.

25 Q DO YOU REMEMBER ABOUT WHAT YEAR THAT WAS?

1 A IT WAS, THE PROGRAM ACTUALLY GOT UNDERWAY IN AUGUST
2 OF '01.

3 Q AND WERE YOU STILL, YOU STILL WERE GIVING OUT
4 PROSPECTUS' BUT EXPLAIN ABOUT PREVIOUS TO THAT.

5 A WE WERE GIVING THEM OUT BUT, LIKE I SAID, A LOT OF
6 PEOPLE UP IN THAT AREA, IF ANY OF YOU PEOPLE HAVE EVER
7 SEEN A PROSPECTUS, IT IS A FAIRLY COMPLICATED INSTRUMENT.
8 ANY OF YOU THAT HAVE EVER INVESTED IN STOCKS AND BONDS
9 CERTAINLY HAVE SEEN ONE. IT MAKES FOR SOME PRETTY DEEP
10 READING AND IT WILL PUT YOU TO SLEEP IF YOU READ THE WHOLE
11 THING. BUT A LOT OF THOSE PEOPLE UP THERE DID NOT WANT TO
12 FOOL WITH READING THE PROSPECTUS SO THEY REFUSED TO TAKE
13 ONE. SO, WE ALWAYS KEPT THEM AVAILABLE ON THE TABLE IN
14 OUR LOBBY TO WHERE ANYBODY THAT DID WANT ONE COULD PICK IT
15 UP AND TAKE IT. WE NEVER DID FORCE THEM TO TAKE IT.

16 Q AND I AM GOING TO SHOW YOU WHAT HAS BEEN MARKED AS
17 STATE'S EXHIBIT NUMBER 50. IS THAT WHAT YOU ARE REFERRING
18 TO AS THE PROSPECTUS?

19 A YES, IT IS.

20 Q AND YOU SAID YOU ALWAYS OFFERED TO THEM BUT PEOPLE
21 DIDN'T WANT TO TAKE THEM?

22 A SURE.

23 Q AND WHAT WAS THE CHANGE?

24 A WE STARTED REQUIRING PEOPLE TO TAKE THEM. THE
25 LAWYERS TOLD US THAT WE HAD TO GET THE PEOPLE TO TAKE THEM

1 AND SIGN FOR THEM. HE SAID IF THEY WANTED TO TAKE THEM
2 AROUND THE CORNER OF THE BUILDING AND THROW THEM IN THE
3 DUMPSTER THAT WAS THEIR OPTION. BUT WE DID HAVE TO MAKE
4 SURE THAT THEY GOT ONE WHICH WE DID.

5 Q DO YOU KNOW IF DAVID GAFFNEY AT SOME POINT RESIGNED
6 FROM HOMEGOLD?

7 A YES, HE DID. HE RESIGNED AT THE END OF AUGUST OF
8 2002.

9 Q OKAY. LET'S MOVE ON TO CAROLINA INVESTORS. WHAT
10 KIND OF FINANCIAL BACKGROUND AND I GUESS EXPERIENCE DID, I
11 THINK THEY ARE CALLED VICE-PRESIDENTS, THAT WERE DEALING
12 WITH THE PUBLIC SELLING THESE?

13 A NONE OF OUR COUNSELORS, INCLUDING MYSELF BY THE WAY,
14 HAD ANY FORMAL EXPERIENCE OR EDUCATION OR TRAINING IN
15 SECURITIES ISSUANCES, OR SECURITIES LAW FOR THAT MATTER.
16 THE WAY THAT CAROLINA INVESTORS WAS STRUCTURED WE WEREN'T
17 REQUIRED TO GO THROUGH THAT TYPE OF TRAINING.

18 Q OKAY. AND NOW THAT WE ARE TALKING ABOUT THE
19 PROSPECTUS, DID THAT HAVE TO BE FILED SOMEWHERE IN ORDER
20 FOR YOU TO BE ABLE TO SELL THESE NOTES AND DEBENTURES AT
21 CAROLINA INVESTORS?

22 A YES. EACH YEAR USUALLY IN MARCH I WOULD CARRY TO
23 COLUMBIA AND FILE AT THE SOUTH CAROLINA SECURITIES
24 COMMISSION.

25 Q OKAY. PRIOR TO 1991 WHO OFTEN PREPARED THAT

1 PROSPECTUS?

2 A I PREPARED IT, PRIOR TO 1991 AND HAD IT CERTIFIED BY
3 A LOCAL ATTORNEY IN PICKENS.

4 Q AND WHO IS THAT ATTORNEY?

5 A MURRAY HUGHES.

6 Q AND AFTER 1991 AND ON WHO STARTED PREPARING THOSE
7 PROSECTUS'?

8 A THEY WERE PREPARED JOINTLY BY HOMEGOLD, THE WYCHE LAW
9 FIRM AND OUR AUDITORS.

10 Q AND WHAT HAPPENED TO THE PROSPECTUS AFTER IT WAS
11 PREPARED?

12 A USUALLY THE FINAL TOUCHES WOULD BE PUT ON IT BY ONE
13 OF THE ATTORNEYS AT THE WYCHE FIRM AND THEN HE WOULD DO
14 THE REGISTRATION STATEMENT AND HE WOULD CALL ME AND LET ME
15 KNOW IT WAS READY. AND I WOULD TAKE A \$500 DOLLAR CHECK
16 AND GO BY THEIR OFFICE, PICK UP TWO COPIES OF IT ALONG
17 WITH THE REGISTRATION STATEMENT, THE VARIOUS RESOLUTIONS
18 AND SUPPORTING DOCUMENTS AND HAND DELIVER IT TO THE
19 SECURITIES COMMISSION, TO MR. ERIC PANTSARI.

20 Q AND WHO WAS ERIC PANTSARI?

21 A HE WAS, I THINK HE WAS CALLED THE DEPUTY CHIEF OF
22 SECURITIES DIVISION, I AM NOT SURE IF THAT IS HIS EXACT
23 TITLE OR NOT.

24 Q HOW LONG HAVE YOU KNOWN MR. PANTSARI?

25 A SINCE 1971.

1 Q AND HOW WOULD YOU DESCRIBE YOUR RELATIONSHIP WITH MR.
2 PANTSARI?

3 A WE HAD A VERY CONGENIAL BUSINESS RELATIONSHIP. MR.
4 PANTSARI, I HAD BEEN GOING DOWN THERE EVEN WITH MY
5 PREDECESSOR FOR A COUPLE OF YEARS BEFORE HE LEFT THE
6 COMPANY. SO, I BECAME FAMILIAR WITH MR. PANTSARI AND THE
7 OTHERS IN THE OFFICE THERE AND THROUGH THE YEARS WE JUST
8 BECAME MORE COMFORTABLE WITH EACH OTHER AND FELT LIKE WE
9 COULD TRUST EACH OTHER.

10 Q ULTIMATELY AFTER THE MERGER WITH HOMEGOLD DID YOU
11 CONTINUE TO BRING A PROSPECTUS DOWN?

12 A YES, I DID.

13 Q AND EVEN AFTER THE HOMESENSE MERGER, DID YOU CONTINUE
14 TO BRING THE PROSPECTUS DOWN?

15 A YES.

16 Q DID INDIVIDUALS FROM HOMEGOLD EVER MEET THE
17 SECURITIES COMMISSION? ¹₂₇

18 A YES.

19 Q AND HOW DO YOU KNOW THAT?

20 A BECAUSE I WAS PRESENT AT MOST OF THOSE MEETINGS.

21 Q DID THE DEFENDANT EVER GO WITH YOU AT THE SECURITIES
22 COMMISSION?

23 A YES, HE DID.

24 Q AND BASICALLY WHAT WAS YOUR UNDERSTANDING, WHERE DID
25 THE SECURITIES COMMISSION USED TO BE?

1 A USED TO BE AT THE SECRETARY OF STATES OFFICE.

2 Q AND AT SOME POINT DID IT GET TRANSFERRED OVER TO
3 ANOTHER OFFICE?

4 A I AM NOT SURE, IN 1996 MAYBE OR SOMEWHERE ALONG THERE
5 IT TRANSFERRED OVER TO THE ATTORNEY GENERALS OFFICE.

6 Q BUT YOU STILL DEALT WITH THE SAME PERSON?

7 A SURE.

8 Q I AM GOING TO SHOW YOU, WITHOUT SAYING WHAT THAT IS
9 CAN YOU IDENTIFY THAT?

10 A YES.

11 Q AND WHAT IS IT?

12 A IT IS A LETTER FROM ERIC PANTSARI TO MYSELF
13 CONCERNING THE FINANCIAL CONDITION OF HOMEGOLD.

14 Q AND WHAT IS THE DATE ON THAT LETTER?

15 A DECEMBER THE 8TH OF 1999.

16 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
17 MOVE INTO EVIDENCE 171.

18 THE COURT: ANY OBJECTION?

19 MR. GRIFFIN: NO OBJECTION.

20 THE COURT: WITHOUT OBJECTION STATE'S 171 IS
21 ADMITTED.

22 (WHEREUPON, STATE'S EXHIBIT NO. 171 WAS ADMITTED INTO
23 EVIDENCE.)

24 Q AND WITHOUT READING THE ENTIRE THING WHAT IS THE GEST
25 OF THAT LETTER FROM MR. PANTSARI?

1 A HE WAS EXPRESSING CONCERN ABOUT THE SAFETY OF OUR
2 INVESTORS MONEY IN LIEU OF THE FACT THAT HOMEGOLD WAS
3 LOSING MONEY FROM 1998 FORWARD.

4 Q MR. OWEN, AS A RESULT OF GETTING THAT LETTER DID YOU
5 DRAFT A RESPONSE. AND I AM GOING TO SHOW YOU, CAN YOU
6 IDENTIFY THAT?

7 A YES, I DID.

8 Q AND IS THAT THE RESPONSE THAT YOU DRAFTED?

9 A YES, IT IS.

10 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
11 MOVE 172 INTO EVIDENCE.

12 THE COURT: ANY OBJECTION?

13 MR. GRIFFIN: NO, SIR.

14 THE COURT: STATE'S 172 IS ADMITTED.

15 (WHEREUPON, STATE'S EXHIBIT NO. 172 WAS ADMITTED INTO
16 EVIDENCE.)

17 Q MR. OWEN, CAN YOU PLEASE, WHO IS THAT A FAX TO?

18 A MR. JACK STERLING.

19 Q AND JUST TELL THE JURY WHAT THAT SAYS.

20 A THE FAX ITSELF?

21 Q YES.

22 A IT IS TO MR. JACK STERLING FROM MYSELF DATED JANUARY
23 6TH OF 2000. IT SAYS, THIS WILL GO OUT IN TODAY'S MAIL
24 UNLESS I HEAR OTHERWISE.

25 Q AND THE SECOND PAGE OF THAT, CAN YOU PLEASE TELL THE

1 JURY WHAT THAT IS?

2 A THE SECOND PAGE IS ABOUT A SIX PARAGRAPH LETTER THAT
3 I WROTE BACK TO MR. PANTSARI.

4 Q WHAT IS THE DATE OF THAT LETTER?

5 A IT IS DATED JANUARY 5TH OF 2000.

6 Q AND JUST IN GENERAL TERMS, DON'T READ THE WHOLE
7 LETTER. IN ESSENCE ARE YOU ADDRESSING THE CONCERNS THAT
8 MR. PANTSARI SHARED WITH YOU IN HIS LETTER DECEMBER THE
9 8TH OF 1999?

10 A YES, I AM. AND BASED ON INFORMATION PROVIDED TO ME
11 BY HOMEGOLD, SENIOR OFFICERS, I ENUMERATED SEVERAL ITEMS
12 OF IMPROVEMENT FOR MR. PANTSARI.

13 Q AND AROUND THIS TIME IS THAT WHEN THERE WAS A
14 HOMESENSE/HOMEGOLD MERGER?

15 A I THINK THEY WERE IN THE PROCESS OF TALKING AT THIS
16 TIME, JANUARY OF 2000.

17 Q AND IN GENERAL TERMS, WHEN YOU BRING A PROSPECTUS
18 DOWN, WHAT DID THE SECURITIES COMMISSION DO?

19 A BASICALLY THE PROCEDURE WAS THAT I WOULD BRING THE
20 PROSPECTUS DOWN, BRING ALL OF MY SUPPORTING ADVERTISING
21 DOCUMENTATION AND SO FORTH WITH IT. AND I WOULD USUALLY
22 TRY TO SPEND FIFTEEN OR TWENTY MINUTES WITH ERIC TO KIND
23 OF REVIEW THE HIGHLIGHTS OF IT, KNOWING THAT HE WOULD HAVE
24 TO GO THROUGH FROM FRONT TO BACK AND, YOU KNOW, AND LOOK
25 AT IT. AND USUALLY WITHIN, ANYWHERE FROM TWO DAYS TO A

1 WEEK HE WOULD CALL ME BACK AND LET ME KNOW THAT HE HAD
2 REGISTERED THE PROSPECTUS.

3 Q AND REGISTERING A PROSPECTUS, JUST A REGISTRATION
4 ISSUE THAT ALLOWS YOU TO SELL SECURITIES?

5 A THAT'S CORRECT.

6 Q IS IT A STAMP OF APPROVAL?

7 A IT IS AN APPROVAL OF THE PROSPECTUS ITSELF AS FAR AS
8 THE INCLUSION IN THE PROSPECTUS AND ALL OF THE NECESSARY
9 LEGAL REQUIREMENTS.

10 Q IS IT A STAMP OF WHETHER IT IS A GOOD INVESTMENT OR
11 BAD INVESTMENT?

12 A NO.

13 Q AND DID THOSE CONCERNS CONTINUE THROUGHOUT THE YEARS?

14 A YES, THEY DID.

15 Q MR. OWEN, I AM GOING TO SHOW YOU A COPY OF A LETTER
16 OF APRIL 6TH OF 2001. CAN YOU IDENTIFY THAT?

17 A YES.

18 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
19 MOVE INTO EVIDENCE STATE'S EXHIBIT 173.

20 MR. GRIFFIN: NO OBJECTION.

21 THE COURT: WITHOUT OBJECTION STATE'S 173 IS
22 ADMITTED.

23 (WHEREUPON, STATE'S EXHIBIT NO. 173 WAS ADMITTED INTO
24 EVIDENCE.)

25 Q AND WHAT IS THAT LETTER?

1 A THIS IS A COVER LETTER THAT GENERALLY, WELL THIS ONE
2 IS, LET'S SEE. IT IS A THANK YOU LETTER TO ERIC THANKING
3 HIM FOR REVIEWING THE PROSPECTUS AND GETTING A PROMPT
4 ANSWER BACK FOR US.

5 Q AND IN GENERAL TERMS IS THAT THE WAY IT IS DONE. YOU
6 JUST SEND A GENERAL OF THE PROSPECTUS AND THEN THEY
7 APPROVE, THEY REGISTER IT OR NOT REGISTER IT?

8 A WE ALWAYS INCLUDE A COVER LETTER ALONG WITH THE
9 PROSPECTUS. AND GENERALLY WHEN HE WOULD GET ME AN
10 EXPEDITED REGISTRATION STATEMENT ON IT THEN I NORMALLY
11 WOULD WRITE HIM A LETTER THANKING HIM FOR HIS PROMPT
12 SERVICE AS ALWAYS.

13 Q AND DID THOSE CONCERNS OF THE SECURITIES COMMISSION
14 CONTINUE INTO 2001?

15 A YES.

16 Q I AM GOING TO SHOW YOU A LETTER DATED AUGUST 15TH, IT
17 IS NOT ADDRESSED TO YOU BUT CAN YOU LOOK AT THAT AND CAN
18 YOU IDENTIFY THAT. IS THERE A CERTIFICATION AT THE
19 BOTTOM?

20 A YES, THIS IS A COPY OF A LETTER THAT ROLAND CORNING
21 WITH THE SECURITIES COMMISSION WROTE TO MR. MORRIS.

22 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
23 MOVE INTO EVIDENCE STATE'S EXHIBIT 174.

24 MR. GRIFFIN: NO OBJECTION.

25 THE COURT: STATE'S 174 IS ADMITTED.

1 (WHEREUPON, STATE'S EXHIBIT NO. 174 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q WHO IS ROLAND CORNING?

4 A HE WORKED WITH MR. PANTSARI IN THE SECURITIES OFFICE.
5 I AM NOT SURE EXACTLY WHAT HIS OFFICIAL TITLE IS.

6 Q OKAY. AND WHAT IS THE DATE OF THAT LETTER?

7 A AUGUST 15TH OF 2001. OH, IT DOES SAY HERE THAT HE IS
8 A DEPUTY SECURITIES COMMISSION.

9 Q AND WHAT WAS MR. CORNING'S CONCERNS IN 2001?

10 A HE IS WRITING EXPRESSING CONCERN TO MR. MORRIS THAT
11 THEY ARE SEEING LESSONING OF THE EXPOSURE TO OUR
12 INVESTORS.

13 Q OKAY. MR. OWEN, I AM GOING TO SHOW YOU A CERTIFIED
14 COPY OF A FAX. CAN YOU LOOK THROUGH THAT AND SEE IF YOU
15 CAN RECOGNIZE THAT AND DOES IT SAY CERTIFICATION AT THE
16 BOTTOM?

17 A YES, THIS IS A LETTER THAT ~~WAS~~^{IS} SENT BACK TO MR.
18 CORNING IN RESPONSE TO HIS LETTER TO MR. MORRIS.

19 Q OKAY. AND CAN YOU PLEASE LOOK AT THE SECOND PAGE OF
20 THAT OR THE SECOND AND THIRD PAGE OF THAT. WHO SIGNED
21 THAT LETTER BACK TO MR. CORNING?

22 A MR. MORRIS' SIGNATURE IS ON HERE.

23 Q AND DO YOU KNOW WHO PREPARED THAT LETTER?

24 A NO, I DO NOT. I ASSUME IT WAS PREPARED AT HOMEGOLD
25 BECAUSE IT IS A BULLET POINT LETTER.

1 Q EXPLAIN WHAT YOU MEAN BY A BULLET POINT LETTER?

2 A WELL, A BULLET POINT LETTER HAS LITTLE DOTS OR LITTLE
3 BULLETS OUT BESIDE EACH POINT OF SUBJECT-MATTER. AND
4 THERE IS, OH, I GUESS EIGHT OR TEN BULLET POINT SUBJECTS
5 ON HERE. AND THAT IS A TYPED LETTER THAT I HAVE NEVER
6 WRITTEN MYSELF PERSONALLY.

7 Q AND DURING THIS TIME FRAME OF 2001 ARE THOSE
8 CORRESPONDS THAT ARE GOING OUT TO CAROLINA INVESTORS AND
9 TO THE SECURITIES COMMISSION PREPARED BY HOMEGOLD, FROM
10 YOUR KNOWLEDGE?

11 A YES.

12 Q AND WHAT IS ALSO ATTACHED TO THAT?

13 A THERE IS A NEWS RELEASE ABOUT HOMEGOLD FINANCIAL,
14 INCORPORATED REPORTS IMPROVED SECOND QUARTER RESULTS.

15 Q AND THE BULLET POINT THAT YOU WERE TALKING ABOUT,
16 COULD YOU PLEASE JUST READ SOME OF THOSE, NOT GO THROUGH
17 ALL OF THEM. BUT JUST SOME OF THOSE TO THE JURY ABOUT,
18 WELL FIRST OF ALL, STATE'S EXHIBIT 174, IS THAT FOLLOWING
19 THE FINANCIAL CONCERNS OF HOMEGOLD AGAIN?

20 A IS IT FOLLOWING?

21 Q IS IT LOOKING INTO?

22 A YES.

23 Q JUST TELL THE JURY ONE OR TWO OF THOSE BULLET POINTS
24 THAT ARE CONTAINED IN THAT RESPONSE?

25 A OKAY. THE FIRST BULLET POINT SIMPLY READS,

1 HOMEGOLD'S RETAIL PRODUCTION HAS IMPROVED SIGNIFICANTLY
2 BOTH IN TERMS OF SHARE VOLUME AND IN THE PERCENTAGE OF
3 FEES AND PREMIUMS REALIZED ON THAT PRODUCTION. AVAILABLE
4 CASH HAS INCREASED FROM \$3.7 MILLION IN DECEMBER 31ST OF
5 2000 TO OVER \$22 MILLION AT THE END OF JULY.

6 Q SO, LET ME STOP YOU THERE. I DON'T THINK I HAVE
7 MOVED THAT ONE INTO EVIDENCE. I APOLOGIAE, I WOULD LIKE
8 TO MOVE THAT INTO EVIDENCE.

9 MR. GRIFFIN: IS THAT 175?

10 MS. EVANS: YES.

11 MR. GRIFFIN: NO OBJECTION.

12 THE COURT: 175 IS ADMITTED WITHOUT OBJECTION.

13 (WHEREUPON, STATE'S EXHIBIT NO. 175 WAS ADMITTED INTO
14 EVIDENCE.)

15 Q AND IN GENERAL TERMS WITHOUT READING THE WHOLE,
16 ALMOST TWO-PAGE LETTER, CORRECT?

17 A YES.

18 Q WITHOUT READING IT ALL WHAT IS IT TELLING THE
19 SECURITIES COMMISSION ABOUT THE FINANCIAL CONDITION OF
20 HOMEGOLD?

21 A IT IS STATING TO THE SECURITIES COMMISSION THAT THE
22 FINANCIAL CONDITION OF HOMEGOLD IS IMPROVING.

23 MS. EVANS: YOUR HONOR, MAY WE APPROACH?

24 THE COURT: YES.

25 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE

1 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
2 JURY.)

3 THE COURT: STATE'S 176 FOR ID ONLY AT THIS TIME.
4 (WHEREUPON, STATE'S EXHIBIT NO. 176 WAS MARKED FOR
5 IDENTIFICATION ONLY.)

6 Q MR. OWEN, DO YOU REMEMBER SHORTLY AFTER THAT LETTER
7 AND THE CONCERNS FROM MR. CORNING IF YOU AND THE DEFENDANT
8 AND MR. MORRIS WENT DOWN TO THE SECURITIES COMMISSION?

9 A YES, WE DID.

10 Q AND WHAT DID YOU ALL TELL THE SECURITIES COMMISSION
11 ABOUT THE FINANCIAL CONDITION OF HOMEGOLD?

12 A CERTAINLY THE FINANCIAL CONDITION WAS EXPLAINED TO
13 THEM AND PROMISES WERE MADE THAT THE COMPANY WAS VERY SOON
14 GOING TO RAISE PROFITABILITY. AND ONE OF THE BULLET
15 POINTS HERE SAYS THAT HOMEGOLD MANAGEMENT EXPECTS TO REACH
16 PROFITABILITY IN THE THIRD QUARTER. SO, THE LOSSES WERE
17 NARROWING DOWN TO A POINT TO WHERE THEY TOLD THEM IT WOULD
18 BE PROFITABLE VERY SHORTLY.

19 Q AND YOU SAY THEY TOLD THEM, WHO TOLD THE SECURITIES
20 COMMISSION THAT HOMEGOLD WOULD BE PROFITABLE AT THAT
21 MEETING?

22 A MR. SHEPPARD.

23 Q AND THAT WAS THIRD QUARTER OF 2001?

24 A THAT IS RIGHT.

25 Q AND FROM YOUR MEMORY, WAS THAT ONE OF THE FIRST TIMES

1 THAT THE DEFENDANT WENT TO THE SECURITIES COMMISSION WITH
2 YOU?

3 A I DON'T RECALL A PRIOR TIME.

4 Q SUBSEQUENTLY DID HE GO WITH YOU?

5 A YES.

6 Q WE WILL GET TO THAT IN A LITTLE BIT. AT THAT POINT
7 WHEN YOU WENT DOWN TO THE SECURITIES COMMISSION HAD
8 HOMEGOLD MOVED ITS HEADQUARTERS DOWN HERE IN LEXINGTON
9 COUNTY?

10 A THEY MOVED TO LEXINGTON, I BELIEVE, IN JUNE OR JULY
11 OF '01.

12 Q OKAY. FROM YOUR RECOLLECTION WITH YOUR YEARS DEALING
13 WITH THE SECURITIES COMMISSION, DID MR. BOBO EVER COME
14 DOWN TO THE SECURITIES COMMISSION WITH YOU?

15 A NO, MA'AM.

16 Q DO YOU KNOW IF MR. SHARPE CAME DOWN TO THE SECURITIES
17 COMMISSION WITH YOU?

18 A NO.

19 Q BUT MR. MORRIS DID COME DOWN TO THE SECURITIES
20 COMMISSION WITH YOU, CORRECT?

21 A THAT'S RIGHT.

22 Q AND THE DEFENDANT WENT TO THE SECURITIES COMMISSION
23 WITH YOU, CORRECT?

24 A YES.

25 Q AND ANY OTHER HOMEGOLD OFFICIALS THAT CAME TO THE

1 SECURITIES COMMISSION WITH YOU?

2 A FORREST FERRELL DID, OF COURSE HE IS DECEASED NOW.
3 KAREN MILLER DID AND ONE OF THE DIRECTORS A COUPLE OF
4 TIMES.

5 Q AND I THINK I HAVE ALREADY SHOWN YOU THIS. AND I AM
6 GOING TO SHOW YOU AGAIN WHAT HAS BEEN MARKED AS STATE'S
7 EXHIBIT NUMBER 50. AND THIS IS THE SECOND PAGE OF THAT
8 PROSPECTUS. CAN YOU PLEASE READ THAT ONE PARAGRAPH TO THE
9 JURY.

10 A IT SAYS, THESE SECURITIES HAVE BEEN REGISTERED UNDER
11 THE SOUTH CAROLINA UNIFORM SECURITIES ACT. SUCH
12 REGISTRATION DOES NOT DENOTE THAT THE SECURITIES
13 COMMISSION OF THE STATE OF SOUTH CAROLINA HAS APPROVED OR
14 IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OR
15 UPON THE ADEQUACY OF THIS PROSPECTUS.

16 Q LET'S GO BACK BECAUSE WE KIND OF GOT A LITTLE BIT
17 AHEAD OF TIME. BUT I WANTED TO DISCUSS THE REGISTRATION
18 PROCESS AND YOUR UNDERSTANDING. LET'S GO BACK AND TALK
19 ABOUT CAROLINA INVESTORS. YOU SAID IN 1991 THAT, JUST, I
20 THINK THE JURY HAS ALREADY SEEN PICTURES. BUT WHERE IN
21 THIS TIME FRAME IN THE MID '90'S DID YOU HAVE OFFICES OF
22 CAROLINA INVESTORS?

23 A OUR MAIN OFFICE WAS, OF COURSE, LOCATED IN PICKENS.
24 WE HAD OUR FIRST BRANCH OFFICE WAS OPEN IN EASLEY IN 1970
25 AND IN JULY OF 1990 WE OPENED AN OFFICE IN THE BEREA AREA

1 ON THE WEST SIDE OF GREENVILLE.

2 Q AND WHERE WERE MOST OF THE INVESTORS FROM?

3 A MOST OF THEM WERE FROM PICKENS COUNTY.

4 Q AND JUST EXPLAIN TO THE JURY THE AVERAGE INVESTOR AND
5 THE WAY THEY DID THE INVESTMENT AT CAROLINA INVESTORS.

6 A MOST OF OUR INVESTORS WERE JUST AVERAGE HARDWORKING
7 PEOPLE. A LOT OF THEM WORKED IN TEXTILE MILLS, WE HAD
8 BELIEVE IT OR NOT, SOME OF OUR LARGER INVESTORS WERE LOCAL
9 FARMERS. WE HAD BRICK MASONS, HOMEBUILDERS, A LOT OF
10 RETIRED PEOPLE, HAD A LOT OF YOUNG PEOPLE. THE HISTORY OF
11 OUR BUSINESS WAS BUILT THROUGH WORD OF MOUTH FROM ONE
12 FAMILY MEMBER TO ANOTHER, YOU KNOW, MOTHERS WOULD TELL
13 THEIR CHILDREN AND THEIR CHILDREN WOULD TELL THEIR
14 CHILDREN AND THAT IS KIND OF HOW THE COMPANY GREW FOR ALL
15 OF THOSE 40 YEARS.

16 Q YOU ALREADY TALKED ABOUT MR. HOLDER. WHERE WAS MR.
17 HOLDER FROM?

18 A PICKENS.

19 Q WHAT DID HE DO UP THERE BESIDES CAROLINA INVESTORS?

20 A HE WAS ONE OF THE LARGEST CEMETERY OWNERS IN THE
21 SOUTHEAST FROM LATER '50'S ALL THE WAY UP UNTIL HE SOLD
22 HIS BUSINESS IN 1991.

23 Q HE SOLD CAROLINA INVESTORS IN 1991?

24 A THAT'S CORRECT.

25 Q LET'S GO TO 1995. DID THINGS CHANGE AT CAROLINA

1 INVESTORS IN 1995?

2 A YES, AT THAT POINT HOMEGOLD OR, IT WAS EMERGENT AT
3 THAT TIME, THEY DECIDED THAT THEY WANTED TO EXPAND AND
4 GROW THE COMPANY. UP UNTIL THAT POINT CAROLINA INVESTORS
5 HAD BEEN DOING ALL THE LENDING. AND FROM THAT POINT
6 FORWARD THEY FORMED A COMPANY CALLED EMERGENT MORTGAGE
7 CORPORATION AND THEN FORMED IT FOR THE SOLE PURPOSE TO BE
8 ABLE TO OBTAIN OUT-OF-STATE OR NON-SOUTH CAROLINA LICENSES
9 TO BE ABLE TO LEND MORTGAGE LOANS IN OTHER STATES. THEY
10 ENDED UP ACTUALLY BEING LICENSED, I BELIEVE, IN 44 STATES.

11 Q AND WHY WAS THIS DONE THROUGH HOMEGOLD AND NOT
12 THROUGH CAROLINA INVESTORS?

13 A WELL, CAROLINA INVESTORS, SINCE WE RAISED ALL OF OUR
14 INVESTMENTS WITHIN THE CONFINES OF THE STATE OF SOUTH
15 CAROLINA, WE COULDN'T LEND MORE THAN A CERTAIN PERCENTAGE
16 OF OUR MONEY OUTSIDE THE STATE. AND SO IT KIND OF
17 HAMSTRUNG THEIR ABILITY TO GROW THE COMPANY. AND BY
18 SETTING UP A NEW COMPANY THAT WAS LICENSED THEY WERE
19 AUTHORIZED TO LEND OUT OF STATE. CAROLINA INVESTORS COULD
20 LEND TO THAT COMPANY AND THAT COMPANY COULD LEND TO THE
21 OUT-OF-STATE BORROWERS.

22 Q IN 1995 HOW MUCH WAS THE, THE OFFICIAL AMOUNT LOANED
23 TO THEM, I GUESS WAS EMERGENT?

24 A \$15 MILLION DOLLARS.

25 Q AND WHAT DOES CAROLINA INVESTORS, DOES CAROLINA

1 INVESTORS DURING THIS TIME FRAME CONTINUE TO LOAN MONEY?

2 A NO, THE ONLY LOANS WE MADE FROM THAT WAS JUST AN
3 OCCASIONAL LOAN SECURED BY A PERSON'S OWN SAVINGS ACCOUNT.

4 Q AND IS THAT THE TIME THEY STARTED, TO HAVE WHAT HAS
5 BECAME KNOWN AS INTER-COMPANY DEBT?

6 A YES, THAT \$15 MILLION WAS THE INITIAL INCREMENT OF
7 THE INTER-COMPANY DEBT.

8 Q AND WHAT DOES CAROLINA INVESTORS CONTINUE TO DO AT
9 THIS POINT?

10 A SOLELY OBTAINING NEW INVESTORS AND MAINTAINING AND
11 MONITORING THE INVESTMENTS THAT WE HAD, THE INVESTORS THAT
12 WE HAD.

13 Q LET'S GO TO THE YEAR OF 1998 AND THIS JURY HAS HEARD
14 A LOT ABOUT THAT. BUT BRIEFLY EXPLAIN TO THE JURY WHAT
15 HAPPENED IN 1998.

16 A WELL SEVERAL THINGS HAPPENED IN 1998. MOSTLY WITH
17 HOMEGOLD, HOMEGOLD ACTUALLY HAD ONE OF THEIR EXECUTIVE
18 VICE-PRESIDENT'S WAS IN CHARGE OF MORTGAGE VOLUME
19 GENERATION LEFT AND TOOK FOUR OR FIVE OF HIS KEY PEOPLE
20 WITH HIM. AND SO THAT KNOCKED MORTGAGE PRODUCTION FOR A
21 LOOP. I THINK IN THE MONTH PRIOR TO HIS LEAVING THEIR
22 TOTAL MORTGAGE VOLUME WAS LIKE \$100 MILLION, JUST OVER
23 \$100 MILLION IN ONE MONTH. AND THEY WERE EXPECTING THE
24 FOLLOWING MONTH TO BE \$110 MILLION. BUT HE LEFT
25 UNANNOUNCED AND ALL OF A SUDDEN MORTGAGE VOLUME DROPPED.

1 Q DO YOU REMEMBER HIS NAME?

2 A JOHN MCSHANE..

3 Q WHAT ELSE HAPPENED IN 1998?

4 A THERE WAS A SUBPRIME SHAKEOUT OR A CRASH SO TO SPEAK
5 IN THE SUBPRIME INDUSTRY NATIONWIDE. AND THE SUBPRIME
6 INDUSTRY PRETTY MUCH SHRUNK, PEOPLE STOPPED BORROWING.
7 AND A LOT OF OLDER COMPANIES THAT HAD BEEN IN THAT
8 BUSINESS FOR YEARS AND YEARS ACTUALLY WENT BANKRUPT. IT
9 EXISTED THROUGH MOST OF 1998.

10 Q AND MR. OWEN, YOU HAD A LOT OF DEALINGS WITH SUBPRIME
11 LENDING MARKET, IS THAT SOMETHING PHYSICAL IN NATURE?

12 A YES, IT IS.

13 Q AND WHAT DID HOMEGOLD AND THEN EMERGENT DO AT THAT
14 TIME IN 1998?

15 A WELL, THEY STARTED LAYING PEOPLE OFF. I THINK ON MAY
16 THE 22ND OF 1998 THEY LAID OFF SEVERAL HUNDRED PEOPLE.
17 THERE WAS AN ANNOUNCEMENT IN THE GREENVILLE NEWS, I THINK
18 THEY SAID THEY WERE GOING TO LAY OFF 200 PEOPLE. THEY
19 STARTED CUTTING PAYROLL AND THEY STARTED CUTTING EXPENSES
20 AND DOING EVERYTHING THEY COULD TO TRY TO GET THE EXPENSE
21 LEVEL BACK DOWN TO WHERE THE EXISTING MORTGAGE LEVEL WOULD
22 CONTINUE TO KEEP IT PROFITABLE. BUT THEY ENDED UP IN THE
23 FIRST QUARTER OF 1998 LOSING \$21.5 MILLION DOLLARS.

24 Q IN THE SECOND QUARTER?

25 A SECOND QUARTER, I BELIEVE AT \$19 MILLION.

1 Q AND DID THE LOSS CONTINUE IN THE THIRD QUARTER?

2 A THE LOSSES CONTINUED THROUGH THE FOLLOWING QUARTER
3 AND THE YEAREND WAS TOTAL, I THINK ABOUT \$75 MILLION
4 DOLLARS.

5 Q AND WHAT DOES EMERGENT OR HOMEGOLD DO AT THAT POINT?

6 A WELL, THEY HAD, I THINK IT WAS A TOTAL OF 13 OR 14
7 DIFFERENT COMPANIES UNDER THE CORPORATE UMBRELLA. AND
8 ONCE THEY REALIZED THEY WERE HAVING SIGNIFICANT CASH
9 PROBLEMS THEY SOLD SEVERAL OF THOSE COMPANIES, THE LARGER
10 BEING EMERGENT BUSINESS CAPITAL. AND THEY USED THE CASH
11 FROM THAT, THE SELL OF THAT COMPANY TO TAKE DOWN A BOND
12 ISSUE THAT WAS OUTSTANDING AND ALSO TO REDUCE THE
13 INTER-COMPANY DEBT A LITTLE BIT.

14 Q AND DO YOU START HEARING HOMEGOLD OFFICIALS START
15 TALKING ABOUT A MERGER?

16 A YES, IT HAPPENED IN '99.

17 Q TELL THE JURORS ABOUT THAT. ^{1/2}₈

18 A WELL, IN LATE 1999 THE CASH SUPPLY FROM THE SELL OF
19 THOSE COMPANIES WAS BEGINNING TO GET FAIRLY LOW AND TOLD
20 ME THEY WERE LOOKING AT THE POSSIBILITY OF BUYING ANOTHER
21 MORTGAGE COMPANY TO INCREASE MORTGAGE VOLUME. AND HE
22 MENTIONED THE NAME OF THREE OR FOUR DIFFERENT COMPANIES,
23 ONE IN CALIFORNIA, I THINK MAYBE ONE IN FLORIDA, MAYBE TWO
24 IN FLORIDA, ONE IN SOUTH CAROLINA. AND HE TOLD ME HE WAS
25 LOOKING FAVORABLY TOWARD THE ONE IN SOUTH CAROLINA. AND I

1 DIDN'T KNOW ANY MORE ABOUT IT AS FAR AS DETAILS UNTIL ON
2 UP INTO FEBRUARY OF 2000.

3 Q AND WHAT WAS THE NAME OF THE COMPANY THAT THEY WERE
4 TALKING ABOUT THE MERGER?

5 A IN SOUTH CAROLINA?

6 Q YES.

7 A HOMESENSE MORTGAGE COMPANY.

8 Q SINCE YOU BROUGHT THAT UP, DID YOU HEAR ABOUT TWO
9 OTHER POSSIBLE MERGER PARTNERS BESIDES HOMESENSE?

10 A YES. LIKE I SAID, THERE WAS ONE IN FLORIDA, I CAN'T
11 REMEMBER THE NAME OF IT. IT SEEMS LIKE THERE WAS ONE IN
12 CALIFORNIA THAT THEY TALKED ABOUT.

13 Q IN THE YEAR OF 2000 WHAT IS THE MAIN COMPANY THAT
14 THEY ARE TALKING ABOUT?

15 A HOMESENSE.

16 Q OKAY. AND FROM YOUR UNDERSTANDING DID THAT MERGER GO
17 THROUGH?

18 A YES.

19 Q MR. OWEN, A COPY OF THIS, IT HAS ALREADY BEEN MOVED
20 INTO EVIDENCE. RATHER THAN DIGGING THROUGH THAT I AM
21 GOING TO SHOW YOU WHAT HAS BEEN MARKED AS STATE'S EXHIBIT
22 NUMBER 95. CAN YOU TELL THE JURORS WHAT THAT IS?

23 A THIS IS THE MINUTES, ONE SHEET OF THE MINUTES FROM
24 THE BOARD OF DIRECTORS, MAY 2ND OF 2000 BOARD MEETING.

25 Q AND AT THE BOTTOM, JUST DRAW YOUR ATTENTION TO THE

1 LAST PARAGRAPH. CAN YOU PLEASE TELL THE JURORS WHO WAS
2 RESIGNING AT THAT POINT?

3 A KEITH B. GIDDENS, FORMER CEO OF HOMEGOLD.

4 Q AND WAS MR. GIDDENS ALSO ON THE BOARD OF CAROLINA
5 INVESTORS?

6 A HE WAS AND AS WELL AS VICE-CHAIRMAN.

7 Q AND WHO REPLACED MR. GIDDENS ON THE BOARD AT THAT
8 MEETING, AND YOU CAN LOOK?

9 A MR. MAST.

10 Q AND WHO WAS MR. MAST AT THAT TIME?

11 A HE WAS THE CHIEF FINANCIAL OFFICER OF HOMEGOLD.

12 Q DO YOU REMEMBER IF MR. MAST RESIGNED SHORTLY
13 THEREAFTER?

14 A I THINK HE RESIGNED IN JUNE.

15 Q AND DO YOU REMEMBER WHEN THE MERGER TOOK PLACE?

16 A I BELIEVE IT WAS EFFECTIVE THE FIRST OF MAY IF I
17 REMEMBER CORRECTLY.

18 Q AND AFTER THE MERGER WHAT IS THE DEFENDANT'S TITLE?

19 A I BELIEVE HE WAS PRESIDENT AND CEO AT THAT TIME.

20 Q WAS HE ALSO PLACED ON THE CAROLINA INVESTORS BOARD?

21 A YES.

22 Q I AM GOING TO SHOW YOU, CAN YOU IDENTIFY THAT?

23 A YES, THIS IS THE MINUTES FROM THE AUGUST 16TH 2000
24 BOARD MEETING.

25 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO

1 MOVE THIS INTO EVIDENCE AS STATE'S EXHIBIT 177.

2 THE COURT: ANY OBJECTION.

3 MR. GRIFFIN: NO OBJECTION.

4 THE COURT: WITHOUT OBJECTION THAT IS ADMITTED.

5 (WHEREUPON, STATE'S EXHIBIT NO. 177 WAS ADMITTED INTO
6 EVIDENCE.)

7 Q AND WE JUST TALKED ABOUT MR. MAST AND I WILL DRAW
8 YOUR ATTENTION TO THE SECOND PARAGRAPH. DOES THE BOARD
9 MINUTES REFLECT THAT MR. MAST HAS RESIGNED AS CFO?

10 A YES.

11 Q APPROXIMATELY HOW LONG AFTER THE MERGER WAS THAT MR.
12 MAST LEFT?

13 A ABOUT TWO MONTHS.

14 Q AND WERE YOU AWARE OF OTHER INDIVIDUALS THAT LEFT
15 ALONG WITH MR. MAST?

16 A THERE WAS SOME OTHER INDIVIDUALS THAT LEFT FAIRLY
17 CLOSE AT THE SAME TIME THAT HE DID.

18 Q LET'S GO OVER SOME CHANGES THAT WERE MADE AS A RESULT
19 OF THE MERGER. ON THE BOARD OF CAROLINA INVESTORS WHAT,
20 IF ANYTHING, DID YOU NOTICE ABOUT SOME CHANGES THAT
21 HAPPENED AT HOMEGOLD AFTER THE MERGER?

22 A WELL, THE BIGGEST THING THAT I NOTICED PERSONALLY WAS
23 THE CHANGE IN THE AVAILABILITY OF FINANCIAL STATEMENTS AND
24 FINANCIAL DOCUMENTATION. FROM THE TIME KEVIN MAST CAME ON
25 AS CEO UNTIL HE LEFT THE BOARD OF DIRECTORS OF CAROLINA

1 INVESTORS AND MYSELF ALWAYS GOT A VERY SOPHISTICATED
2 BOOKLET CALLED THE RHINO BOOK WHICH CONTAINED ALL OF THE
3 FINANCIAL STATEMENTS. IT CONTAINED A CONSOLIDATED
4 FINANCIAL STATEMENT FOR HOMEGOLD INCLUDING ALL OF ITS
5 COMPANIES. BUT IN ADDITION TO THAT IT ALSO CONTAINED
6 INDIVIDUAL COMPANIES STATEMENTS INCLUDING CAROLINA
7 INVESTORS. AND ALSO CONTAINED WITHIN THAT REPORT WAS ALL
8 KINDS OF CHARTS, COLLECTIONS CHARTS COMPARED WITH PREVIOUS
9 MONTHS, DIFFERENT RATIO CHARTS COMPARED WITH PREVIOUS
10 MONTHS, COLLECTIONS. ANY KIND OF FINANCIAL INFORMATION
11 YOU WANT WAS PRETTY MUCH CONTAINED IN THAT REPORT. AND I
12 DIDN'T HAVE ANY TROUBLE KEEPING UP WITH THE DIFFERENCE
13 BETWEEN ONE MONTH TO THE NEXT MONTH. BUT ONCE KEVIN MAST
14 LEFT WE CEASED TO GET THOSE BOOKS AND WE CEASED TO GET
15 ADEQUATE FINANCIAL INFORMATION WITHOUT ACTUALLY JUST
16 BEGGING AND PLEADING AND GETTING ANGRY.

17 Q WHAT ABOUT THE WHOLESALE DIVISION, THE WHOLESALE PART
18 OF HOMEGOLD.

19 A WELL, THAT, I THINK ALONG ABOUT THE END OF AUGUST MR.
20 SHEPPARD SUDDENLY ANNOUNCED THAT HE WAS GOING TO MAKE A
21 CHANGE IN THE STRUCTURE OF THE COMPANY. AND BEFORE THAT
22 TOOK PLACE, DURING THE TIMES THAT THE MERGER WAS GOING ON
23 WE WERE TOLD IN PICKENS THAT IT WAS THE PERFECT MARRIAGE
24 OF TWO COMPANIES AND THAT IS WHAT WAS GOING TO BE THE
25 SALVATION OF HOMEGOLD BECAUSE HOMEGOLD HAD PRETTY MUCH

1 BEEN A WHOLESALE LENDER. THEY HAD A NETWORK OF OVER 1,200
2 BROKERS THAT THEY BOUGHT MORTGAGE LOANS FROM. ON THE
3 OTHER HAND MR. SHEPPARD'S COMPANY HAD BEEN A RETAIL LENDER
4 AND SO IT WAS BUILT TO US AS BEING A PERFECT MARRIAGE
5 BECAUSE YOU HAVE GOT AN EVEN MIX OF RETAIL AND WHOLESALE
6 BUSINESS. WELL, TWO OR THREE MONTHS AFTER THE MERGER
7 TAKES PLACE MR. SHEPPARD SUDDENLY ANNOUNCES THAT HE IS
8 GOING TO KILL THE WHOLESALE PART OF IT AND GO STRICTLY
9 RETAIL. AND, OF COURSE, THAT KILLED THE MORTGAGE VOLUME,
10 YOU KNOW, FOR A WHILE. BECAUSE THE WHOLESALE BUSINESS WAS
11 SUDDENLY CUT OFF. SO THE MORTGAGE VOLUME DROPPED AND THAT
12 HURT A LOT.

13 Q YOU ARE NOT AWARE INTERNALLY OF WHAT WAS GOING ON AT
14 HOMEGOLD?

15 A NO.

16 Q WAS THERE ANYBODY FROM CAROLINA INVESTORS THAT WAS
17 EMPLOYED THERE ON THE BOARD OF HOMEGOLD?

18 A NO, I REQUESTED TO BE ON THAT BOARD IN 2001 BUT I WAS
19 DENIED.

20 Q AND WHO FROM HOMEGOLD WAS ON THE CAROLINA INVESTORS
21 BOARD. WELL, LET'S GO BACK BEFORE THE MERGER, WHO WAS ON
22 FROM HOMEGOLD TO CAROLINA INVESTORS BOARD?

23 A KEITH GIDDENS AND JACK STERLING.

24 Q AFTER THE MERGER WHO WAS ON THAT FROM HOMEGOLD ON THE
25 CAROLINA INVESTORS BOARD?

1 A RONNIE AND JACK STERLING.

2 Q YOU TALKED ABOUT MR. MAST RESIGNING. DO YOU REMEMBER
3 WHO THE NEXT CFO WAS?

4 A IT WAS A FELLOW BY THE NAME OF LARRY GOSNELL CAME IN
5 FOR A BRIEF TIME. I THINK HE ATTENDED ONE BOARD MEETING
6 MAYBE IN OCTOBER OF 2000.

7 Q THIS REFERS TO A BOARD MEETING IN OCTOBER OF 2000. I
8 AM GOING TO SHOW YOU MINUTES. DO YOU RECOGNIZE THOSE?

9 A YES.

10 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE THIS IN
11 AS STATE'S EXHIBIT 178.

12 MR. GRIFFIN: NO OBJECTION.

13 THE COURT: WITHOUT OBJECTION STATE'S 178 IS
14 ADMITTED.

15 (WHEREUPON, STATE'S EXHIBIT NO. 178 WAS ADMITTED INTO
16 EVIDENCE.)

17 Q AND YOU WERE REFERRING TO MR. GOSNELL. IF YOU WILL
18 LOOK AT THE SECOND PARAGRAPH. WHO WAS IN ATTENDANCE AT
19 THAT OCTOBER 2000 CAROLINA INVESTORS BOARD MEETING?

20 A EARLE MORRIS, JR., MYSELF, DON BOBO, RONNIE SHEPPARD,
21 JOHN M. STERLING OR JACK STERLING. ALSO IN ATTENDANCE WAS
22 LARRY GOSNELL AND WILLIAM E. LONG WHO WAS THE IN-HOUSE
23 ATTORNEY FOR HOMEGOLD.

24 Q AND WHOSE SIGNATURE APPEARS ON THAT?

25 A MR. LONG.

1 Q AND HE WAS IN-HOUSE COUNSEL FOR HOMEGOLD?

2 A YES.

3 Q WAS HE ON THE BOARD OR DID HE JUST COME?

4 A HE WAS JUST IN ATTENDANCE.

5 Q DO YOU REMEMBER WHO THE NEXT CFO WAS?

6 A I BELIEVE IT WAS RHONDA JOHNSON. THEY CHANGED QUITE
7 FREQUENTLY DURING THAT TIME AND I KIND OF LOST TRACK.

8 Q AND I WANT TO SHOW YOU CAROLINA INVESTORS BOARD
9 MINUTES, JANUARY 2001. CAN YOU IDENTIFY THOSE?

10 A YES.

11 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
12 MOVE INTO EVIDENCE STATE'S EXHIBIT 179.

13 MR. GRIFFIN: NO OBJECTION.

14 THE COURT: WITHOUT OBJECTION, STATE'S 179 IS IN
15 EVIDENCE.

16 (WHEREUPON, STATE'S EXHIBIT NO. 179 WAS ADMITTED INTO
17 EVIDENCE.)

18 Q PLEASE TELL THE JURY WHAT THAT IS?

19 A THIS IS THE BOARD MINUTES FROM JANUARY 23RD OF 2001.

20 Q AND CAN YOU PLEASE TELL THE JURY WHO WAS IN
21 ATTENDANCE?

22 A EARLE MORRIS, JR., MYSELF, DON BOBO, RONNIE SHEPPARD,
23 DANNY SHARPE, JOHN STERLING. ALSO IN ATTENDANCE WERE
24 RHONDA JOHNSON, FORREST FERRELL AND WILLIAM E. LONG, JR.

25 Q RHONDA JOHNSON, THAT WAS THE NEXT CFO THAT YOU JUST

1 TALKED ABOUT?

2 A YES.

3 Q AND HOW MANY BOARD MEETINGS DO YOU REMEMBER HER
4 ATTENDING?

5 A SHE WOULD OF ATTENDED PROBABLY NO MORE THAN TWO OR
6 THREE.

7 Q AND WE WILL GET TO THE OTHER ONES IN A SECOND. DID
8 ANYONE EVER EXPLAIN TO YOU WHY EITHER ONE OF THOSE TWO
9 CFO'S LEFT FROM HOMEGOLD?

10 A NO.

11 Q DID YOU LEARN LATER?

12 A SOMEWHAT, YES.

13 Q AND IN GENERAL TERMS?

14 A I DIDN'T KNOW REALLY WHY MR. GOSNELL LEFT UNTIL A
15 LONG TIME LATER BUT I DID HEAR WHY MS. JOHNSON LEFT.

16 Q AND DO YOU KNOW WHAT THAT WAS ABOUT?

17 A IT WAS AN ISSUE PERTAINING TO TAX ACCOUNTING, I
18 BELIEVE.

19 Q AND AFTER THE MERGER IN 2002 DID THINGS CONTINUE,
20 WHAT WAS THE FINANCIAL CONDITION OF HOMEGOLD?

21 A IN 2000?

22 Q 2000.

23 A THEY WERE STILL LOSING MONEY, I THINK THEY ENDED UP
24 THAT YEAR WITH A LOSS OF \$29 MILLION DOLLARS, I BELIEVE.

25 Q AND THEY STILL CONTINUED TO BORROW MONEY FROM

1 CAROLINA INVESTORS?

2 A YES, THEY DID.

3 Q AND MR. OWEN, I REFERRED TO HOMEGOLD AS ONE, IS THERE
4 TWO SEPARATE HOMEGOLD COMPANIES. IS THERE A HOMEGOLD,
5 INCORPORATED AND A HOMEGOLD FINANCIAL?

6 A YES. HOMEGOLD, INCORPORATED WAS THE MORTGAGE ARM AND
7 HOMEGOLD FINANCIAL WAS THE PARENT.

8 Q MOVING ON TO 2001, TELL US A LITTLE BIT ABOUT 2001
9 AND THE FINANCIAL CONDITION OF THE COMPANY THEN.

10 A WELL, THE FINANCIAL CONDITION OF HOMEGOLD ACTUALLY
11 CONTINUED TO WORSEN AND ACTUALLY BY YEAREND, BUT IT WAS
12 THE BEST YEAR CAROLINA INVESTORS HAD EVER HAD AS FAR AS
13 NEW INVESTORS COMING INTO THE COMPANY. WE OPENED UP
14 SEVERAL THOUSAND, IN FACT ABOUT 4,000 SEVERAL NEW ACCOUNTS
15 THAT YEAR FOR A TOTAL NET OF AROUND \$65 MILLION DOLLARS.

16 Q AND GOING BACK TO THAT, THIS JANUARY 23RD, 2001 BOARD
17 MINUTES. I WILL DRAW YOUR ATTENTION, THE FIFTH PARAGRAPH
18 DOWN. CAN YOU PLEASE READ TO THE JURORS WHAT THAT
19 PARAGRAPH SAYS?

20 A STARTING OFF WITH MR. SHEPPARD?

21 Q YES, SIR.

22 A MR. SHEPPARD AND MR. STERLING DISCUSSED WITH THE
23 BOARD THAT AS HOMEGOLD, INCORPORATED BECOMES MORE
24 PROFITABLE IT SHOULD NOT NEED CASH GENERATED BY CII. AND
25 THAT THIS CASH SHOULD BE ALLOWED AND OR BE UTILIZED TO

1 MAKE PORTFOLIO LOANS FOR CII TO HOLD OR LOANS HELD FOR
2 SELL. ADDITIONALLY IT IS THE INTENTION OF HOMEGOLD TO
3 PAIR DOWN THE INTER-COMPANY DEBT.

4 Q AND THAT IS JANUARY 23RD OF 2001?

5 A YES.

6 Q AND IS THAT SOMETHING THAT YOU HEARD THROUGHOUT THE
7 TENURE WHEN MR. SHEPPARD WAS CEO OF HOMEGOLD?

8 A YES.

9 Q I AM GOING TO SHOW YOU THIS, CAN YOU IDENTIFY WHAT
10 THESE ARE. DO YOU RECOGNIZE THAT, MR. OWEN?

11 A YES, THESE ARE THE MINUTES FROM THE MAY 15TH, 2001
12 MEETING.

13 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE IN 179
14 AND 180.

15 THE COURT: 179 IS ALREADY IN, THAT IS THE BOARD
16 MEETING OF JANUARY 23RD. IS THAT RIGHT?

17 MS. EVANS: YES.

18 THE COURT: AND 180, ANY OBJECTION.

19 MR. GRIFFIN: NO OBJECTION.

20 THE COURT: WITHOUT OBJECTION 180 IS ADMITTED.

21 (WHEREUPON, STATE'S EXHIBIT NO. 180 WAS ADMITTED INTO
22 EVIDENCE.)

23 Q NOW, MR. OWEN, I AM GOING TO DRAW YOUR ATTENTION TO A
24 CERTAIN PARAGRAPH IN THAT. WHAT IS THE DATE OF THAT
25 REPORT?

1 A MAY 15TH.

2 Q WHAT YEAR?

3 A 2001.

4 Q AND SECOND PARAGRAPH, WHO WAS IN ATTENDANCE OF THAT
5 MEETING?

6 A EARLE MORRIS, JR., MYSELF, DON BOBO, RONNIE SHEPPARD,
7 JOHN STERLING AND DANNY SHARPE WAS NOT PRESENT AT THAT
8 MEETING. FORREST FERRELL WHO HAD JUST BEEN MADE PRESIDENT
9 OF HOMEGOLD AND WILLIAM E. LONG, JR.

10 Q AND, MR. OWEN, I AM GOING TO DRAW YOUR ATTENTION DOWN
11 TO THE LAST PARAGRAPH ON THAT PAGE, ABOUT HALF WAY THROUGH
12 STARTING WITH MR. SHEPPARD. WOULD YOU PLEASE TELL THE
13 JURY WHAT HE TOLD TO CAROLINA INVESTORS ON MAY 15TH OF
14 2001.

15 A MR. SHEPPARD ADVISED THAT THE COMPANY BEAT ITS FIRST
16 QUARTER VOLUME PROJECTION AND IT SHOULD BE ABLE TO TURN A
17 PROFIT IN JUNE OF 2001.

18 Q GO DOWN TO THE NEXT SECTION THAT SAYS MR. SHEPPARD.

19 A MR. SHEPPARD ADVISED THAT HOMEGOLD HAS AN OPPORTUNITY
20 TO BREAK EVEN FOR THE SECOND QUARTER.

21 Q AND DOES HE GO ON TO TALK ABOUT WAREHOUSE LINES OF
22 CREDIT?

23 A DO YOU WANT ME TO CONTINUE TO READ?

24 Q NOT VERBATIM. DOES IT DISCUSS WAREHOUSE LINES OF
25 CREDIT AFTER THAT?

1 A YES.

2 Q FINANCIALLY HOW WAS HOMEGOLD DOING DURING THAT, THAT
3 WOULD BE AROUND THE SECOND QUARTER OF 2001.

4 A THEY ARE STILL LOSING MONEY.

5 Q BUT DOES MR. SHEPPARD KEEP ON TELLING YOU ABOUT WHAT
6 IS GOING TO HAPPEN WITH THE COMPANY?

7 A WELL, HE AND MR. STERLING BOTH KEPT PROMISING US THAT
8 THEY WERE GOING TO BE PROFITABLE. IN FACT THAT WAS THE
9 YEAR THAT THEY NARROWED IT DOWN TO THE VERY NEXT MONTH AND
10 IT NEVER HAPPENED.

11 Q AND I AM GOING TO SHOW YOU SOME MORE CAROLINA
12 INVESTORS MINUTES. CAN YOU IDENTIFY THOSE?

13 A YES, THESE ARE THE MINUTES OF AUGUST THE 14TH OF
14 2001.

15 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
16 MOVE THESE, AUGUST 14TH.

17 THE COURT: ANY OBJECTION?

18 MR. GRIFFIN: NO, YOUR HONOR.

19 THE COURT: STATE'S 181 IS ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 181 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q MR. OWEN, I AM GOING TO HAVE YOU LOOK AT THE, PLEASE
23 TELL THE JURY WHO WAS IN ATTENDANCE AT THAT MEETING?

24 A RONNIE SHEPPARD, EARLE MORRIS, MYSELF, JACK STERLING,
25 DANNY SHARPE, DON BOBO WAS ABSENT, FORREST FERRELL AND

1 KEVIN MARTIN ARE PRESENT FROM HOMEGOLD.

2 Q AND WHO IS KEVIN MARTIN?

3 A AT THAT TIME I BELIEVE HE HAD BEEN MADE CHIEF
4 FINANCIAL OFFICER.

5 Q AND GOING DOWN TO THE FORTH PARAGRAPH, WOULD YOU
6 PLEASE READ THAT TO THE JURY?

7 A THE ISSUE OF THE RATIO EARNINGS FIXED CHARGES WAS
8 DISCUSSED AND LARRY OWEN STATED THAT THE SECURITIES
9 COMMISSION LIKES FOR THAT RATIO TO BE NORTH BY 1.25 TO 1.
10 WE ARE PRESENTLY, ARE AT 1.21. KEVIN, RONNIE AND FORREST
11 FEEL THAT BETWEEN NOW AND YEAREND BUSINESS WILL APPROVE
12 SUCH THAT THE RATIO SHOULD NOT BE A PROBLEM.

13 Q PLEASE, WITHOUT GOING INTO ANY DETAIL, WHAT DOES THAT
14 RATIO AND IN VERY BASIC TERMS MEAN?

15 A IT BASICALLY JUST MEANS THAT A PROFIT OF THE COMPANY
16 IS SUFFICIENT TO PAY THE DEBT WITH MONEY LEFT OVER.

17 Q AND AGAIN GOING TO THE SECOND PAGE, THE SECOND FULL
18 PARAGRAPH. IN GENERAL TERMS WHAT IS DISCUSSED ABOUT WHAT
19 IS GOING ON AT HOMEGOLD. YOU DON'T HAVE TO READ IT BUT IN
20 GENERAL TERMS.

21 A THE ADVERTISEMENT PROPOSAL, IS THAT THE ONE?

22 Q I AM SORRY. THE PARAGRAPH UNDERNEATH THAT BEGINNING
23 WITH FORREST FERRELL.

24 A OKAY.

25 Q YOU DON'T HAVE TO READ IT TO THE JURY BUT JUST IN

1 GENERAL TERMS WHAT IS TOLD TO YA'LL ABOUT THE FINANCIAL
2 CONDITION OF HOMEGOLD BY THEM?

3 A THEY WERE PROJECTING TO US THAT THE MORTGAGE VOLUME
4 FOR THE NEXT MONTH WOULD BE \$70 TO \$80 MILLION DOLLARS FOR
5 AUGUST.

6 Q ABOUT THIS TIME WHAT IS THE TRUE FINANCIAL CONDITION
7 OF HOMEGOLD ABOUT THIS TIME IN 2001?

8 A WELL, THEY ARE STILL LOSING MONEY ON A MONTHLY BASIS.
9 AND THE PROMISES THEY KEEP MAKING, THE BENCHMARK KEEPS
10 RISING. THEY KEEP SAYING, YOU KNOW, WE ARE GOING TO GET
11 MORTGAGE VOLUME OF \$70 MILLION NEXT MONTH. AND, YOU KNOW,
12 THE PROFITABILITY LEVEL IS \$65 MILLION. WELL, THE NEXT
13 MONTH THE BENCHMARK RISES BECAUSE THEY HAD TO HIRE SOME
14 LOAN OFFICERS OR THEY HAD TO DO THIS OR HAD TO DO THAT.
15 SO, IT WAS JUST, NEVER DID HIT A MARK.

16 Q IN GENERAL TERMS CAN YOU PLEASE JUST DESCRIBE, THE
17 HOMEGOLD OFFICIALS SPECIFICALLY THE DEFENDANT, WHAT KIND
18 OF FINANCIAL PICTURE IS HE PAINTING OF HOW HOMEGOLD IS
19 DOING AT THIS POINT?

20 A WELL, THEY ALWAYS CAME UP AND PAINTED A VERY VIVID
21 PICTURE OF ABOUT HOW GOOD THINGS WERE GETTING, HOW
22 MORTGAGE VOLUME IS INCREASING, IT WAS ALWAYS A VERY
23 POSITIVE UPBEAT THING BASED PRIMARILY ON MORTGAGE VOLUME.
24 NO DETAIL WAS GIVEN ABOUT HOW BADLY EXPENSES WERE
25 INCREASING AS WELL.

1 Q AND YOU PREVIOUSLY, WITHOUT GOING INTO THAT, WERE YOU
2 ASKING QUESTIONS OF MR. SHEPPARD AND OTHER HOMEGOLD
3 OFFICIALS ABOUT WHAT IS GOING ON, WHY AREN'T YOU MEETING
4 THESE PROJECTIONS, WHAT WAS GOING ON?

5 A ABSOLUTELY. WE HAD TO HAVE, WE TRIED OUR BEST TO
6 PICK OUT SOME GOOD INFORMATION. WE KNEW THAT WE HAD TO
7 HAVE GOOD INFORMATION FROM THEM ABOUT WHAT WAS GOING ON AS
8 FAR AS HELPING THEM REACH PROFITABILITY TO BE ABLE TO PASS
9 ON TO OUR INVESTORS BECAUSE OUR INVESTORS WERE ASKING A
10 LOT OF QUESTIONS ABOUT, YOU KNOW, ARE THEY STILL LOSING
11 MONEY OR ARE THEY PROFITABLE YET, WHAT IS HOMEGOLD DOING.

12 Q AND WHAT WERE THE ANSWERS YOU WERE GETTING FROM THE
13 DEFENDANT?

14 A MORTGAGE VOLUME, WE EXPECT TO BE PROFITABLE NEXT
15 MONTH OR NEXT QUARTER. BUT LIKE I SAID, AT THIS POINT AND
16 TIME, IN AUGUST OF '01 THEY HAD PROFITABILITY NARROWED
17 DOWN TO SEPTEMBER. WE ARE GOING TO BE PROFITABLE NEXT
18 MONTH.

19 Q AND WHAT WOULD HAPPEN THAT NEXT MONTH OR THAT NEXT
20 MEETING?

21 A SOMETHING ALWAYS HAPPENED WHERE THEY DIDN'T REACH
22 THAT MARK.

23 Q MR. OWEN, THIS HAS ALREADY BEEN MARKED INTO EVIDENCE
24 AS 133. AGAIN, WITHOUT HAVING TO DIG DOWN THIS IS A COPY
25 OF IT. CAN YOU PLEASE TELL THE JURORS WHAT THAT IS?

1 A THIS IS THE MINUTES FROM THE NOVEMBER 20TH, 2001
2 BOARD MEETING.

3 Q AND WHO WAS IN ATTENDANCE FOR THAT ONE?

4 A MR. SHEPPARD, MR. MORRIS, MYSELF, MR. STERLING, MR.
5 BOBO AND MR. SHARPE, ALSO FORREST FERRELL, DAVID GAFFNEY
6 AND KEVIN MARTIN.

7 Q AND SKIPPING TO THE NEXT PARAGRAPH, THE PARAGRAPH
8 BEGINNING KEVIN MARTIN. CAN YOU READ THAT ONE SENTENCE?

9 A KEVIN MARTIN WAS PRESENT AND REVIEWED FINANCIALS FOR
10 THE QUARTER.

11 Q IN GENERAL TERMS IS THIS WHAT YOU WERE TALKING ABOUT,
12 THE LACK OF GETTING INFORMATION, THAT HE REVIEWED THEM.
13 BUT JUST TELL THE JURY ABOUT HIS REVIEW OF THEM.

14 A WELL, BASICALLY WHAT HIS REVIEW OF THE FINANCIALS
15 WOULD BE, WE WOULD HAVE THE BALANCE SHEET AND THE P&L
16 STATEMENT. AND BASICALLY HE JUST RUN DOWN THE BALANCE
17 SHEET AND EXPLAINED ANY DIFFERENCES THAT HAD OCCURRED FROM
18 THE PREVIOUS MONTHS BETWEEN THE ASSETS LIKE INCREASE IN
19 MORTGAGE VOLUME, INCREASE IN LOANS OR THAT, YOU KNOW,
20 CHANGE IN THE BALANCE OF THE INTER-COMPANY DEBT, MAYBE IF
21 IT WENT UP OR BY ANY CHANCE WENT DOWN HE WOULD EXPLAIN
22 WHAT CAUSED IT. THEN HE WOULD FLIP OVER TO THE INCOME
23 STATEMENT, GO DOWN THE INCOME ITEMS AND THEN EXPLAIN
24 INCREASES OR DECREASES AND DO THE SAME THING ON THE
25 EXPENSE ITEMS. AND BASICALLY THAT WAS IT AS FAR AS HIS

1 INFORMATION OF FINANCIAL STATEMENTS.

2 Q AND IN THE SAME MINUTES, ABOUT TWO SENTENCES DOWN
3 BEGINNING WITH MR. FERRELL, PLEASE READ THAT SENTENCE TO
4 THE JURY.

5 A IT SAYS THAT MR. FERRELL AND MR. SHEPPARD STATED THAT
6 IT IS THEIR GOAL TO HAVE THE INTER-COMPANY BALANCE DOWN TO
7 AS NEAR \$100 MILLION AS POSSIBLE BY YEAREND.

8 Q AND IS THAT THE SAME TYPE OF THING THAT YA'LL HAD
9 BEEN HEARING FROM MR. SHEPPARD AND OTHER INDIVIDUALS THAT
10 WERE PRESENT AT THOSE MEETINGS?

11 A YES, ABSOLUTELY.

12 Q AND DURING THIS TIME FRAME, 2001, WHAT WAS ACTUALLY
13 GOING ON, WHAT WAS THE FINANCIAL CONDITION OF HOMEGOLD
14 SPECIFICALLY NOVEMBER OF 2001?

15 A THEY WERE CONTINUING TO LOSE MONEY AND IN NOVEMBER
16 THEY REPORTED TO US THAT THEY WERE COMMENCING A NATIONWIDE
17 EXPANSION. THEY WANTED TO OPEN UP A BUNCH OF NEW OFFICES.

18 Q . AND WHAT DID YOU AND OTHER MEMBERS OF THE CAROLINA
19 INVESTORS BOARD THINK ABOUT THAT EXPANSION?

20 A WE DIDN'T LIKE IT. THEY TOLD US THEY HAD ALREADY
21 TOLD US THEY HAD OPENED FIVE NEW OFFICES AND WE FOUND OUT
22 ABOUT IT AFTER THE FACT. BUT WE CAUTIONED THEM TO TAKE IT
23 SLOW, OPEN ONE OFFICE AT A TIME AND GET EACH OFFICE
24 STANDING ON ITS OWN FEET. AND GO SLOW WITH IT AND NOT
25 MAKE THE SAME MISTAKES THAT THE OLD HOMEGOLD HAD MADE BY

1 GROWING TOO FAST.

2 Q AND DO YOU REMEMBER SPECIFICALLY THAT THIRD QUARTER
3 OF 2001, DID HOMEGOLD ACTUALLY SHOW A PROFIT?

4 A I THINK MAYBE THE RETAIL DIVISION MAY OF SHOWN A \$331
5 THOUSAND DOLLAR PROFIT BUT THAT WAS FROM AN ADJUSTING
6 ENTRY OF SOME RESERVE, IT WASN'T OPERATIONAL PROFIT.

7 Q WAS THAT EXPLAINED TO YOU THAT IT WAS AN ACCOUNTING
8 THING THAT MADE THEM SHOW THE PROFIT?

9 A I THINK THAT IS WHAT IT WAS, YES, IT WAS AN
10 ADJUSTMENT, IT WASN'T A DIFFERENCE BETWEEN INCOME AND
11 EXPENSES.

12 Q MR. OWEN, I AM GOING TO SHOW YOU AN EMAIL. DO YOU
13 RECOGNIZE THAT?

14 A YES, THIS IS A COPY OF SOMETHING THAT WAS GOING TO BE
15 INCLUDED IN WITH THE PROSPECTUS FILE.

16 Q AND I AM GOING TO SHOW IT TO YOU TO REFRESH YOUR
17 MEMORY. I AM GOING TO, THE LAST, IF YOU COULD READ THAT.
18 DON'T READ IT OUT TO THE JURY BUT JUST READ THAT LAST LINE
19 RIGHT THERE.

20 A YES.

21 Q YOU ORIGINALLY TALKED ABOUT CAROLINA INVESTORS. HOW
22 MANY LOCATIONS YOU HAVE. AROUND THIS TIME WAS THERE ALSO
23 EXPANSION AT CAROLINA INVESTORS?

24 A YES, THE BOARD HAD AUTHORIZED ME TO PURSUE LOCATING
25 AN APPROPRIATE OFFICE BUSINESS IN ANDERSON TO OPEN A

1 BRANCH DOWN THERE.

2 Q WHEN YOU SAY THE BOARD, WHAT BOARD?

3 A CAROLINA INVESTORS BOARD.

4 Q OKAY. DID YOU DISCUSS THIS WITH PEOPLE AT HOMEGOLD?

5 A CERTAINLY.

6 Q AND WHO SPECIFICALLY DID YOU DISCUSS THAT WITH AT
7 HOMEGOLD?

8 A MR. SHEPPARD AND FORREST FERRELL. I COULDN'T ORDER A
9 NEW TELEPHONE WITHOUT GETTING THEIR APPROVAL.

10 Q OKAY. AND YOU SAID IN GENERAL, IS THERE EVERYTHING
11 AT CAROLINA INVESTORS, TO DO SOMETHING DO YOU HAVE TO GET
12 THE APPROVAL OF PEOPLE AT HOMEGOLD?

13 A YES.

14 Q AND SPECIFICALLY WHO DID YOU DEAL WITH AT HOMEGOLD?

15 A MOST OF THE TIME FORREST FERRELL, OCCASIONALLY RONNIE
16 SHEPPARD.

17 Q AND DURING THIS TIME FRAME OF 2001 IS CAROLINA
18 INVESTORS CONTINUING TO LOAN MONEY TO HOMEGOLD?

19 A THEY ARE CONTINUING TO UPSTREAM MONEY THAT WE TAKE IN
20 FROM INVESTORS AND DEPOSIT IT INTO BANK OF AMERICA.

21 Q AND GOING BACK TO THAT NOVEMBER OF 2001 BOARD MEETING
22 THAT WE WERE JUST DISCUSSING THOSE MINUTES. DID ANYBODY,
23 MR. SHEPPARD, MR. FERRELL OR ANYBODY THAT WAS THERE
24 EXPLAIN TO YOU ABOUT A MEETING THAT THEY HAD THE PREVIOUS
25 MONTH WITH ELLIOTT DAVIS?

1 A NO.

2 Q EVER DISCUSS ANY MEETINGS OR ANYTHING ABOUT GOING
3 CONCERN OR LOAN IMPAIRMENT AT THAT NOVEMBER 2001 MEETING?

4 A NO.

5 Q WHAT WAS THE TONE OF THAT MEETING ABOUT HOW HOMEGOLD
6 WAS DOING?

7 A THEY ALWAYS CAME TO THE MEETINGS TALKING ABOUT HOW
8 THE MORTGAGE VOLUME HAD INCREASED OVER THE PRIOR MONTH AND
9 HOW MUCH MORTGAGE VOLUME THEY WERE GOING TO GENERATE FROM
10 THESE NEW OFFICES. THEY TOLD US THAT THEY EXPECTED EACH
11 ONE OF THESE NEW OFFICES TO GENERATE AT LEAST \$15 MILLION
12 DOLLARS A MONTH IN MORTGAGE VOLUME. AND THE ONES THAT HAD
13 ALREADY BEEN OPENED SINCE AUGUST WERE ON THEIR WAY TO
14 GENERATING THAT VOLUME.

15 Q SO, HOMEGOLD HAS BEEN OPERATING FOR A LOSS FOR
16 SEVERAL YEARS. WHAT ARE YOU AND OTHER PEOPLE UP AT
17 CAROLINA INVESTORS TELLING THEM ABOUT HOMEGOLD AND WHAT IS
18 GOING TO HAPPEN?

19 A WELL, YOU ARE TALKING ABOUT TO OUR INVESTORS?

20 Q TO THE INVESTORS AT CAROLINA INVESTORS.

21 A CERTAINLY, WE ARE CONVEYING TO THEM WHAT HOMEGOLD
22 TELLS AT THE BOARD MEETINGS BECAUSE THAT IS THE ONLY
23 SOURCE OF INFORMATION THAT WE HAVE TO GIVE OUR INVESTORS
24 OTHER THAN THE STALE INFORMATION THAT IS IN THE PROSPECTUS
25 WHICH, YOU KNOW, ON UP INTO THE YEAR, THAT INFORMATION IS

1 SEVEN, EIGHT, NINE MONTHS OLD.

2 Q AND SO WHEN YOU HAVE THESE MEETINGS AND THEY ARE
3 GIVING YOU THIS INFORMATION ARE YOU AND MR. MORRIS AND
4 OTHER PEOPLE PASSING THAT ALONG TO THE INVESTORS?

5 A CERTAINLY, THAT IS THE WHOLE PURPOSE OF GETTING THAT
6 INFORMATION AND THE PURPOSE FOR THEM GIVING IT TO US.

7 Q AND DID YOU RELAY BACK TO SOME PEOPLE AT HOMEGOLD,
8 SPECIFICALLY THE DEFENDANT, ABOUT INDIVIDUAL INVESTORS AND
9 CONCERNS ABOUT WHAT YOU WERE TELLING THEM?

10 A SURE. ALMOST ON A DAILY BASIS WE LET THEM KNOW WHAT
11 OUR INVESTORS WERE SAYING. AND IF WE HAD A LARGE
12 REJECTION OR A LARGE INVESTMENT WE CERTAINLY CALLED AND
13 DISCUSSED IT WITH THEM.

14 Q LET'S MOVE ON TO 2002. DID YOU HAVE ANOTHER BOARD OF
15 DIRECTORS MEETING EARLY IN 2002?

16 A I AM SURE WE DID, I CAN'T REMEMBER SPECIFICALLY THE
17 EXACT DATE OF THE 2002, I THINK WE HAD ONE BACK IN JANUARY
18 OR THE FIRST OF FEBRUARY.

19 Q MR. OWEN, I AM GOING TO SHOW YOU CAROLINA INVESTORS
20 MINUTES, CAN YOU IDENTIFY THAT AND WHOSE WRITING THAT IS?

21 A YES, IT IS DATED FEBRUARY THE 12TH OF 2002 AND IT IS
22 MY WRITING.

23 MS. EVANS: YOUR HONOR, AT THIS TIME THE STATE WOULD
24 LIKE TO MOVE INTO EVIDENCE EXHIBIT NUMBER 182.

25 THE COURT: ANY OBJECTION?

1 MR. GRIFFIN: NO, YOUR HONOR.

2 THE COURT: 182 IS ADMITTED.

3 (WHEREUPON, STATE'S EXHIBIT NO. 182 WAS ADMITTED INTO
4 EVIDENCE.)

5 Q ARE THOSE LIKE THE OTHER MINUTES THAT YOU LOOKED AT,
6 THEY WERE ALL TYPED UP WITH YOUR HANDWRITTEN NOTES?

7 A NO, THESE ARE MY HAND, MY ACTUAL HANDWRITTEN NOTES
8 TAKEN AT THE MEETING.

9 Q AND IN GENERAL TERMS IS, IS THIS MORE UNUSUAL FOR IT
10 NOT TO BE TYPED UP, THESE REGULAR NOTES THAN THE OTHER ONE
11 THAT YOU JUST SAW?

12 A YES, GENERALLY WOULD DO, AS SOON AS THE MEETING WAS
13 OVER I WOULD GO BACK TO MY OFFICE AND SIT DOWN AND TYPE
14 THE NOTES UP INTO TYPED MINUTES.

15 Q DID ANYONE AT THAT POINT TELL YOU ANYTHING ABOUT
16 WORKING ON VALUATIONS OR ISSUES THAT WERE COMING UP WITH
17 THE CAROLINA INVESTORS PROSPECTUS?

18 A NO.

19 Q AND IN FACT, IF YOU LOOK AT ONE OF YOUR HANDWRITTEN
20 NOTES, SOMETHING ABOUT THE PROSPECTUS, RIGHT HERE.

21 A THAT NOTE JUST SAID THE PROSPECTUS WILL BE DONE
22 EARLY.

23 Q AND IS THE TONE OF THAT MEETING THE SAME TONE AS THE
24 OTHER ONES THAT YOU HAVE ALREADY DESCRIBED TO THE JURY?

25 A YES, VERY HIGH. WE TALKED ABOUT AGAIN ABOUT THE

1 EXPANSION AND NEW OFFICES THAT WERE OPENED. AND I BELIEVE
2 AT THAT SAME MEETING WE REITERATED OUR OPPOSITION TO THE
3 RAPID EXPANSION.

4 Q OKAY. AND WHAT DID THE DEFENDANT TELL YOU WHEN YA'LL
5 TOLD HIM YOU DIDN'T WANT HIM TO RAPIDLY EXPAND THE
6 COMPANY?

7 A I DON'T THINK THEY GAVE US REALLY AN ANSWER THAT I
8 COULD REMEMBER AT THAT PARTICULAR TIME. THE NEXT MONTH
9 THOUGH WE WERE TOLD THAT THEY WEREN'T GOING TO DO ANY
10 MORE.

11 Q LET'S MOVE ON TO 2002. DID YOU ATTEND A MEETING AT
12 THE WYCHE LAW FIRM IN MARCH OF 2002?

13 A I DID.

14 Q AND PLEASE TELL THE JURORS ABOUT THAT MEETING. FIRST
15 OF ALL, WHO WAS AT THAT MEETING?

16 A ALL THE SENIOR OFFICERS FROM HOMEGOLD FINANCIAL. I
17 KNOW FOUR, MAYBE FIVE AUDITORS FROM ELLIOTT DAVIS AND
18 COMPANY, MYSELF AND EARLE MORRIS.

19 Q AND PLEASE TELL THE JURORS WHAT WAS DISCUSSED OR TOLD
20 TO YOU AT THIS MEETING?

21 A THE ENTIRE MORNING SESSION OF THE DISCUSSIONS
22 CENTERED AROUND THE FACT THAT THE, BECAUSE OF HOMEGOLD'S
23 ONGOING LOSSES AND THEIR LOSS THAT THEY HAD THROUGH THE
24 END OF DECEMBER OF 2001 WHICH BY THE WAY I THINK WAS
25 AROUND \$76 MILLION DOLLARS. THEY WERE GOING TO HAVE TO

1 PUT A GOING CONCERN PARAGRAPH IN THE PROSPECTUS.

2 Q AND IS THAT THE FIRST TIME THAT YOU HAD HEARD GOING
3 CONCERN?

4 A YES, IT WAS.

5 Q AND DID YOU EVEN KNOW, DID YOU KNOW ABOUT WHAT THE
6 TERM MEANT?

7 A I HAD SEEN THE TERM IN THE WALL STREET JOURNAL BUT I
8 DIDN'T KNOW WHAT ALL IT MEANT. I JUST KNEW IT WASN'T
9 GOOD.

10 Q WHAT WAS THE TENURE OF THAT MEETING?

11 A VERY ANGRY, VERY ARGUMENTATIVE. MR. SHEPPARD GOT
12 REALLY, REALLY ANGRY AT GARRY RANK AND SOME OF THE OTHER
13 AUDITORS THERE, GOT VERY HEATED.

14 Q AND WERE YOU AWARE THAT THERE HAD BEEN A PREVIOUS
15 OCTOBER MEETING WHERE ISSUES WERE DISCUSSED?

16 A NO, I WAS NOT.

17 Q AND AT THAT MARCH 14TH MEETING WHO IS THERE FOR
18 CAROLINA INVESTORS?

19 A JUST MYSELF AND EARLE MORRIS.

20 Q WAS MR. SHARPE THERE?

21 A PARDON?

22 Q WAS MR. SHARPE AND MR. BOBO THERE?

23 A NO.

24 Q AND JUST TELL THE JURORS, WHAT WAS YOUR REACTION TO
25 THAT MEETING?

1 A WELL, THEY WERE TALKING ABOUT PUTTING A GOING CONCERN
2 PARAGRAPH IN THE PROSPECTUS AND PUTTING A RESERVE AGAINST
3 HOMEGOLD'S DEBT IN THE PROSPECTUS. AND BASICALLY A GOING
4 CONCERN, I HAVE SINCE LEARNED MEANS THAT A COMPANY WOULD
5 NOT BE EXPECTED TO EXIST PAST 12 MONTHS AFTER THE GOING
6 CONCERN WAS ISSUED. I DIDN'T KNOW THAT AT THE TIME. BUT
7 I KNEW IT WAS BAD ENOUGH WHERE IT WOULD MAKE OUR BEING
8 ABLE TO SELL THE PROSPECTUS TO OUR INVESTORS, THE WAY THAT
9 WE HAD ALWAYS DONE, I KNEW THAT IT WAS GOING TO MAKE THAT
10 JOB EXTREMELY DIFFICULT AND I KNEW THAT LANGUAGE COULD
11 VERY POSSIBLY CAUSE A RUN ON THE MONEY AND COULD CAUSE THE
12 COMPANY TO FAIL. AND I MADE THE STATEMENT AT THAT MEETING
13 THAT IF THAT LANGUAGE WAS PUT IN THE PROSPECTUS THEN EARLE
14 AND I COULD POSSIBLY BE SHOT.

15 Q AND WHY DID YOU SAY SUCH A STATEMENT SUCH AS THAT?

16 A WELL, BECAUSE YOU KNOW THERE IS A VERY STRONG CHANCE
17 THAT THE COMPANY COULD COLLAPSE IF THE PUBLIC RECEIVED
18 THAT INFORMATION BADLY ENOUGH.

19 Q AND HAD YOU EVER HEARD ANYTHING ABOUT THIS BEFORE?

20 A NO. I LATER FOUND OUT IT HAD BEEN DISCUSSED WAY
21 BACK.

22 Q AND DID THEY ALSO DISCUSS LOAN IMPAIRMENT AT THAT
23 MEETING?

24 A YES, THEY DID.

25 Q AND JUST BRIEFLY, WHAT WAS YOUR EMOTIONAL STATE OR

1 WHAT WAS YOUR REACTION TO HEARING ALL OF THAT INFORMATION
2 AS OPPOSED TO EVERYTHING THAT YOU HAD BEEN HEARING THROUGH
3 2001 FROM THE DEFENDANT AND OTHER HOMEGOLD OFFICIALS?

4 A WELL, IT DIDN'T JIVE. THEY HAD BEEN COMING UP THERE
5 TELLING US ALL THIS, ALL OF THESE POSITIVE THINGS THEY
6 WERE DOING TO RETURN TO PROFITABILITY AND ALL OF A SUDDEN
7 WE ARE HAULED INTO GREENVILLE TO A MEETING. I MEAN IT WAS
8 TOTAL SHOCK. WHEN I MADE THE STATEMENT THAT EARLE AND I
9 WOULD BE SHOT, TOMMY WYCHE FROM THE WYCHE LAW FIRM SAID
10 YES, THERE WILL BE BLOOD SHED IN THE STREETS OF PICKENS.

11 MR. GRIFFIN: OBJECTION, YOUR HONOR.

12 THE COURT: WAIT A MINUTE.

13 MR. GRIFFIN: OBJECTION TO WHAT MR. WYCHE SAID.

14 THE COURT: STRIKE THAT LAST COMMENT, I SUSTAIN THE
15 OBJECTION. ARE WE AT A PRETTY GOOD BREAKING POINT RIGHT
16 NOW?

17 MS. EVANS: YES, SIR.

18 THE COURT: WE WILL TAKE ABOUT A TEN MINUTE BREAK,
19 DON'T DISCUSS THE CASE AND EVERYONE REMAIN SEATED WHILE
20 THE JURY IS EXCUSED.

21 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
22 A BREAK.)

23 THE COURT: WE WILL TAKE TEN MINUTES. MR. OWEN,
24 DON'T DISCUSS YOUR TESTIMONY.

25 (WHEREUPON, A SHORT BREAK WAS TAKEN.)

1 THE COURT: IS THE STATE READY?

2 MS. EVANS: THE STATE IS READY.

3 THE COURT: IS THE DEFENSE READY, MR. GRIFFIN?

4 MR. GRIFFIN: YES, YOUR HONOR.

5 THE COURT: BRING THE JURY IN, PLEASE.

6 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
7 APPROXIMATELY 3:45 P.M.)

8 THE COURT: MS. EVANS, YOU MAY CONTINUE.

9 CONTINUE DIRECT EXAMINATION:

10 BY MS. EVANS:

11 Q MR. OWEN, WE WERE TALKING ABOUT A MARCH 14TH MEETING
12 AND YOU WERE TALKING ABOUT YOUR REACTION AND WHAT YOU SAID
13 THERE. WHAT WAS YOUR DEMEANOR AFTER YOU LEFT THAT
14 MEETING?

15 A I WAS SICK. I MEAN, I DIDN'T KNOW WHAT TO THINK. I
16 DIDN'T KNOW WHAT TO DO, I DIDN'T KNOW WHAT I WAS GOING TO
17 TELL MY EMPLOYEES. I DIDN'T KNOW HOW I WAS GOING TO DEAL
18 WITH THE PUBLIC, I DIDN'T KNOW HOW I WAS GOING TO BE ABLE
19 TO EXPLAIN TO THE PUBLIC WHAT I WAS BEING TOLD AND STILL
20 EXPECT THEM TO BUY OUR NOTES AND DEBENTURES.

21 Q AND AT THIS POINT IN 2002 HOW LONG HAD CAROLINA
22 INVESTORS BEEN IN BUSINESS?

23 A LET ME THINK A MINUTE, STARTED IN 1963 SO YOU ARE
24 TALKING 38, 39 YEARS.

25 Q AND YOU HEAR THIS NEWS FOR THE FIRST TIME AT THIS

1 MEETING. DID YOU HAVE DISCUSSIONS WITH THE DEFENDANT AND
2 MR. STERLING OR OTHER PEOPLE AT HOMEGOLD ABOUT THE IMPACT
3 THAT IT WOULD HAVE AT CAROLINA INVESTORS AFTER THAT
4 MEETING WITH THE AUDITORS?

5 A YES, I WAS SO ANGRY AND UPSET THAT I TOLD MR.
6 SHEPPARD THAT THEY DIDN'T NEED TO OPEN ANY MORE OFFICES
7 AND TRY TO USE THAT MONEY TO GET BACK TO PROFITABILITY.
8 AND HE SAID, TO USE HIS EXACT WORDS, HE SAID I AM NOT
9 GOING TO OPEN ANOTHER DAMN OFFICE, PERIOD.

10 Q AND THAT WAS HOMEGOLD AND CAROLINA INVESTORS?

11 A WE WERE TALKING PRIMARILY ABOUT HOMEGOLD.

12 Q HOMEGOLD?

13 A YES.

14 Q OKAY. AND DID YA'LL HAVE DISCUSSIONS, YOU, MR.
15 SHEPPARD, MR. STERLING AND OTHERS AT HOMEGOLD ABOUT HOW
16 YOU WOULD TELL THE INVESTORS ABOUT WHAT YOU HEARD AT THAT
17 MARCH 14TH MEETING?

18 A YES. AFTER THE AUDITORS LEFT, THEY LEFT OUR GROUP
19 THERE TO CARRY ON DISCUSSIONS AFTER THAT AND I TALKED TO
20 MR. STERLING AND MR. SHEPPARD ABOUT HOW I WAS GOING TO
21 CONVEY ALL OF THIS TO OUR INVESTORS AND IN PARTICULAR TO
22 OUR EMPLOYEES FOR THEM TO BE ABLE TO TELL THE INVESTORS.
23 AND WE TALKED ABOUT HAVING A MEETING WITH THE STAFF AND
24 MR. STERLING ACTUALLY CALLED ME A FEW DAYS LATER AND TOLD
25 ME TO GET IN TOUCH WITH MR. HOLDER, FIND OUT WHEN HE WAS

1 GOING TO BE IN TOWN AND THEN GO AHEAD AND SCHEDULE A
2 MEETING WITH THE STAFF AND MR. HOLDER SEPARATELY.

3 Q AND WE WILL GET TO THAT SEPARATE MEETING. BUT WAS
4 THE DISCUSSIONS OF HAVING THAT MEETING WITH THE STAFF AT
5 CAROLINA INVESTORS, WAS THAT A MEETING WITH THE DEFENDANT
6 AND OTHER HOMEGOLD OFFICIALS THAT HAD BEEN AT THIS MARCH
7 14TH MEETING?

8 A YES.

9 Q AND IN ESSENCE WHAT DID MR. STERLING AND MR. SHEPPARD
10 TELL YOU ABOUT WHAT THEY WERE GOING TO DO TO HELP YOU WITH
11 THE STAFF?

12 A WELL, MR. STERLING OFFERED FOR HE AND KEVIN MARTIN TO
13 COME OVER AND, COME OVER TO THE PICKENS OFFICE AND
14 ACTUALLY GO OVER ALL OF THE CHANGES WITH THE STAFF.

15 Q AND THAT WAS DISCUSSED RIGHT AFTER THAT MARCH 14TH
16 MEETING WITH THE DEFENDANT?

17 A YES.

18 Q LET'S STAY AT MARCH 14TH. YOU SAID YOU WERE UPSET.
19 DID YOU GO HOME THAT NIGHT?

20 A I DID.

21 Q AND WHEN YOU ARE SAYING YOU ARE UPSET. PLEASE
22 EXPLAIN TO THE JURY HOW MUCH YOU WERE UPSET ABOUT HEARING
23 THIS NEWS?

24 A I WAS UPSET TO THE POINT THAT I THOUGHT I WAS
25 LITERALLY GOING TO HAVE A HEART ATTACK.

1 Q AND DID YOU RECEIVE A PHONE CALL FROM SEVERAL
2 INDIVIDUALS THAT NIGHT?

3 A I DID. MR. SHEPPARD CALLED ME, FORREST FERRELL
4 CALLED ME AND I BELIEVE MR. STERLING ALSO CALLED ME AS
5 WELL AS KAREN MILLER.

6 Q OKAY. AND WERE YOU SURPRISED THAT THE DEFENDANT
7 CALLED YOUR HOUSE, HAD HE EVER CALLED YOUR HOUSE BEFORE?

8 A NO.

9 Q AND FROM THAT MEETING THAT YA'LL HAD AFTER THAT WHAT
10 WAS THE GENERAL NATURE OF HOW YOU WERE GOING TO BE ABLE TO
11 KEEP PEOPLE INVESTING AT CAROLINA INVESTORS?

12 A WELL, THEY WERE GOING TO GET SOME VALUATIONS ON THE
13 RETAIL MORTGAGE DIVISION. AND HAD MADE THE STATEMENT THAT
14 IF THEY NEEDED TO THEY WOULD SELL THAT RETAIL MORTGAGE
15 DIVISION IN ORDER TO GENERATE THE MONEY TO PAY OFF
16 CAROLINA INVESTORS. AND THAT SOUNDED LIKE A POSITIVE
17 NOTE. THE EXPANSION TO THE OTHER PARTS OF THE COUNTRY OF
18 THESE NEW OFFICES AND THE MORTGAGE VOLUME AT THOSE OFFICES
19 WERE SUPPOSE TO GENERATE, WAS SUPPOSE TO HELP TOWARDS
20 GETTING BACK TO PROFITABILITY. THEY HAD HIRED A BUNCH OF
21 NEW LOAN OFFICERS, NEW LOAN PROCESSORS AND ALL OF THOSE
22 ITEMS WERE PART OF THEIR ARGUMENT FOR BEING ABLE TO GET
23 BACK TO PROFITABILITY AND FOR EVERYTHING BEING OKAY.

24 Q AND AFTER THAT MARCH 14TH MEETING THE DEFENDANT TOLD
25 YOU HE WAS NOT GOING TO EXPAND ANY NEW STORES AT HOMEGOLD?

1 A THAT'S RIGHT.

2 Q AND HE WOULD USE THE MONEY TO, WHAT DID HE TELL YOU
3 WHAT HE WOULD DO ABOUT THE STORES THAT WERE ALREADY OPEN?

4 A THOSE STORES WERE SUPPOSE TO GET UP TO, IN FACT HE
5 TOLD US AT THE LAST BOARD MEETING THAT SOME OF THOSE
6 OFFICES ALREADY WERE UP TO \$8 AND \$10 MILLION A MONTH IN
7 MORTGAGE VOLUME. AND THAT THE OFFICES THAT WERE ALREADY
8 OPEN WOULD VERY SOON REACH PROFITABILITY.

9 Q AND IS THAT WHAT HAPPENED?

10 A NO.

11 Q WERE YOU INVOLVED IN ANY OTHER MEETINGS WITH ELLIOTT
12 AND THE AUDITORS IN MARCH?

13 A NO.

14 Q SO YOU WERE UNAWARE OF A MARCH 25TH MEETING?

15 A I WAS, I DIDN'T HEAR ABOUT IT UNTIL RECENTLY.

16 Q AND LET ME SHOW YOU, CAN YOU IDENTIFY THIS AND LOOK
17 AT THE SECOND PAGE IF YOU NEED TO.

18 A YES, THIS IS A CONSOLIDATION LOAN DOCUMENT.

19 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
20 MOVE THIS INTO EVIDENCE AS STATE'S EXHIBIT 183.

21 THE COURT: ANY OBJECTION.

22 MR. GRIFFIN: NO OBJECTION.

23 THE COURT: STATE'S 183 IS ADMITTED.

24 (WHEREUPON, STATE'S EXHIBIT NO. 183 WAS ADMITTED INTO
25 EVIDENCE.)

1 THE COURT: WHAT IS THE DATE OF IT?

2 MS. EVANS: MARCH 27TH OF 2002, YOUR HONOR.

3 Q AND WITHOUT GOING OVER THIS IN ANY DETAIL, SIR AT
4 ALL, JUST PLEASE TELL THE JURY WHAT THAT IS.

5 A WELL, BASICALLY AT THE TIME WE HAD THE MARCH 14TH
6 MEETING HOMEGOLD OWED CAROLINA INVESTORS IN EXCESS OF \$144
7 MILLION DOLLARS. AND THAT DEBT WAS EVIDENCED BY TWO
8 DIFFERENT NOTES, I THINK, \$125 THOUSAND DOLLAR NOTE AND I
9 AM TRYING TO REMEMBER. I CAN'T REMEMBER SPECIFICALLY THE
10 AMOUNT OF THE OTHER ONE, IT SEEMED LIKE IT MIGHT OF BEEN A
11 \$50 MILLION DOLLAR NOTE. AND THIS \$175 THOUSAND DOLLAR
12 NOTE WAS A CONSOLIDATION OF THE EXISTING DEBT THAT THEY
13 HAD ON THE INTER-COMPANY DEBT BALANCE STATED AS OF MARCH
14 27TH.

15 Q WHAT IS THE NUMBER?

16 A \$175 MILLION DOLLAR.

17 Q YOU SAID A THOUSAND.

18 A NO, I AM SORRY, MILLION.

19 Q SO, THAT MARCH 27TH, IS THAT SIGNED BY ALL OF THE
20 BOARD MEMBERS AT CAROLINA INVESTORS?

21 A IT IS.

22 Q IS IT SIGNED BY THE DEFENDANT?

23 A YES.

24 Q MR. STERLING?

25 A YES.

1 Q YOURSELF?

2 A IT IS.

3 Q EARLE MORRIS?

4 A ALL OF US, YES.

5 Q AND MR. BOBO AND MR. SHARPE?

6 A YES.

7 Q AND WHO WERE THE ONLY TWO THAT WERE NOT AT THAT MARCH
8 14TH MEETING THAT SIGNED THAT?

9 A DON BOBO AND DAN SHARPE.

10 Q DID YOU CALL MR. BOBO OR MR. SHARPE THE NIGHT OF THAT
11 MARCH 14TH MEETING?

12 A NO.

13 Q MOVING ON, YOU PREVIOUSLY TALKED ABOUT AFTER THAT
14 MARCH 14TH MEETING THAT IT WAS DISCUSSED HOW YOU WOULD
15 EXPLAIN THE GOING CONCERN THAT WAS PUT INTO THE
16 PROSPECTUS. WAS THERE A SUBSEQUENT MEETING AT CAROLINA
17 INVESTORS WHERE MR. STERLING AND MR. MARTIN CAME?

18 A YES.

19 Q AND WHAT WAS THE PURPOSE OF THAT MEETING?

20 A THE PURPOSE OF THAT MEETING WAS FOR THEM TO EXPLAIN
21 TO THE STAFF ALL THE CHANGES THAT WERE TAKEN PLACE, THE
22 GOING CONCERN LANGUAGE, THE RESERVES THAT WERE SET UP
23 AGAINST THE HOMEGOLD INTER-COMPANY DEBT. AND TO KIND OF
24 GIVE THEM SOME INFORMATION ON HOW TO CONVEY THOSE CHANGES
25 TO THE PUBLIC THAT WOULDN'T SCARE THEM TO DEATH LITERALLY.

1 Q AND WAS THE TONE OF THAT MEETING SIMILAR TO THE TONE
2 OF THE MARCH 14TH MEETING?

3 A NO, IT WAS A VERY SUBDUED MEETING, QUIET MEETING,
4 MORE OF AN EXPLANATORY NATURE. THE ONE ON THE 14TH WAS
5 VERY HEATED, VERY UGLY MEETING.

6 Q DID YOU ALL MINIMIZE WHAT WAS DISCUSSED AT THAT MARCH
7 14TH MEETING TO THE CAROLINA INVESTORS?

8 A YES.

9 Q DID YOU ALSO PREPARE A MEMO TO THE INVESTORS OF HOW
10 TO TALK ABOUT WHAT WAS GOING IN THE PROSPECTUS?

11 A I DID.

12 MS. EVANS: AND I BEG THE COURT'S INDULGENCE, I WILL
13 MARK THIS FOR IDENTIFICATION PURPOSES.

14 THE COURT: AND THIS IS 132 AND IS MARKED FOR
15 IDENTIFICATION.

16 MS. EVANS: YES.

17 (WHEREUPON, STATE'S EXHIBIT NO. 132 WAS MARKED FOR
18 IDENTIFICATION ONLY.)

19 Q IT WAS MARKED FOR IDENTIFICATION PURPOSES AS STATE'S
20 EXHIBIT 132. MR. OWEN, I AM GOING TO SHOW THAT TO YOU.
21 DO YOU RECOGNIZE THAT?

22 A YES, I DO.

23 Q AND WHO PREPARED THAT MEMO?

24 A I DID.

25 Q AND WHO DID YOU SHARE IT WITH?

1 A I SHARED IT WITH MR. STERLING, MR. STERLING ACTUALLY
2 INSTRUCTED ME TO PREPARE THE MEMO AND HAVE IT READY FOR
3 THE MEETING.

4 Q AND WAS THOSE INSTRUCTIONS AFTER THE MARCH 14TH
5 MEETING WHEN YOU ALL DECIDED WHEN MR. SHEPPARD WAS THERE
6 TO HAVE THIS SECOND SUBSEQUENT MEETING?

7 A YES.

8 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
9 HAVE WHAT WAS MARKED FOR IDENTIFICATION PURPOSES AS
10 STATE'S EXHIBIT 132 INTO EVIDENCE.

11 THE COURT: ANY OBJECTION?

12 MR. GRIFFIN: NO, YOUR HONOR.

13 THE COURT: 132 IS ADMITTED.

14 (WHEREUPON, STATE'S EXHIBIT NO. 132 WAS ADMITTED INTO
15 EVIDENCE.)

16 Q MR. OWEN, YOU JUST SAID AFTER THAT MEETING THAT YOU
17 HAD MINIMIZED THE IMPACT OF WHAT WAS SAID AND THE IMPACT
18 OF THE GOING CONCERN TO THE STAFF. WAS THAT MEMO ALSO A
19 WAY TO IMPACT FROM THE STAFF TO THE INVESTORS ABOUT WHAT
20 WAS GOING ON AT HOMEGOLD?

21 A IT WAS. IT WAS INTENDED, OF COURSE, TO MAKE IT LESS
22 SCARY, THE FACT THAT THE RESERVE WAS SET UP. MR. STERLING
23 EXPLAINED THE RESERVE WAS SET UP BECAUSE THE AUDITORS
24 DIDN'T FEEL LIKE THAT HOMEGOLD WOULD BE ABLE TO PAY BACK
25 THE WHOLE \$144 MILLION DOLLARS THAT THEY OWED CAROLINA

1 INVESTORS. SO, THEY WERE GOING TO IMPAIR THE DEBT WHICH
2 MEANT THAT THEY WERE GOING TO SET UP A \$6.4 MILLION DOLLAR
3 RESERVE IN THE EVENT THAT HOMEGOLD WOULDN'T BE ABLE TO
4 REPAY THAT DEBT. BUT HE SAID IF THEY WERE ABLE TO REPAY
5 THAT THEN THAT DEBT, THAT \$6.4 MILLION WOULD BE RESTORED
6 TO THE NET WORTH OF CAROLINA INVESTORS.

7 Q AND THAT MEMO, WAS THAT HANDED OUT TO THE INVESTMENT
8 COUNSELORS AT THAT MEETING?

9 A IT WAS.

10 Q WAS THAT BEFORE OR AFTER THE PROSPECTUS CAME OUT?

11 A IT WAS ABOUT THE SAME TIME THE PROSPECTUS CAME OUT,
12 IT MIGHT OF BEEN A DAY OR TWO BEFORE.

13 Q AND THE DEFENDANT WAS NOT AT THAT MEETING?

14 A NO.

15 Q AND BASED UPON YOUR PREVIOUS CONVERSATIONS AFTER
16 MARCH 14TH--

17 MR. GRIFFIN: OBJECTION, YOUR HONOR, SHE CONTINUES TO
18 LEAD.

19 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.

20 Q DID THE DEFENDANT KNOW ABOUT THAT MEETING?

21 A YES.

22 Q AND HOW DO YOU KNOW THAT?

23 A BECAUSE WE DISCUSSED IT AT THE MARCH 14TH MEETING.

24 Q AND WHAT WAS THE PURPOSE OF THAT MEETING THAT MR.
25 MARTIN AND MR. SHEPPARD AND YOU ATTENDED WITH THE

1 INVESTMENT COUNSELORS?

2 A TO EXPLAIN THOSE CHANGES TO THE INVESTORS IN A WAY
3 THAT THEY COULD BE EASILY EXPLAINED TO OUR INVESTORS.

4 Q AND GOING OVER THAT MEMO THAT WAS PREPARED AND MR.
5 MORRIS WAS ALSO AT THAT MARCH 14TH MEETING, CORRECT?

6 A YES, HE WAS.

7 Q DID YOU AND MR. MORRIS CONTINUE TO MINIMIZE WHAT WAS
8 SAID AT THAT MEETING FOR THE--

9 MR. GRIFFIN: OBJECTION, YOUR HONOR, LEADING.

10 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.
11 IT IS LEADING.

12 Q MR. OWEN, HOW WOULD YOU DESCRIBE THIS MEMO AS OPPOSED
13 TO WHAT WAS SAID AT THE MARCH 14TH MEETING?

14 A THIS MEMO ACTUALLY IS A VERY TONED DOWN VERSION OF
15 WHAT OCCURRED ON THE 14TH. AND, YES, THE TONED DOWN
16 VERSION IS WHAT WAS CONVEYED TO THE STAFF. WE HAD TO, WE
17 KNEW THAT WE HAD TO PUT IT IN A MANNER IN WHICH THE STAFF
18 COULD CONVEY TO OUR INVESTORS OTHERWISE THE INVESTORS
19 WOULDN'T UNDERSTAND AND THEY WOULD BE SCARED TO DEATH AND
20 COULD POSSIBLY CAUSE A RUN.

21 Q OR STOP INVESTMENTS?

22 A TRUE.

23 Q OR TAKE THE MONEY OUT?

24 A YES.

25 Q CAN YOU READ TO THE JURY THE FIRST LINE OF THE, OF

1 THAT EXHIBIT.

2 A THE VERY FIRST LINE, THE FIRST PARAGRAPH?

3 Q THE VERY FIRST SENTENCE.

4 A BECAUSE OF THE WORLDWIDE PROBLEMS CREATED WITH THE
5 COLLAPSE OF ENRON AND ARTHUR ANDERSON THE AUDITING WORLD
6 HAS BEEN CHANGED FOREVER AND AUDITORS AND COMPANIES ARE
7 TAKING A CLOSER LOOK AT THEIR FINANCIAL STATEMENTS TO MAKE
8 SURE THAT THEY TELL THE EXACT STORY THEY SHOULD.

9 Q AND BASED UPON BEING AT THE MARCH 14TH MEETING DID
10 ANY OF THE AUDITORS TELL YOU THAT WAS THE REASON FOR THAT?

11 A NO.

12 Q AND GO ON, GO DOWN TO THE FORTH PARAGRAPH. IF YOU
13 COULD READ THE FIRST SENTENCE OF THAT.

14 A IF AN INVESTOR SHOULD ASK YOU WHAT THAT ALL MEANS
15 PLEASE ASK THEM TO PROMPTLY READ PAGE F11 OF THE
16 PROSPECTUS WHICH IS AUDITORS FOOTNOTE NUMBER 2.

17 Q AND CONTINUE ON.

18 A IT GIVES A HISTORY OF HOMEGOLD AND WHAT IS BEING DONE
19 POSITIVELY TO GET THE COMPANY BACK PROFITABLE. ACTUALLY
20 THEY ARE EXTREMELY BEING CLOSE TO BEING PROFITABLE ON A
21 MONTHLY BASIS AT THIS TIME. MORTGAGE VOLUME HAS IMPROVED
22 TREMENDOUSLY AND THEY HAVE OPENED SIX ADDITIONAL LOAN
23 OFFICES, LOAN PRODUCTION CENTERS.

24 Q OKAY. YOU CAN STOP THERE. THAT INFORMATION, IS THAT
25 THE SAME TYPE OF INFORMATION THAT WAS BEING RELAYED TO

1 YA'LL AT CAROLINA INVESTORS BOARD MEETINGS?

2 A YES.

3 Q AND I WILL DRAW YOUR ATTENTION DOWN TO THE BOTTOM OF
4 THE PAGE WITH THE SENTENCE STARTING THEY.

5 A THEY ARE PROJECTING VOLUME FOR APRIL AT BETWEEN \$105
6 AND \$120 MILLION. THEY HAVE COME THROUGH THE HARDEST
7 TIMES, (PAST FOUR YEARS), AND UNDER NEW MANAGEMENT ARE AT
8 THE POINT OF BECOMING PROFITABLE ON A MONTHLY BASIS.

9 Q AND AGAIN, WHERE DID YOU HEAR THAT INFORMATION FROM
10 PREVIOUSLY?

11 A FROM MR. SHEPPARD AND OTHER MANAGEMENT AT HOMEGOLD.

12 Q AND AT THE TOP OF THIS, WHAT IS IT TITLED?

13 A I AM SORRY.

14 Q WHAT IS THIS TITLED ON THE FIRST PAGE?

15 A INFORMATION ON CII PROSPECTUS FOR STAFF USE ONLY.

16 Q AND WAS THIS GIVEN TO EVERY MEMBER OF THE STAFF?

17 A YES.

18 Q THAT PROSPECTUS, DO YOU REMEMBER THE DATE OF THAT
19 PROSPECTUS?

20 A I BELIEVE IT WAS APRIL 10TH.

21 Q I WILL SHOW YOU AGAIN, STATE'S EXHIBIT NUMBER 50.

22 A ACTUALLY IT IS APRIL THE 1ST.

23 Q OKAY. AND CAN YOU TURN TO PAGE F11, PLEASE, SIR.

24 A OKAY.

25 Q AND I WILL DRAW YOUR ATTENTION SPECIFICALLY TO THIS

1 SENTENCE RIGHT HERE STARTING WITH RECENT.

2 A RECENT INDEPENDENT VALUATIONS HAVE VALUED THE
3 DIVISION AT BETWEEN \$135 MILLION AND \$170 MILLION.

4 Q DID YOU HAVE TO GET THAT PROSPECTUS REGISTERED WITH
5 THE SECURITIES COMMISSION ALSO?

6 A YES, WE DID.

7 Q I AM GOING TO SHOW YOU WHAT HAS BEEN PREVIOUSLY
8 MARKED INTO EVIDENCE AS STATE'S EXHIBIT NUMBER 62. THERE
9 ARE TWO PAGES OF THE SAME LETTER, THE SECOND ONE IS EASIER
10 TO READ. BUT FIRST OF ALL, I WILL ASK YOU, DID YOU SIGN?

11 A YES, I DID.

12 Q OKAY. WHAT IS THE DATE OF THAT LETTER?

13 A APRIL 3RD OF 2002.

14 Q AND CAN YOU PLEASE READ THE, WELL, FIRST OF ALL WHO
15 PREPARED THAT LETTER?

16 A AGAIN, IT APPEARS TO BE A LETTER THAT WOULD OF BEEN
17 PREPARED BY HOMEGOLD.

18 Q AND YOU DON'T KNOW WHO AT HOMEGOLD PREPARED IT?

19 A NO.

20 Q AND WHY DO YOU SAY THAT AGAIN?

21 A BECAUSE IT IS THE WAY THE LETTER IS STRUCTURED. IT
22 IS ANOTHER BULLET POINT LETTER.

23 Q OKAY. AND READ THE FIRST PARAGRAPH OF THAT.

24 A THE VERY FIRST ONE?

25 Q YES.

1 A IT SAYS, GENTLEMEN, THIS LETTER WILL ADDRESS THE
2 GOING CONCERN QUALIFICATIONS AND THE OPINION OF ELLIOTT
3 DAVIS AND COMPANY, (ELLIOTT DAVIS). A COMPANY AND THE
4 CONSOLIDATED FINANCIAL STATEMENTS OF CAROLINA INVESTORS
5 DATED DECEMBER 31ST OF 2001.

6 Q AND I WILL DRAW YOUR ATTENTION. WELL, FIRST OF ALL,
7 IS THIS THE FIRST TIME YA'LL HAVE EVER WRITTEN A LETTER
8 LIKE THIS TO GET A PROSPECTUS FILED WITH THE SECURITIES
9 COMMISSION?

10 A YES.

11 Q AND, AGAIN, IF YOU COULD READ THAT FIRST PARAGRAPH OF
12 THAT LINE?

13 A CAROLINA INVESTORS BELIEVED THAT THE STANCE OF
14 ELLIOTT DAVIS WHICH WE CONSIDER OVERLY CONSERVATIVE MIGHT
15 HAVE BEEN INFLUENCED BY THE ENRON-ARTHUR ANDERSON DEBACLE
16 AND GLOBAL CROSSING ACCOUNTING PROBLEMS. HOMEGOLD HAS
17 ADVISED CAROLINA INVESTORS THAT ITS MORTGAGE ORIGINATION
18 VOLUME AND OPERATING LOSSES IN THE FIRST QUARTER OF 2002
19 HAVE BEEN BETTER THAN AT ANY TIME IN THE PAST FOUR YEARS.

20 Q LET ME STOP YOU THERE. DO YOU ALSO TALK ABOUT THOSE
21 VALUATIONS IN THAT LETTER AND I WILL DRAW YOUR ATTENTION
22 BACK TO THE FIRST PAGE AND THAT SECOND PARAGRAPH.

23 A YES. IT SAYS THE APPRAISAL RANGED FROM \$135 MILLION
24 TO \$170 MILLION MORE THAN ADEQUATE AMOUNT TO PAY OFF THE
25 HOMEGOLD DEBT TO CAROLINA INVESTORS IF SELLING THE RETAIL

1 MORTGAGE ORIGATION DIVISION BECAME A NECESSARY OPTION.

2 Q DID THE DEFENDANT ALSO SIGN THAT LETTER?

3 A HE SIGNED THE COMPLETED ONE. THIS ONE, OF COURSE, IS
4 A FAXED COPY.

5 Q AND THIS WAS SENT TO THE SECURITIES COMMISSION ALONG
6 WITH THAT PROSPECTUS?

7 A THAT IS CORRECT.

8 Q AND THROUGHOUT THIS TIME, WHENEVER YOU WOULD CALL
9 HOMEGOLD DID SOMEONE TELL YOU WHAT TO DO IF THERE WAS
10 PROBLEMS WITH AN INVESTOR AT CAROLINA INVESTORS?

11 A YES.

12 Q AND WHAT WAS THAT?

13 A ANY TIME I HAD A PROBLEM WITH INVESTORS I WAS SUPPOSE
14 TO CALL EITHER FORREST FERRELL OR RONNIE SHEPPARD.

15 Q AND HOW OFTEN DID YOU SEE RONNIE SHEPPARD?

16 A NOT VERY FREQUENTLY BUT I SPOKE WITH HIM
17 OCCASIONALLY.

18 Q AND WHO WERE YOU SPEAKING TO MORE OFTEN?

19 A FORREST FERRELL AND KAREN MILLER.

20 Q AND WHAT WERE YOU TELLING ABOUT THOSE PROJECTIONS?

21 A ARE YOU TALKING ABOUT THE PROJECTIONS IN THAT LETTER?

22 Q WHAT WERE YOU TOLD BY HOMEGOLD OFFICIALS ABOUT THOSE
23 PROJECTIONS?

24 A I WAS TOLD BY HOMEGOLD THAT THOSE APPRAISALS WERE
25 PREPARED BY PROFESSIONAL COMPANIES AND THEY WERE IN OUR

1 PROSPECTUS AND THEY HAD BEEN PASSED ON BY OUR AUDITORS,
2 THEY HAD BEEN PASSED ON BY OUR LAWYERS AND THAT WE WERE TO
3 RELY ON THOSE FIGURES AND USE THOSE FIGURES IN TALKING
4 WITH OUR INVESTORS.

5 Q AND THEY TOLD YOU TO USE THOSE FIGURES?

6 A YES.

7 Q DID THE DEFENDANT EVER TELL YOU THAT?

8 A YES.

9 Q AND FORREST FERRELL ALSO TELL YOU THAT?

10 A YES AND THEY KNEW WE WERE RELYING HEAVILY ON THOSE
11 FIGURES, NO QUESTION.

12 Q HAD YOU EVER SEEN THOSE VALUATIONS?

13 A NO.

14 Q HAD YOU EVER SEEN ANY LANGUAGE IN THOSE VALUATIONS?

15 A NO, THE ONLY THING I SAW WERE THESE FIGURES IN THE
16 PROSPECTUS.

17 Q OKAY. AND DID YOU START USING THOSE VALUATIONS?

18 A YES, WE DID. WE RELIED ON THOSE VALUATIONS AND THE
19 OTHER ITEMS THERE THAT, ON PAGE F11 THAT HOMEGOLD SAID
20 THEY HAD DONE LIKE AN INCREASE WITH THE LOAN OFFICERS AND
21 THE OTHER THINGS THAT THEY HAD DONE. WE CERTAINLY
22 REFERRED A LOT OF INVESTORS TO THAT PAGE.

23 Q MR. OWEN, I AM GOING TO SHOW YOU WHAT HAS ALREADY
24 BEEN IN EVIDENCE AND I BELIEVE AND I WILL DOUBLE CHECK
25 THAT IT IS STATE'S EXHIBIT NUMBER 62.

1 MS. EVANS: I BEG THE COURT'S INDULGENCE. 103.

2 THE COURT: WHAT NUMBER.

3 MS. EVANS: 103.

4 Q MR. OWEN, DO YOU REMEMBER WRITING THIS LETTER?

5 A I DO.

6 Q AND WHO IS MS. BARBARA GREGORY?

7 A SHE IS THE WIFE OF GENE GREGORY, ONE OF OUR LARGER
8 INVESTORS.

9 Q AND WHERE DID THEY LIVE?

10 A UNION.

11 Q AND WHY DID YOU WRITE THIS LETTER?

12 A WELL, MR. GREGORY HAD COME OVER IN SEPTEMBER OF 2001
13 AND INVESTED \$1 MILLION, \$396 THOUSAND DOLLARS, I BELIEVE
14 IT WAS WITH CAROLINA INVESTORS FOR A TWO-YEAR PERIOD. AND
15 I BELIEVE THE INTEREST RATE WAS EIGHT OR EIGHT AND A
16 QUARTER PERCENT. AND HE HAD, HE CALLED ME UP AND WANTED
17 TO KNOW IF HE AND HIS BROTHER, ARTHUR, COULD COME OVER AND
18 VISIT ME BECAUSE HE HAD SEEN AN ARTICLE, I BELIEVE, IN THE
19 STATE NEWSPAPER ABOUT HOMEGOLD'S LOSSES FOR THE FIRST
20 QUARTER AND HE WAS CONCERNED ABOUT IT. SO, HE CAME OVER
21 AND VISITED WITH ME OR THEY CAME OVER AND VISITED WITH ME.
22 AND I TOLD HIM, YOU KNOW, I WENT OVER THE CHANGES THAT
23 WERE IN THE PROSPECTUS, SHOWED HIM THE VALUATIONS AND THE
24 INFORMATION BACK ON PAGE F11 AND TOLD HIM--

25 Q STOP THERE. YOU SAID YOU SHOWED HIM THE VALUATIONS,

1 YOU SHOWED HIM THE LINE FOR THE PROSPECTUS?

2 A YES.

3 Q YOU DIDN'T HAVE THE VALUATIONS?

4 A NOT THE VALUATIONS, I SHOWED HIM THE LINE IN THE
5 PROSPECTUS. AND, YOU KNOW, BASED ON WHAT I TOLD HIM HE
6 FELT BETTER WHEN HE LEFT. AND HE GOT BACK HOME AND I
7 GUESS TRIED TO EXPLAIN TO HIS WIFE AND MAYBE SHE DIDN'T
8 UNDERSTAND. AND HE CALLED ME UP AND WANTED TO KNOW IF I
9 WOULD JUST WRITE HER A LETTER BASICALLY TELLING HER THE
10 SAME THINGS THAT I HAD TOLD HIM.

11 Q AND LET'S GO THROUGH THAT LETTER. I WILL LEAVE IT
12 HERE SO I WON'T HAVE TO STAND HERE AND HOLD IT. THE FIRST
13 SENTENCE, IF YOU CAN READ THAT TO THE JURY FROM YOUR COPY
14 UP THERE.

15 A THE ENTIRE LETTER?

16 Q NO, THE FIRST SENTENCE.

17 A IT IS VERY UNFORTUNATE THAT SOME PEOPLE SEEM TO GET A
18 TREMENDOUS JOY OUT OF SPREADING RUMORS AND UNTRUTH ABOUT
19 OTHER PEOPLE AND COMPANIES.

20 Q LET ME STOP YOU THERE. MR. OWEN, THE FACT THAT
21 HOMEGOLD WAS IN BAD FINANCIAL SHAPE, WAS THAT A RUMOR AT
22 THAT POINT OR WAS THAT A FACT?

23 A AT THAT POINT IT WAS A FACT THAT THE COMPANY WAS IN
24 BAD SHAPE.

25 Q AND GOING ON DOWN. WHAT DID YOU TALK WITH, STARTING

1 WITH THE SENTENCE, TWO APPRAISALS.

2 A TWO APPRAISALS WERE PERFORMED BY PROFESSIONAL
3 APPRAISERS RECENTLY WHICH PUT THE VALUE OF HOMEGOLD IN
4 BETWEEN \$135 MILLION AND \$170 MILLION.

5 Q AND GOING ON?

6 A THIS IS MUCH MORE THAN THEY OWED TO CAROLINA
7 INVESTORS, INCORPORATED AND THEY HAVE STATED THAT THEY
8 WILL SELL THE DIVISION IN ORDER TO PAY OFF CAROLINA
9 INVESTORS IF THAT WAS NECESSARY. SO, THERE IS NO RISK AS
10 FAR AS HOMEGOLD IS CONCERNED. THEY ENDED THE YEAR WITH
11 CLOSE TO \$50 MILLION IN THE BANK AND ABOUT \$85 MILLION IN
12 WAREHOUSE LINES OF CREDIT FOR THEIR LENDING OPERATION.

13 Q AND GO ON DOWN, DO YOU TALK ABOUT WHERE I TOLD GENE
14 IN THE SECOND PARAGRAPH.

15 A I TOLD GENE THAT I AM PERSONALLY COMMITTED TO SEEING
16 THAT YOUR AND HIS FUNDS ARE NOT ~~AT~~ ^{IN} RISK. SHOULD I SEE
17 THAT THERE IS A QUESTION OF THAT I WILL PICK UP THE PHONE
18 AND DISCUSS IT WITH HIM AND ARTHUR. NO INVESTOR OR NO ONE
19 ELSE HAS EVER LOST A DIME AT CAROLINA INVESTORS AND WE
20 CERTAINLY ARE NOT GOING TO JEOPARDIZE THAT RECORD NOW.

21 Q AND AGAIN, DO YOU TALK ABOUT RUMORS?

22 A UNFORTUNATELY RUMORS ARE VERY DIFFICULT TO TRACK AND
23 TO GET A HOLD ON BECAUSE SO MANY PEOPLE REPEAT THINGS THEY
24 HEAR AND GENERALLY GET SOME PART OF THE STORY WRONG. AND
25 THEN IT GETS REPEATED AGAIN AND THE MORE IT SPREADS THE

1 WORSE IT SOUNDS.

2 Q AND THAT INFORMATION THAT YOU SENT TO MR. GREGORY,
3 DID YOU KNOW THAT TO BE FALSE WHEN YOU SENT HIM THAT
4 LETTER ON MAY 8TH OF 2002?

5 A NO, I DIDN'T. MOST OF THESE FIGURES, ALL EXCEPT THE
6 TWO VALUATION FIGURES CAME FROM FORREST FERRELL AT
7 HOMEGOLD.

8 Q THAT FIRST SENTENCE, HOWEVER, THOUGH MR. OWEN, DID
9 YOU KNOW THAT TO BE UNTRUE, THE FINANCIAL CONDITION WAS
10 NOT RUMORS, THAT IT WAS ACTUALLY TRUE?

11 A THAT'S TRUE.

12 Q AND DID YOU CONTINUE TO DO THAT SAME TYPE OF THING TO
13 OTHER INVESTORS BESIDES MR. GREGORY?

14 A GENERALLY, YES.

15 Q AT THAT MEETING THAT YOU HAD WITH MR. MARTIN AND MR.
16 STERLING, CAME UP TO TALK TO THE INVESTMENT COUNSELORS,
17 DID YOU INVITE ANYBODY FROM ELLIOTT DAVIS TO HELP EXPLAIN
18 WHAT WAS GOING ON?

19 A NO.

20 Q DID YOU EVER INVITE ANYBODY ELSE?

21 A MR. STERLING WANTED ME TO SET THE MEETING UP AND I
22 FIGURED IF HE WANTED ANYBODY THERE HE WOULD OF INVITED
23 THEM.

24 Q DID YOU EVER RELATE THE FEARS THAT YOU JUST TOLD THE
25 JURORS, THAT YOU HAD AFTER THAT MARCH 14TH MEETING, TO THE

1 PEOPLE AT CAROLINA INVESTORS?

2 A NO.

3 Q AND WHAT WAS YOUR TONE AND YOUR DEMEANOR WHEN YOU
4 WERE TELLING THEM ABOUT THE GOING CONCERN AND THE LOAN
5 IMPAIRMENT?

6 A I TRIED TO MAINTAIN AN EVEN TEMPERAMENT BECAUSE I
7 KNEW IF I CONVEYED TO MY STAFF HOW I WAS BEGINNING TO
8 REALLY FEEL ABOUT THAT GOING CONCERN THAT THEY WOULD SEE
9 THE FEAR IN MY FACE AND HEAR THE FEAR IN MY VOICE AND THEY
10 WOULDN'T BE ABLE TO DO THEIR JOB. AND THE WORSE THING
11 THAT I COULD OF CAUSED WAS A RUN ON THE BANK OR A RUN ON
12 THE MONEY.

13 Q AND WHAT DO YOU MEAN BY A RUN ON THE MONEY OR A RUN
14 ON THE BANK?

15 A WELL, A RUN ON THE MONEY, MOST PEOPLE THAT HEAR THAT
16 AREN'T OLD ENOUGH TO REMEMBER THE DEPRESSION. BUT DURING
17 THE DEPRESSION WHEN THE STOCK MARKET CRASHED EVERYBODY IN
18 THE WORLD RAN TO THE NEAREST BANK WANTING TO GET THEIR
19 MONEY OUT. BUT, OF COURSE, BANKS DON'T KEEP THAT MUCH
20 CASH ON HAND. SO, IF A BUNCH OF PEOPLE HAD GOTTEN UPSET
21 AT THE SAME TIME AND COME INTO CAROLINA INVESTORS WANTING
22 THEIR MONEY, OF COURSE, WE WOULD OF BEEN ABLE TO PAY
23 SEVERAL OF THEM BUT WE WOULDN'T BE ABLE TO PAY EVERYBODY,
24 OF COURSE.

25 Q AND I THINK WE HAD TALKED ABOUT THERE HAD BEEN A

1 LARGE AMOUNT OF WITHDRAWALS IN 1998, WOULD YOU DESCRIBE
2 THAT AS A RUN ON THE BANK?

3 A IT WAS A RUN, YES. IT SETTLED DOWN AFTER ABOUT 30
4 DAYS.

5 Q IS THAT WHAT YA'LL ARE TALKING ABOUT IN YOUR FEARS AT
6 THIS POINT?

7 A YES.

8 Q AND BASED UPON THE INFORMATION THEN AND THIS
9 INFORMATION, IN YOUR MIND WHAT WAS THE IMPACT OF THIS
10 INFORMATION THAT WAS BEING TOLD TO THEM?

11 A WELL, ARE YOU TALKING ABOUT AS FAR AS STAFF OR THE
12 INVESTORS?

13 Q JUST AS FAR AS THE INFORMATION ON A FINANCIAL
14 STANDPOINT ABOUT THE IMPACT OF WHAT THIS MEANT
15 FINANCIALLY, GOING CONCERN AND LOAN IMPAIRMENT.

16 A WELL, I KNEW GOING FORWARD THAT IT WOULD BE EXTREMELY
17 DIFFICULT TO CONTINUE RAISING THE LEVEL OF FUNDS THAT WE
18 HAD IN 2001. AND ACTUALLY ONCE THE NEWSPAPER ARTICLE CAME
19 OUT IN THE GREENVILLE NEWS CONTAINING THEIR LOSSES FOR THE
20 FIRST QUARTER AND THIS CAME OUT ABOUT THE SAME TIME OR
21 MAYBE A MONTH LATER, IT MADE IT DIFFICULT FOR US TO RAISE
22 THE LEVEL OF INVESTMENTS THAT WE HAD BEEN RAISING.

23 Q AND THE INVESTMENTS THAT YOU ARE RAISING, WHERE ARE
24 THEY GOING AT THIS TIME?

25 A THEY ARE STILL BEING UPSTREAMED TO HOMEGOLD.

1 Q AFTER THAT MEETING THAT YOU HAD WITH YOUR STAFF DID
2 YOU AND MR. STERLING MEET WITH MR. HOLDER?

3 A YES, WE DID.

4 Q AND WHAT WAS THE PURPOSE OF THAT MEETING?

5 A WELL, AS I MENTIONED HE HAD ASKED ME EARLY ON AT THE
6 14TH MEETING TO CONTACT MR. HOLDER BECAUSE MR. HOLDER HAD
7 A LONG STANDING BUSINESS RELATIONSHIP WITH OUR INVESTORS,
8 HE HAD BEEN A LIFELONG RESIDENT OF PICKENS COUNTY. HE WAS
9 ONE OF THE MOST SUCCESSFUL BUSINESSMEN IN THE UPSTATE AND
10 A LOT OF PEOPLE LOOKED UP TO HIM AND SOUGHT ADVICE FROM
11 HIM. AND A LOT OF OUR INVESTORS WOULD STOP BY HIS OFFICE
12 OVER AT HILLCREST MEMORIAL PARK OR RUN INTO HIM AT THE
13 GROCERY STORE OR ON THE GOLF COURSE OR WHERE EVER AND ASK
14 HIM HOW CAROLINA INVESTORS WAS DOING. AND MR. STERLING
15 FELT LIKE WE NEEDED TO MEET WITH MR. HOLDER TO KIND OF
16 APPRISE HIM OF BASICALLY OF WHAT WE TALKED TO THE STAFF
17 ABOUT. SO, IF ANYBODY ASKED MR. HOLDER WHAT WAS GOING ON
18 HE WOULD BE ABLE TO GIVE THEM SOME EXPLANATION.

19 Q WAS MR. HOLDER ANY LONGER ASSOCIATED WITH CAROLINA
20 INVESTORS?

21 A NO.

22 Q AND WHAT TYPE OF INFORMATION DID YOU RELAY TO MR.
23 HOLDER?

24 A WELL, MR. STERLING BASICALLY, EARLE AND I WENT OVER
25 THERE WITH MR. STERLING AND KEVIN MARTIN. AND MR.

1 STERLING, OF COURSE, STARTED OFF TALKING ABOUT HOW WAS HIS
2 GOLF GAME AND JUST CHITCHAT. AND FINALLY MR. STERLING GOT
3 INTO WHY WE WERE THERE. AND HE WENT THROUGH THE
4 EXPLANATION OF WHAT THE GOING CONCERN WAS AND HOW IT COULD
5 POSSIBLY COULD CAUSE PEOPLE TO BE CONCERNED. AND WHEN HE
6 GOT THROUGH WITH HIS LIMPY EXPLANATION MR. HOLDER LOOKED
7 AT HIM AND SAID, WELL, WHAT DOES ALL OF THAT GOT TO DO
8 WITH ME.

9 Q THAT WAS THE END OF THE MEETING?

10 A THAT PRETTY MUCH ENDED THE MEETING.

11 Q LET'S TALK ABOUT, RIGHT AFTER THAT NEWS HOMEGOLD
12 BOARD SIGNED THAT RESOLUTION TO SEND MORE MONEY UP TO
13 CAROLINA INVESTORS. CAN YOU EXPLAIN TO THE JURY THE LEVEL
14 OF CONTROL HOMEGOLD HAD OVER THAT CAROLINA INVESTORS
15 BOARD?

16 A WELL, FROM 1995 WHEN THEY FORMED EMERGENT MORTGAGE
17 CORPORATION CAROLINA INVESTORS SEASED TO BE A LENDING
18 ORIGINATION, HOMEGOLD DID ALL THE LENDING. OUR SOLE
19 FUNCTION WAS TO TAKE MONEY IN TO UPSTREAM TO THEM FOR
20 LENDING PURPOSES. AND ONCE WE DEPOSITED THE FUNDS IN THE
21 BANK IN PICKENS THEY TRANSFERRED THEM TO COLUMBIA. WE HAD
22 NO CONTROL OVER WHAT THEY WERE USED FOR, WE GOT NO REPORTS
23 WHATSOEVER. ALL THE ACCOUNTING WAS CONSOLIDATED IN
24 COLUMBIA, ALL THE COLLECTING WAS CONSOLIDATED IN COLUMBIA.
25 AND SO THEY, YOU KNOW, FROM THE TIME WE BANKED IT WE NEVER

1 SAW IT AGAIN, WE HAD NO CONTROL OVER IT. THE
2 INTER-COMPANY DEBT CONTINUED TO INCREASE AND SINCE THEY
3 WERE THE SOLE LENDING ARM AND THE COLLECTION ARM WE
4 COULDN'T SURVIVE WITHOUT HOMEGOLD AND HOMEGOLD COULDN'T
5 SURVIVE WITHOUT CAROLINA INVESTORS. SO, IT WAS KIND OF A
6 FORCED MARRIAGE AND OUR BOARD OF DIRECTORS FELT LIKE WE
7 HAD NO CHOICE EXCEPT TO SIGN THE LOAN DOCUMENT
8 CONSOLIDATING THOSE TWO LOANS.

9 Q AND GOING BACK TO THE VALUATIONS AND WHAT WAS TOLD, I
10 AM GOING TO SHOW YOU AN EMAIL DATED MAY 6TH OF 2002. CAN
11 YOU IDENTIFY THAT?

12 A YES.

13 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
14 MOVE THAT INTO EVIDENCE.

15 MR. GRIFFIN: YOUR HONOR, I OBJECT TO THE HEARSAY,
16 WITHIN THE HEARSAY, THE SAME OBJECTION AS PREVIOUS.

17 THE COURT: THE SAME AS THE PREVIOUS?

18 MR. GRIFFIN: YES, SIR.

19 THE COURT: THAT IS OVERRULED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 184 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q AND ON THE EMAIL, WHO IS THAT ORIGINAL EMAIL FROM?

23 A KENNA CHAPMAN, ONE OF THE YOUNG LADIES THAT WORKED AT
24 OUR EASLEY OFFICE.

25 Q OKAY. AND WHAT DOES SHE TELL YOU?

1 A SHE SAYS, MR. THOMAS DRIVER FROM BELTON JUST CAME IN
2 AND OPENED AN ACCOUNT FOR \$145,783.00 FOR ONE YEAR.

3 Q AND WHAT IS YOUR RESPONSE?

4 A GREAT NEWS, SURE HOPES HE LEAVES IT ONCE HE READS THE
5 PROSPECTUS. YOU ALL MAY WANT TO GO AHEAD AND TELL PEOPLE
6 ABOUT THE SENTENCE IN THE RISK FACTORS AND IT MAY HELP PUT
7 THEM AT EASE RATHER THAN GET HOME AND READ IT WITH NO
8 INPUT FROM OUR STAFF. IT WILL TAKE A LITTLE EXTRA EFFORT
9 AND TIME BUT I REALLY THINK WE CAN BENEFIT FROM IT.

10 Q AND IN THAT SENTENCE IN THE PROSPECTUS, WHAT SENTENCE
11 ARE YOU REFERRING TO?

12 A IT IS THE RISK FACTOR, I THINK IT IS ON PAGE 2,
13 MAYBE.

14 Q WHEN YOU ARE TALKING ABOUT EXPLAINING THE RISK
15 FACTOR?

16 A PAGE F11. ONE REASON I GAVE HER THAT MESSAGE WAS, I
17 DIDN'T SEE THE SENSE IN HAVING SOMEBODY OPEN AN ACCOUNT
18 AND THEN THE FELLOW TAKE THE PROSPECTUS HOME AND READ IT
19 AND GET UPSET ABOUT SOMETHING AND COME BACK MONDAY AND GET
20 HIS MONEY OUT.

21 Q AND WAS IT ALSO YOUR INTENT TO HAVE THE INVESTMENT
22 COUNSELORS TO CALM THE INVESTORS?

23 A YES.

24 Q AND SHOW THEM THE GOOD NEWS, VALUATIONS?

25 A ABSOLUTELY.

1 Q AND DID YOU AT ANY TIME SHOW THE EMOTION TO THE
2 INVESTORS, COUNSELORS OR ANY INVESTORS THAT CAME IN THAT
3 YOU DID AT THAT MARCH 14TH MEETING?

4 A NO, I COULDN'T AFFORD TO.

5 Q AND WHAT DO YOU MEAN BY THAT?

6 A WELL, AGAIN YOU KNOW, WHILE I DIDN'T HAVE FAITH IN,
7 ONE-HUNDRED PERCENT IN HOMEGOLD'S ABILITY TO BECOME
8 PROFITABLE ESPECIALLY AFTER THAT MARCH 14TH MEETING I HAD
9 TO HOPE AND PRAY THAT THEY HAD THE ABILITY TO DO WHAT THEY
10 WERE TELLING US THEY WERE GOING TO DO, TO RETURN TO
11 PROFITABILITY. AND ONCE THE VALUATIONS CAME IN IN AN
12 AMOUNT SIGNIFICANT ENOUGH TO TAKE CARE OF THE DEBT OR
13 COVER THE DEBT I AT LEAST HAD SOME DEGREE OF HOPE THAT
14 THEY MIGHT BE ABLE TO CONCLUDE A SELL OF THE COMPANY AND
15 BE ABLE TO PAY OFF CAROLINA INVESTORS.

16 Q LET'S TALK FOR A SECOND ABOUT^{*}, YOU AND MR. MORRIS
17 RECEIVED BONUSES FROM HOMEGOLD?

18 A WE DID.

19 Q DID YOU RECEIVE BONUSES BEFORE THE DEFENDANT CAME TO
20 HOMEGOLD?

21 A SMALL BONUSES, YES.

22 Q LET'S GO INTO 2001. DO YOU REMEMBER RECEIVING A
23 BONUS IN 2001?

24 A I THINK I RECEIVED \$7,500 MAYBE AND A \$12,5.

25 Q SO YOU RECEIVED TWO BONUSES, DO YOU REMEMBER WHAT

1 TIME FRAME THAT WAS AROUND?

2 A I REALLY DON'T.

3 Q MR. OWEN, EARLIER WHEN WE WERE GOING THROUGH THE
4 SOUTH CAROLINA SECURITIES COMMISSION. WE WERE GOING
5 THROUGH AND YOU TALKED ABOUT A MEETING THAT YOU AND MR.
6 SHEPPARD AND MR. MORRIS HAD. I AM GOING TO SHOW YOU A
7 LETTER DATED AUGUST THE 30TH OF 2001. CAN YOU IDENTIFY
8 THAT?

9 A YES.

10 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
11 MOVE THAT INTO STATE'S EVIDENCE.

12 MR. GRIFFIN: NO OBJECTION, YOUR HONOR.

13 THE COURT: STATE'S 185 IS ADMITTED.

14 (WHEREUPON, STATE'S EXHIBIT NO. 185 WAS ADMITTED INTO
15 EVIDENCE.)

16 Q AND IS THAT, WHAT IS THAT LETTER?

17 A THIS LETTER IS, IT IS A LETTER FROM EARLE MORRIS, JR.
18 BACK TO ROLAND CORNING FOLLOWING A MEETING THAT WE HAD
19 WITH ROLAND AND ERIC IN AUGUST OF 2001.

20 Q AND WHAT DOES THE LETTER SAY, SPECIFICALLY ABOUT THE
21 DEFENDANT?

22 A THE LETTER, IT SAYS IT WAS GOOD TO MEET WITH YOU AND
23 ERIC TO DISCUSS CAROLINA INVESTORS AND HOMEGOLD FINANCIAL.
24 THESE PERSONAL CONFERENCES ARE HELPFUL TO US AND I WANT TO
25 ASSURE YOU THAT WE APPRECIATE YOUR CONCERNS AND WE ARE

1 ALWAYS AVAILABLE TO DISCUSS THESE WITH YOU. LARRY OWEN
2 AND I ARE MOST ENCOURAGED BY THE LEADERSHIP OF RONNIE
3 SHEPPARD AND HIS EXCELLENT STAFF. SHOULD YOU HAVE ANY
4 FURTHER INQUIRES PLEASE LET US KNOW.

5 Q AND GOING BACK TO THE BONUSES, WHO APPROVED YOUR
6 BONUSES IN 2001?

7 A RONNIE SHEPPARD AND FORREST FERRELL.

8 Q AND WHAT BONUSES DID YOU RECEIVE IN 2001?

9 A \$7,500 AND \$12.5.

10 Q AND DO YOU KNOW IF MR. MORRIS RECEIVED ANY BONUSES IN
11 2001?

12 A I THINK HE DID BUT I CAN'T HONESTLY TELL YOU HOW MUCH
13 THEY WERE.

14 Q LET'S MOVE IN 2002. WE JUST TALKED ABOUT THIS MARCH
15 14TH MEETING. DID YOU GET ANOTHER BONUS IN 2002 SHORTLY
16 AFTER THAT MEETING?

17 A AFTER THE MARCH MEETING, YES I DID.

18 Q HOW MUCH WAS THAT BONUS FOR?

19 A \$25,000.00.

20 Q AND WHO APPROVED THAT BONUS?

21 A MR. SHEPPARD AND MR. FERRELL.

22 Q AND MOVING ON LATER THAT YEAR, DO YOU REMEMBER MR.
23 MORRIS RECEIVING SOMETHING FROM HOMEGOLD?

24 A I FOUND OUT THAT HE HAD GOT A \$25, \$25,000.00 IN
25 AUGUST, I BELIEVE IT WAS.

1 Q AND DID HE RECEIVE SOMETHING ELSE?

2 A HE ALSO TRADED HIS EXISTING LINCOLN IN ON A NEW
3 LINCOLN.

4 Q AND DID YOU RECEIVE ANOTHER BONUS LATER THAT YEAR
5 ALSO, MR. OWEN?

6 A I DID, RIGHT BEFORE THANKSGIVING.

7 Q AND HOW MUCH WAS THAT BONUS FOR?

8 A ANOTHER \$25,000.00.

9 Q AND WERE THOSE BONUSES UNUSUAL COMPARED TO THE YEARS
10 BEFORE?

11 A VERY MUCH.

12 Q LET'S MOVE ON TO 2002. DOES ANYTHING IMPROVE ABOUT
13 THE FINANCIAL CONDITION OF THE COMPANY GOING INTO 2002?

14 A NO.

15 Q GOING BACK TO THAT LAST BONUS, YOU RECEIVED IT
16 APPROXIMATELY WHEN?

17 A JUST BEFORE THANKSGIVING OF 2002.

18 Q AND TECHNICALLY DID THE DEFENDANT STEP DOWN FROM THE
19 BOARD OF DIRECTORS AT THAT POINT?

20 A SOMETIME DURING THAT SAME PERIOD.

21 Q THAT IS WHEN YOU RECEIVED, YOU GOT THE BONUS?

22 A YES.

23 Q CAN YOU IDENTIFY THIS, MR. OWEN.

24 A YES, THIS IS A, MINUTES OF A TELECONFERENCE MEETING
25 IN JUNE OF 2002.

1 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
2 MOVE THESE INTO EVIDENCE.

3 MR. GRIFFIN: NO OBJECTION, YOUR HONOR.

4 THE COURT: STATE'S 186 IS ADMITTED.

5 (WHEREUPON, STATE'S EXHIBIT NO. 186 WAS ADMITTED INTO
6 EVIDENCE.)

7 Q WHAT IS THE DATE OF THAT AGAIN?

8 A JUNE 18TH OF 2002.

9 Q AND YOU SAID IT WAS A TELECONFERENCE?

10 A YES.

11 Q AND WHO WAS IN PICKENS FOR THAT MEETING?

12 A EARLE MORRIS, I AM NOT SURE IF THIS WAS A
13 TELECONFERENCE ON THE NEW TV INTERCOM SYSTEM THAT WE HAD,
14 I THINK IT PROBABLY WAS. EARLE MORRIS, JR., RONALD
15 SHEPPARD, JACK STERLING, LARRY OWEN, DON BOBO, DANNY
16 SHARPE, FORREST FERRELL, PAUL BANNIGER AND KEVIN MARTIN
17 AND BOB PHILPOTT.

18 Q DO YOU KNOW, WAS THE DEFENDANT ACTUALLY IN PICKENS OR
19 DO YOU REMEMBER ABOUT THAT MEETING?

20 A I DON'T REMEMBER ANY OF THE HOMEGOLD PEOPLE
21 PHYSICALLY BEING IN PICKENS. I THINK THEY WERE IN THE
22 HOMEGOLD OFFICE IN COLUMBIA.

23 Q AND THAT WAS THE NEXT BOARD MEETING AFTER THAT MARCH
24 14TH MEETING, CORRECT?

25 A THAT'S CORRECT.

1 Q IS THERE ANYTHING DISCUSSED ABOUT THAT?

2 A GIVE ME JUST A MOMENT TO LOOK OVER IT. YES, MR.
3 PHILPOTT--

4 Q WHO IS MR. PHILPOTT?

5 A MR. PHILPOTT IS A DIRECTOR OF HOMEGOLD FINANCIAL AND
6 HE WAS ALSO THE CEO OF A BANKING FIRM IN CHARLOTTE, NORTH
7 CAROLINA. AND HE HAD ASSUMED THE RESPONSIBILITY OF
8 PREPARING A PROSPECTUS OR A BOOKLET TO MAIL OUT TO CERTAIN
9 FINANCIAL INSTITUTIONS WHO MIGHT HAVE AN INTEREST IN
10 PURCHASING HOMEGOLD RETAIL MORTGAGE DIVISION. AND DURING
11 THIS TELECONFERENCE CALL MR. PHILPOTT REPORTED THAT HE HAD
12 MAILED OUT SO MANY BOOKS TO SO MANY FINANCIAL
13 INSTITUTIONS. AND I THINK I REMEMBER MAYBE A DOZEN AND HE
14 HAD GOTTEN BACK FOUR OR FIVE GOOD POSITIVE RESPONSES OR
15 INTERESTED FINANCIAL INSTITUTIONS. AND I REMEMBER HIM
16 NAMING THREE OR FOUR OF THEM.

17 Q AT THIS POINT WAS CAROLINA INVESTORS MOVING FORWARD
18 WITH OPENING THE ANDERSON OFFICE?

19 A YES, WE WERE.

20 Q EVEN AFTER THE GOING CONCERN AND THE LOAN IMPAIRMENT?

21 A YES, MR. SHEPPARD AND MR. FERRELL SAID THE EXPENSE OF
22 OPENING THAT OFFICE DOWN THERE WASN'T THAT GREAT AND IF
23 PEOPLE WANTED TO INVEST THAT THEY WOULD COME.

24 Q AND DURING THIS TIME FRAME YOU PREVIOUSLY TESTIFIED
25 THAT YOU WEREN'T REALLY, NOBODY CAME UP FROM HOMEGOLD,

1 THEY WOULDN'T HAVE BROUGHT ANY FINANCIAL STATEMENTS?

2 A RIGHT.

3 MR. GRIFFIN: OBJECTION, YOUR HONOR, LEADING.

4 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.

5 Q DO YOU REMEMBER GETTING ANY FINANCIALS AT THAT
6 MEETING?

7 A NO.

8 Q AND HOW WOULD YOU GET THE FINANCIALS AROUND THAT
9 TIME, JUNE OF 2002?

10 A NORMALLY THEY WOULD BE EMAILED OR FAXED TO ME.

11 Q AND DID YOU ALSO HAVE DISCUSSIONS WITH PEOPLE AT
12 HOMEGOLD ABOUT PERIODIC UPDATES?

13 A YES, VERY FREQUENTLY.

14 Q AND WHO WERE SOME OF THOSE PEOPLE?

15 A I COMPLAINED THEN TO JACK STERLING WHO WAS CHAIRMAN
16 OF HOMEGOLD'S BOARD, SEVERAL TIMES DURING 2002 THAT I
17 WASN'T GETTING ADEQUATE FINANCIAL STATEMENTS, I WASN'T
18 GETTING TELEPHONE INQUIRIES RETURNED. I WASN'T GETTING
19 ANY INFORMATION AT ALL TO SPEAK OF.

20 Q DO YOU REMEMBER COMING DOWN, WHEN YOU SAID IT WAS
21 MOVED, WAS IT MOVED TO COLUMBIA OR LEXINGTON. YOU WERE
22 TALKING EARLIER ABOUT THE FINANCIALS AND THE DEFENDANT
23 MOVED THE FINANCIALS DOWN. DO YOU REMEMBER ORIGINALLY
24 WHERE IT WAS MOVED TO?

25 A IT WAS ORIGINALLY MOVED TO BROAD RIVER ROAD,

1 OPERATIONS WAS IN ONE BUILDING AND THE CORPORATE OFFICE
2 WAS ACROSS THE ROAD IN THE CHRISTY BUILDING.

3 Q DO YOU REMEMBER EVER GOING TO THE REED AVENUE
4 LOCATION?

5 A I REMEMBER GOING TO THE REED AVENUE LOCATION EARLY IN
6 '02.

7 Q LET'S TALK ABOUT GOING TO COLUMBIA. YOU TALKED ABOUT
8 THE CHRISTY BUILDING. DO YOU REMEMBER GOING TO A MEETING
9 WITH HOMEGOLD OFFICIALS AT THE CHRISTY BUILDING?

10 A YES.

11 Q AND WHAT DO YOU REMEMBER THE DEFENDANT TELLING YOU OR
12 SHOWING YOU AT THAT MEETING?

13 A HE CARRIED ME IN HIS PRIVATE OFFICE AND SHOWED ME HIS
14 VERY PLUSH EXPENSIVE EGYPTIAN DESK THAT HE PAID \$35
15 THOUSAND DOLLARS FOR.

16 Q WAS THIS AFTER THE GOING CONCERN MEETING?

17 A YES.

18 Q WHAT DID YOU THINK ABOUT THAT?

19 A I THOUGHT IT WAS MIGHTY EXTRAVAGANT.

20 Q WHAT DID THE OFFICE LOOK LIKE?

21 A OPULENT, VERY, VERY FANCY.

22 Q AT SOME POINT YOU HAD PREVIOUSLY TALKED ABOUT AT THE
23 MARCH 14TH MEETING THE DEFENDANT TOLD YOU HE WAS NOT GOING
24 TO EXPAND, OPEN ANY MORE LOCATIONS. WHAT DID YOU FIND OUT
25 ABOUT THE EXPANSION OF HOMEGOLD AND ITS OFFICES?

1 A THEY CONTINUED TO OPEN ADDITIONAL OFFICES ALL THE WAY
2 THROUGH AUGUST.

3 Q AND WHAT DID YOU THINK ABOUT THAT?

4 A WELL, I CAN'T SAY RIGHT HERE BUT I WAS VERY
5 AGGRAVATED ABOUT IT. I CAN'T, I MEAN, I WAS EXTREMELY
6 AGITATED ABOUT IT BECAUSE I HAD BEEN LIED TO AGAIN.

7 Q AND GOING ON, AT THESE CAROLINA INVESTORS MEETING
8 WOULD YOU ASK THE DEFENDANT FOR SPECIFICS ABOUT FINANCIAL
9 AND OTHER PEOPLE AT HOMEGOLD?

10 A YES, I FINALLY GOT VERY STRONG WITH FORREST AND KAREN
11 AND EXPLAINED TO THEM THAT I COULD NOT CARRY ON OUR
12 BUSINESS IN PICKENS WITHOUT ADEQUATE FINANCIAL INFORMATION
13 TO BE ABLE TO CONVEY TO OUR INVESTORS WHAT HOMEGOLD WAS
14 DOING. I MEAN, IT WAS DOWN TO THE POINT WHERE WE WERE
15 JUST BEGGING FOR SOMETHING POSITIVE TO PASS ALONG TO OUR
16 INVESTORS.

17 Q AND GOING ON, YOU WERE TALKING ABOUT THE OPENING OF
18 SALES. DID YOU EVER CONFRONT THE DEFENDANT ABOUT TELLING
19 HE WASN'T GOING TO DO THAT AND THEN DOING IT?

20 A NO, I DON'T RECALL.

21 Q DID YOU EVER TALK TO HIM ABOUT IT OR HAVE DISCUSSIONS
22 WITH HIM?

23 A THE ONLY DISCUSSION THAT I REALLY HAD WITH HIM WAS
24 DURING A MEETING THAT WE HAD IN THE MIDDLE OF AUGUST OF
25 '02 AND I DON'T REMEMBER, I CAUTIONED HIM SPECIFICALLY

1 ABOUT WHY HE LIED TO ME. I HONESTLY DON'T REMEMBER WHY I
2 DIDN'T, I VERY WELL SHOULD HAVE.

3 Q BUT YOU DIDN'T?

4 A BUT I DIDN'T, NO. THEY HAD A LOT OF INFORMATION TO
5 GIVE TO US AT THAT MEETING AND IT JUST ESCAPED ME.

6 Q YOU PREVIOUSLY BROUGHT UP, DID YOU DURING THE TIME
7 FRAME WHEN MR. SHEPPARD WAS CEO OF HOMEGOLD, HAVE AN
8 OPPORTUNITY TO GO TO ANOTHER COMPANY?

9 A I DID. TWO MONTHS, ACTUALLY IN JUNE AFTER THE MERGER
10 WAS EXECUTED I GOT A WRITTEN JOB OFFER TO GO WITH ANOTHER
11 COMPANY. AND THE JOB OFFER ALSO ENTAILED ALSO HIRING MY
12 WIFE AND I WOULD HAVE BEEN PAID SOMEWHERE IN THE
13 NEIGHBORHOOD OF SEVENTY-FIVE PERCENT MORE THAN I WAS
14 MAKING AT CAROLINA INVESTORS. THEY OFFERED ME A \$50
15 THOUSAND DOLLAR SIGN ON BONUS AND LIKE I SAID THEY OFFERED
16 TO HIRE MY WIFE AS WELL AND I WOULD OF HAD A FULL
17 EXECUTIVE PACKAGE, CAR EXPENSE ACCOUNT AND ALL OF THAT.
18 AND I, SHE AND I PRAYED OVER IT A LOT. AND THE MERGER HAD
19 JUST BEEN COMPLETED AND MR. SHEPPARD HAD MADE A LOT OF
20 PROMISES ABOUT WHAT HE WAS GOING TO DO WITH THE COMPANY
21 STOCK AND HOW HE WAS GOING TO RETURN THE COMPANY TO
22 PROFITABILITY AND EVEN DURING THE FIRST MONTH OR SO I HAD
23 HEARD SOME POSITIVE COMMENTS COME OUT OF GREENVILLE ABOUT
24 THE CHANGING IN THE DRESS CODE AND HOW HE WAS WALKING
25 AROUND OVER THROUGH THE BUILDING TO MAKE SURE PEOPLE WERE

1 DOING THEIR JOB, THAT SORT OF THING. AND I SAID, WELL,
2 ALL OF THIS SOUNDS GOOD, IT MAY BE THE SALVATION OF
3 HOMEGOLD. AND SO MY WIFE AND I DECIDED THAT IF WE BOTH
4 LEFT AT THE SAME TIME WITH THE MERGER JUST HAVING BEEN
5 DONE THAT WAS GOING TO SHOW A NO CONFIDENCE ON THE PART OF
6 OUR INVESTORS. AND WE WERE AFRAID THAT IT WOULD SCARE
7 THEM TO DEATH AND THAT IT COULD CAUSE A RUN ON THE MONEY
8 AND IT WOULD CAUSE THE COMPANY TO FAIL. WE DIDN'T WANT TO
9 BE RESPONSIBLE FOR THAT.

10 Q DID YOU MAKE HOMEGOLD AWARE OF THAT OFFER?

11 A I DID.

12 Q AND WHAT HAPPENED AS A RESULT OF THAT?

13 A I TOOK THE PACKAGE AND WENT TO JACK STERLING AND TOLD
14 HIM THAT I HAD RECEIVED A JOB OFFER AND SHOWED IT TO HIM.
15 HE READ IT AND OF COURSE HE DIDN'T WANT ME TO LEAVE AND
16 ULTIMATELY HE WAS WILLING TO GIVE ME A \$32 THOUSAND DOLLAR
17 INCREASE IN PAY TO STAY. AND I AGREED TO STAY AND HE SAID
18 HE WOULD HAVE TO RUN IT BY MR. SHEPPARD BEFORE HE COULD
19 GIVE ME A FINAL ANSWER ON IT BUT HE DIDN'T THINK IT WOULD
20 BE A PROBLEM. SO, I WENT BACK TO PICKENS AND TWO OR THREE
21 HOURS LATER MR. SHEPPARD CALLED ME AND THERE WAS A
22 PARTICULAR STORY WHICH IT DOESN'T REALLY RELATE TO THIS
23 DIRECTLY. BUT I RELATED TO JACK STERLING, HE WANTED TO
24 HEAR THE SAME STORY SO I GAVE HIM THE ABBREVIATED VERSION
25 OF IT. AND HE SAID, WELL, IS THIS THE END OF IT. AND I

1 SAID, WHAT DO YOU MEAN, RONNIE. HE SAID, IS THIS THE END
2 OF IT, ARE YOU NOT GOING TO COME BACK IN A FEW MONTHS AND
3 WANT SOME MORE MONEY, ARE YOU. AND I SAID, NO RONNIE, I
4 AM NOT THAT KIND OF PERSON. I SAID I WAS DONE WRONG IN
5 1995 AND I SAID I THINK THIS IS PERSONALLY MAKING UP FOR
6 THAT. AND I SAID I AM NOT THE KIND OF PERSON TO DO THAT.
7 AND HE SAID OKAY THEN. SO, MR. STERLING WENT AHEAD AND
8 APPROVED MY INCREASE IN SALARY AND I DECIDED TO STAY
9 RATHER THAN LEAVE.

10 Q AND DID THE INDIVIDUALS AT CAROLINA INVESTORS, DID
11 MOST OF THOSE INVESTORS KNOW YOU PERSONALLY OR AT LEAST
12 KNOW WHO YOU WERE?

13 A THEY DID. BECAUSE WHEN I CAME TO THE COMPANY IN 1970
14 THE COMPANY ONLY HAD ABOUT 500 INVESTORS AND TOTAL ASSETS
15 WERE LESS THAN \$3 MILLION DOLLARS. AND BY THIS TIME IN
16 THE FALL OF 2002 THE TOTAL ASSETS HAD EXCEEDED \$300
17 MILLION DOLLARS AND WE HAD SOMEWHERE IN THE NEIGHBORHOOD
18 OF 7,000 INVESTORS. AND SO IN THE 33 YEARS THAT I HAD
19 BEEN THERE, I WENT ABOUT THE COMMUNITY AND DID PROGRAMS
20 THAT ATTRACTED INVESTORS TO COME IN. AND AS I MENTIONED
21 EARLY MOST OF OUR INVESTORS WERE ACQUIRED, SIMPLY BY
22 NEIGHBORS TELLING NEIGHBORS AND CHURCH MEMBERS TELLING
23 FRIENDS AND THAT SORT OF THING, WORD OF MOUTH.

24 Q WHAT ABOUT MR. MORRIS.

25 A MR. MORRIS' REPUTATION, I FEEL LIKE HOMEGOLD WAS

1 HIRED WITH MR. MORRIS IN 1998 OR CONTRACTED WITH HIM IN
2 1998 TO COME TO WORK AS SOON AS HE RETIRED FROM THE STATE
3 COMPTROLLERS POSITION IN JANUARY OF '99. I FULLY FEEL
4 LIKE THEY HIRED HIM STRICTLY FOR HIS POLITICAL REPUTATION
5 AND HIS NAME TO HELP GUARANTEE OR ASSURE STABILITY IN THE
6 PICKENS AREA.

7 Q AFTER THE MARCH 14TH MEETING YOU AND MR. MORRIS BOTH
8 WENT AND STARTED TELLING INVESTORS OR TELLING THE STAFF
9 NOT EXACTLY--

10 MR. GRIFFIN: LEADING.

11 THE COURT: SUSTAINED TO THE FORM OF THE QUESTION.

12 Q MR. OWEN, WILL YOU DESCRIBE WHAT YOU AND MR. MORRIS
13 DID AFTER THAT MARCH 14TH MEETING AND THE PERCEPTION THAT
14 YOU GAVE CAROLINA INVESTORS STAFF AND INVESTORS.

15 A EARLE HAD TO LEAVE THAT MARCH 14TH MEETING EARLY
16 BECAUSE HE HAD A PRIOR ENGAGEMENT IN ANDERSON, I BELIEVE
17 IT WAS. SO, HE WASN'T THERE FOR PART OF THE MEETING. AND
18 SO THAT NIGHT WHEN I CAME HOME I CALLED EARLE AND KIND OF
19 WENT OVER WHAT HAPPENED. AND OF COURSE, HE ASKED ME, HOW
20 ARE WE GOING TO BE ABLE TO SELL THESE NOTES AND DEBENTURES
21 WITH THAT IN THERE. AND, OF COURSE, WE TALKED ABOUT IT
22 AND THEN OF COURSE, YOU KNOW WE ENDED UP GIVING HIM AS
23 WELL AS EVERYBODY ELSE A COPY OF THE MEMO THAT I HAD
24 PREPARED. AND WE JUST TOLD PEOPLE ABOUT THE VALUATIONS
25 AND REFERRED THEM TO PAGE F11 AND A LOT OF INVESTORS THAT

1 CAME IN AND TALKED WITH US AND READ THE PROSPECTUS DIDN'T
2 LIKE WHAT THEY SAW AND LEFT. WE KNEW WE HAD TO DEAL WITH
3 THAT AND OUR INVESTMENTS DID, THEY DWINDLED FOR A WHILE
4 THERE. BUT LATER ON IN 2002, OF COURSE, THE RESPONSES
5 STARTED COMING IN FROM THE BOOK, SO CALLED BOOK AND THEN
6 THEY GOT THE LETTER OF INTENT AND THINGS STARTED TO PICK
7 UP.

8 Q LET'S MOVE ON TO 2002. DO YOU REMEMBER GETTING AN
9 EMAIL FROM KEVIN MARTIN. AND I WILL SHOW YOU WHAT HAS
10 BEEN MOVED INTO EVIDENCE AS STATE'S 128. DO YOU REMEMBER
11 RECEIVING THAT EMAIL?

12 A YES.

13 Q AND PLEASE TELL THE JURY WHAT THAT EMAIL STATES JUST
14 IN GENERAL TERMS?

15 A IN GENERAL THIS EMAIL WAS RECEIVED BY ME ON AUGUST
16 THE 7TH AND IT WAS FROM KEVIN MARTIN WHO AT THAT TIME WAS
17 CHIEF FINANCIAL OFFICER OF HOMEGOLD FINANCIAL. AND KEVIN
18 ESSENTIALLY IS ASKING ME IF EARLE AND I CAN COME TO
19 COLUMBIA ON TUESDAY OR MONDAY, MONDAY OR TUESDAY,
20 WHICHEVER DAY IS MORE CONVENIENT, FOR AN AMMUNITION
21 MEETING WITH THE HOMEGOLD OFFICERS AND STAFF TO GIVE US
22 AMMUNITION TO HELP DEAL WITH THE RUMORS THAT WE WERE
23 DEALING WITH IN THE UPSTATE.

24 Q AND WHAT RUMORS WERE THOSE?

25 A ABOUT THE BAD CONDITION OF HOMEGOLD AND CAROLINA

1 INVESTORS.

2 Q AND AGAIN, MR. OWEN, WERE THOSE RUMORS?

3 A YES. IT IS TRUE THEY WERE LOSING MONEY, WE WERE
4 DEALING WITH A LOT OF DIFFERENT STORIES AND AT THAT TIME A
5 LOT OF THEM WE FELT LIKE WERE RUMORS BECAUSE WE COULDN'T
6 SUBSTANTIATE THE ORIGIN OF THEM. BUT ULTIMATELY HOMEGOLD
7 AND CAROLINA INVESTORS WERE LOSING MONEY AND IT WAS MUCH
8 WORSE THAN WE EVER THOUGHT IT WAS.

9 Q AT THAT TIME YOU THOUGHT THEY WERE RUMORS?

10 A THAT'S RIGHT.

11 Q SITTING HERE TODAY WERE THEY RUMORS, MR. OWEN?

12 A NO, MA'AM.

13 Q WHO FROM CAROLINA INVESTORS WENT TO THAT MEETING?

14 A EARLE MORRIS AND MYSELF.

15 Q MR. BOBO OR MR. SHARPE INVITED TO THAT MEETING?

16 A NO.

17 Q AND WHO AT HOMEGOLD CONDUCTED THAT MEETING?

18 A MR. SHEPPARD AND MR. FERRELL.

19 Q AND WHAT DID MR. SHEPPARD TELL YOU AT THAT MEETING?

20 A THEY WENT OVER ALL THE INFORMATION ABOUT THE
21 NATIONWIDE EXPANSION AND THE VOLUME AND HOW WELL THE
22 EARLIER BRANCHES WERE DOING AS FAR AS GENERATING MORTGAGE
23 VOLUME. THEY TOLD US ABOUT THE FLEXCHECK CHECK CASHING
24 COMPANY THAT THEY HAD OPENED UP AND ALL THE MONEY THAT
25 THEY WERE EXPECTING TO GENERATE, REVENUE THAT THEY WERE

1 EXPECTING TO GENERATE FROM THAT COMPANY, WHAT GREAT
2 PROSPECTS IT HAD FOR THE FUTURE. THEY TALKED ABOUT THE
3 WHOLESALE DIVISION WHICH WOULD BE RETAINED EVEN IF THE
4 RETAIL WAS SOLD. AND THEN MR. PHILPOTT INFORMED US OR
5 BROUGHT US UP TO DATE ON ALL THE INTERESTED PARTIES THAT
6 WERE TALKING ABOUT THE RETAIL MORTGAGE DIVISION.

7 Q WAS HOMEGOLD STILL EXPERIENCING FINANCIAL LOSSES
8 THROUGH THIS TIME FRAME?

9 A THEY WERE. AS A MATTER OF FACT, THEIR FIRST QUARTER
10 LOSS WAS \$9.6 MILLION OR \$9.5, SOMEWHERE IN THAT
11 NEIGHBORHOOD. AND ONE FACTOR THAT I DID OVERLOOK EARLIER
12 THAT I WANTED TO BRING UP IN REGARD TO THAT FIRST QUARTER
13 LOSS. WHEN THEY INFORMED US THAT, WHEN THEY FIRST
14 INFORMED US IN NOVEMBER OF '01 THAT THEY WERE DOING THIS
15 NATIONWIDE EXPANSION AND WE CAUTIONED THEM ABOUT EXPANDING
16 TOO FAST. THEY TOLD US, FORREST FERRELL AND MR. SHEPPARD
17 BOTH TOLD US THAT WE ARE NOT USING OPERATING CASH TO
18 EXPAND AND OPEN THESE OFFICES. WE ARE OPENING THESE
19 OFFICES WITH COST SAVINGS FROM OTHER AREAS. SO THAT MADE
20 US FEEL A LITTLE BIT BETTER BECAUSE IF THEY WERE USING
21 OPERATING CASH TO OPEN THESE OFFICES WHEREAS THEY SHOULD
22 BE MAKING LOANS WITH THAT MONEY AND INCREASING VOLUME AND
23 RETURN TO PROFITABILITY. WE FELT BETTER ABOUT THAT BUT
24 THEN WHEN IT CAME UP AROUND THE MIDDLE OF MAY AND THEIR
25 FIRST QUARTER EARNINGS REPORT CAME OUT IT SHOWS THEY LOST

1 \$9.6 MILLION. WE ASKED WHY DID YOU LOSE \$9.6 MILLION, YOU
2 KNOW, WITH ALL THESE NEW OFFICES AND YOU WERE PROJECTING
3 THAT YOU WERE GOING TO BE, YOUR LOSSES WERE GOING TO BE
4 MUCH SMALLER. WELL, THE LOSSES WERE \$9.6 MILLION BECAUSE
5 WE HAD THESE, WE HAD TO OPEN THESE OFFICES, WE HAD TO PAY
6 THE SALARIES, EQUIPMENT, WE HAD TO LEASE THE BUILDINGS AND
7 INSTALL THE EQUIPMENT AND EVERYTHING AND PAY PEOPLE. AND
8 IT JUST COST A LOT OF MONEY.

9 Q WHERE DID THEY GET THE MONEY FROM, MR. OWEN?

10 A CAROLINA INVESTORS.

11 Q WAS THAT A LIE THAT HE TOLD YOU?

12 A PARDON?

13 Q WAS THAT--

14 MR. GRIFFIN: OBJECTION, YOUR HONOR. MAY I APPROACH?

15 THE COURT: SURE.

16 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
17 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
18 JURY.)

19 THE COURT: OBJECTION TO THE FORM IS SUSTAINED. YOU
20 MAY CONTINUE, MS. EVANS.

21 Q MR. OWEN, YOU HAD PREVIOUSLY TOLD THE JURY ABOUT A
22 CONVERSATION, ABOUT MR. SHEPPARD SAID HE WAS GOING TO PAY
23 FOR THE OPENING OF THESE NEW BRANCHES, CORRECT?

24 A YES.

25 Q AND WHAT DID HE TELL YOU?

1 A THAT THOSE BRANCHES WOULD BE OPEN WITH COST SAVINGS
2 FROM OTHER AREAS.

3 Q AND WERE THEY?

4 A NO.

5 Q WHAT MONEY WERE THEY OPENED WITH?

6 A THEY WERE OPENED WITH MONEY FROM CAROLINA INVESTORS,
7 MONEY THAT WAS UPSTREAMED.

8 Q GOING BACK TO THAT AMMUNITION MEETING IN AUGUST, WERE
9 YOU ALSO TOLD ABOUT A COMPANY CALLED FLEXCHECK AT THAT
10 POINT?

11 A YES.

12 Q AND IN GENERAL TERMS WHAT DID THE DEFENDANT TELL YOU
13 ABOUT FLEXCHECK?

14 A WELL, FLEXCHECK WAS A PAYDAY CHECK CASHING COMPANY
15 THAT THEY HAD OPENED AND OUR BOARD OBJECTED TO THAT
16 OPENING AS WELL. WE DIDN'T FEEL LIKE THAT TYPE OF
17 BUSINESS FIT WITH CAROLINA INVESTORS. AND THEY INITIALLY
18 WANTED TO PUT THAT ASSET ON OUR BOOKS. AND WE STRONGLY
19 OBJECTED SO THEY KEPT IT ON HOMEGOLD'S BOOKS AT LEAST FOR
20 A WHILE. AND THEY WERE PROJECTING THAT FLEXCHECK, THEY
21 WENT OVER SO MANY OFFICES AND EACH OFFICE WAS GOING TO
22 GENERATE SO MUCH REVENUE AND IT WAS GOING TO PROJECT A \$50
23 TO \$70 MILLION DOLLARS WORTH OF REVENUE OVER THE NEXT
24 COUPLE OF YEARS. WAS GOING TO OPEN UP TO 500 OFFICES,
25 JUST HAD ALL OF THESE GRANDIOSE PLANS ABOUT HOW MUCH

1 FLEXCHECK WAS GOING TO CONTRIBUTE TO THEIR ABILITY TO
2 REPAY CAROLINA INVESTORS.

3 Q MR. OWEN, DID YOU AND MR. MORRIS RELATE TO THE
4 DEFENDANT AT THAT MEETING WHAT YOU WERE GOING THROUGH AT
5 CAROLINA INVESTORS AND HOW HARD IT WAS DAY-TO-DAY
6 OPERATIONS AT THAT POINT?

7 A SURE WE DID. THEY HAD ALREADY HAD THE FIRST QUARTER
8 LOSS AND WE HAD A MEETING EARLY ON IN, AFTER THAT LOSS
9 CAME OUT IN THE NEWSPAPER AND THEY SAID, WELL, WE ARE
10 GOING TO DO BETTER THE NEXT QUARTER BECAUSE WE DON'T HAVE
11 ANY MORE EXPANSIONS IN OPENING UP THESE NEW OFFICES. SO,
12 WE ARE LOOKING POSSIBLY AS LITTLE AS THE LOSS OF MAYBE \$3
13 TO \$4 MILLION DOLLARS IN THE SECOND QUARTER. WELL, WHEN
14 WE GOT DOWN THERE FOR THE AUGUST 14TH MEETING THAT IS WHEN
15 THEY ANNOUNCED EARNINGS OR LACK OF EARNINGS FOR THE SECOND
16 QUARTER. AND THEN INSTEAD OF HAVING A LOSS AS LITTLE AS
17 \$3 OR \$4 MILLION DOLLARS THE LOSS WAS \$14 POINT SOMETHING,
18 I THINK \$14.6 MILLION.

19 Q AND WHAT DID YOU THINK ABOUT THAT WHEN THEY TOLD YOU
20 THAT?

21 A I THOUGHT IT STUNK. THEY HAD BEEN TELLING US ALL
22 ALONG THAT THE LOSSES WERE GOING TO MINIMIZE AND GROW LESS
23 AND HERE THEY ARE ALL OF A SUDDEN ALMOST TWICE WHAT THEY
24 WERE THE PREVIOUS QUARTER. AND HE THEN OPENS UP ALL OF
25 THESE ADDITIONAL OFFICES AFTER HE TOLD ME THAT HE WASN'T

1 GOING TO OPEN UP ANY OFFICES.

2 Q DID YOU SAY ANYTHING TO THE DEFENDANT ABOUT THAT?

3 A I KNOW EARLE AND I BOTH HAD COMMENTS TO MAKE THAT DAY
4 ABOUT THOSE LOSSES AND ABOUT HOW WE WERE GOING TO DEAL
5 WITH OUR PUBLIC. BUT I HONESTLY CAN'T REMEMBER WHAT I
6 SAID TO HIM.

7 Q WHAT DID HE TELL YOU ABOUT WHAT TO DO TO GO BACK UP
8 TO CAROLINA INVESTORS?

9 A I MEAN, THEY WENT OVER, YOU KNOW, THE EXPANSION AND
10 AGAIN ALL OF THESE POSITIVE, SO CALLED POSITIVE FACTORS,
11 FLEXCHECK AND THE FACT THAT THEY HAD ALL OF THESE BANKS
12 AND FINANCIAL INSTITUTIONS, HOUSEHOLD INTERNATIONAL,
13 CALIFORNIA COMPANY AND DIFFERENT COMPANIES THAT WERE
14 INTERESTED IN THE RETAIL MORTGAGE DIVISION. AND I THINK
15 EVEN AT THAT MEETING THEY TOLD US ABOUT THE LETTER OF
16 INTENT FROM THE FINANCIAL INSTITUTION ON THE WEST COAST.

17 Q AND NOW WE ARE IN AUGUST OF 2002, LET ME, THAT
18 AMMUNITION THAT THEY GAVE YOU AT THAT MEETING. DID YOU
19 COME BACK UP, IS THAT WHAT YOU TOLD INVESTORS?

20 A SURE, WE WERE STARVING FOR SOMETHING POSITIVE TO TELL
21 OUR INVESTORS, TO KEEP THEIR HOPES UP AND KEEP THEM
22 RENEWING THEIR CERTIFICATES AND KEEP NEW INVESTORS COMING
23 IN.

24 Q MR. OWEN, I AM GOING TO SHOW YOU A LETTER DATED
25 AUGUST 21ST OF 2002. DO YOU RECOGNIZE THAT?

1 A YES.

2 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
3 MOVE THAT LETTER INTO EVIDENCE.

4 THE COURT: ANY OBJECTION?

5 MR. GRIFFIN: NO OBJECTION.

6 THE COURT: STATE'S 187 IS ADMITTED.

7 (WHEREUPON, STATE'S EXHIBIT NO. 187 WAS ADMITTED INTO
8 EVIDENCE.)

9 Q MR. OWEN, WHO IS THIS A LETTER FROM?

10 A IT IS A LETTER FROM ERIC PANTSARI, CHIEF SECURITIES
11 EXAMINER, TO ME.

12 Q AND WHAT IN ESSENCE IS THE NATURE OF THAT LETTER?

13 A WELL, BASICALLY HE SAYS HE HAS REVIEWED THE LATEST
14 QUARTERLY REPORT FROM HOMEGOLD FINANCIAL AND CONTINUE TO
15 BE CONCERNED OVER THE COMPANIES LOSSES AND ITS POTENTIAL
16 EFFECT ON THEIR COMPANY AND ESPECIALLY THE EFFECT IT MAY
17 HAVE ON THE MANY INVESTORS HOLDING YOUR COMPANIES
18 DEBENTURES.

19 Q AND AS A RESULT OF GETTING THAT LETTER DID YOU AND
20 THE DEFENDANT AND SOMEBODY ELSE GO MEET AT THE SECURITIES
21 COMMISSION?

22 A WE DID.

23 Q AND WHAT DID THE DEFENDANT DISCUSS WITH THE
24 SECURITIES COMMISSION AT THAT POINT?

25 A AT THAT POINT HE INFORMED THE SECURITIES COMMISSION

1 THAT HE HAD THE LETTER OF INTENT FROM THE COMPANY ON THE
2 WEST COAST, THAT THEY WERE LIKELY TO PURCHASE THE RETAIL
3 MORTGAGE OF HOMEGOLD AND THAT MR. PANTSARI INSISTED AT
4 THAT MEETING THAT NO MORE CAROLINA INVESTORS TO BE
5 UPSTREAMED TO HOMEGOLD. AND MR. SHEPPARD SAID THEY WERE
6 PROMISING THAT THEY WOULD NOT BE ANY MORE MONEY USED BY
7 HOMEGOLD FROM CAROLINA INVESTORS.

8 Q I AM GOING TO SHOW YOU DEFENDANT'S EXHIBIT NUMBER 12.
9 IS THAT YOUR HANDWRITING?

10 A IT IS.

11 Q AND DO YOU REMEMBER THAT PREVIOUS LETTER THAT YOU
12 TALKED ABOUT OF MR. PANTSARI, WHAT WAS THE DATE OF THE
13 LETTER?

14 A AUGUST THE 21ST.

15 Q DO YOU REMEMBER, AFTER THAT LETTER THAT YOU WENT DOWN
16 TO THE SECURITIES COMMISSION?

17 A I THINK IT WAS THE NEXT DAY.

18 Q WHAT IS THE DATE, THAT WOULD BE, THAT LETTER WAS
19 AUGUST 21ST?

20 A 21ST.

21 Q THE NEXT DAY WOULD BE THE?

22 A 22ND.

23 Q AND WHAT DATE DO YOU HAVE ON DEFENDANT'S EXHIBIT 12
24 AS THE DATE OF CAROLINA INVESTORS BOARD MINUTES?

25 A AUGUST 22ND.

1 Q DID YOU HAVE BOTH OF THOSE MEETINGS THE SAME DAY?

2 A NO, WE HAD SCHEDULED A BOARD MEETING FOR THE 22ND BUT
3 WHEN I GOT THE CALL FROM MR. PANTSARI WE CAME TO COLUMBIA
4 INSTEAD AND WE LATER HAD THE MEETING AND I JUST FORGOT TO
5 CHANGE THE DATE AT THE TOP OF THE AGENDA.

6 Q AND I AM GOING TO SHOW YOU SOMETHING VERY QUICKLY.
7 THIS IS STATE'S EXHIBIT 147, IS THAT AN EMAIL CHANGING THE
8 DATE OF THAT CAROLINA INVESTORS MEETING?

9 A YES, IT SAYS THE BOARD MEETING HAS BEEN RESCHEDULED.

10 Q AND, MR. OWEN, AT THAT SUBSEQUENT BOARD MEETING THAT
11 CAROLINA INVESTORS, WHO FROM HOMEGOLD CAME UP TO CAROLINA
12 INVESTORS?

13 A THE ONE WITH THE HANDWRITTEN?

14 Q THE HANDWRITTEN ONE, YES.

15 A JUST RONNIE AND FORREST.

16 Q AND WHO WAS THERE FROM CAROLINA INVESTORS?

17 A I THINK MYSELF AND DON AND EARLE. I AM NOT SURE IF
18 DANNY WAS THERE OR NOT.

19 Q DO YOU REMEMBER THE EXACT DATE THAT THEY CAME UP AND
20 MET WITH YA'LL?

21 A NO.

22 Q AND WHAT WERE YA'LL TOLD AT THAT MEETING?

23 A WE WERE TOLD ABOUT THE LETTER OF INTENT FROM THE WEST
24 COAST FINANCIAL INSTITUTION. AND THAT WAS ABOUT ALL THE
25 INFORMATION THAT THEY GAVE US BECAUSE THEY HAD TO RUSH

1 BACK TO COLUMBIA FOR ANOTHER MEETING.

2 Q AND IN ESSENCE WHAT DID THE DEFENDANT TELL YOU ABOUT
3 THAT SALE TO THE, THE OFFER THAT THEY HAD?

4 A DIDN'T REALLY GIVE US ANY DETAIL, THEY JUST SAID IT
5 WAS A LARGE FINANCIAL INSTITUTION AND THEY WERE REALLY
6 EXCITED ABOUT THE OFFER AND THAT THE FINANCIAL INSTITUTION
7 WAS GOING TO SEND IN A TEAM TO DO THE DUE DILIGENCE AND
8 THAT THEY WOULD KEEP US INFORMED.

9 Q AND, AGAIN, DID YA'LL RECEIVE THIS AS POSITIVE
10 INFORMATION?

11 A ABSOLUTELY.

12 Q AROUND THIS TIME, DID YA'LL ASK ANY QUESTIONS ABOUT
13 THE DEAL AT THAT POINT AT THAT MEETING?

14 A NOT AT THAT POINT BECAUSE IT HADN'T ACTUALLY EVEN
15 BEEN MADE PUBLIC. AND, I MEAN ONCE THE NEWSPAPER ARTICLE
16 CAME OUT CERTAINLY WE DID START TRYING TO FIND OUT ABOUT
17 IT.

18 Q DID THE DEFENDANT TELL YOU WHAT THIS DEAL WOULD BE
19 FOR CAROLINA INVESTORS?

20 A YES, THE FUNDS DERIVED FROM THE SALE WERE SUPPOSE TO
21 BE USED TO PAY OFF HOMEGOLD DEBT WITH CAROLINA INVESTORS
22 WHICH WOULD OF BEEN FANTASTIC FOR US.

23 Q AND BASED UPON WHAT THE DEFENDANT TOLD YOU DID YOU
24 TELL INVESTORS ABOUT THAT?

25 A SURE, IT WAS PRINTED IN THE NEWSPAPER, THAT WAS THE

1 INTENT OF THE FUNDS AND IT WAS TOLD TO US BY MR. SHEPPARD
2 AND MR. FERRELL AND JACK STERLING AND EVERYBODY ELSE WITH
3 HOMEGOLD.

4 MS. EVANS: YOUR HONOR, MAY WE APPROACH.

5 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
6 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
7 JURY.)

8 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
9 THERE IS AN EVIDENTIARY POINT THAT I NEED TO HEAR
10 ARGUMENTS ON AND RATHER THAN BRING YOU BACK LATER ON I AM
11 GOING TO LET YOU GO FOR THE DAY AND I WILL ATTEND TO THAT
12 THIS AFTERNOON. BE BACK AT 9:30 TOMORROW MORNING AND
13 PLEASE DON'T DISCUSS THE CASE OR READ OR WATCH OR LISTEN
14 TO ANYTHING ABOUT IT. YOU ARE EXCUSED UNTIL 9:30 TOMORROW
15 MORNING, EVERYONE ELSE STAY SEATED, PLEASE.

16 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
17 THE DAY.)

18 THE COURT: MS. EVANS, YOU WERE GOING TO TENDER SOME
19 EXHIBITS AND THERE IS AN OBJECTION TO THOSE, PRIMARILY
20 NEWSPAPER ARTICLES, IS THAT RIGHT?

21 MS. EVANS: YES, THERE ARE, I BELIEVE, FOUR OR FIVE
22 NEWSPAPER ARTICLES THAT THE DEFENDANT HAD REFERRED TO
23 ABOUT THIS TIME. ONE IS AN AUGUST 23RD OF 2002, ARTICLE
24 FROM THE GREENVILLE NEWS ABOUT THE SELL OF THE MORTGAGE
25 DIVISION. ANOTHER ONE IS A AUGUST 27TH OF 2002 FROM THE

1 STATE PAPER ABOUT LENDERS MAKING CHANGES, TALKING ABOUT
2 HOMEGOLD. ANOTHER ONE IS AUGUST 31 OF 2002 FROM THE STATE
3 PAPER ABOUT HOMEGOLD FINANCIAL EXECUTIVES STEPPING DOWN.
4 ANOTHER ONE IS AUGUST 23RD OF 2002, STATE PAPER, ABOUT
5 HOMEGOLD'S, ABOUT THE LOSSES REPORTED. AND ANOTHER ONE IS
6 A SEPTEMBER 4TH GREENVILLE NEWS, HOMEGOLD GETS OFFERED TO
7 BUY MORTGAGE UNIT. AND THOSE WOULD BE THE ONES THAT WE
8 WOULD TENDER THROUGH THIS WITNESS AT THIS POINT.

9 THE COURT: AND WHAT IS THE PURPOSE OF THE STATE'S
10 OFFERING THOSE DOCUMENTS.

11 MS. EVANS: THE PURPOSE OF OFFERING THEM AND THE
12 RELEVANCY IS THAT THE DEFENDANT HAS NOW STATED THAT THERE
13 WAS NEWSPAPER ARTICLES THAT APPEARED THAT THIS WAS
14 ANNOUNCED IN THE PRESS THE SAME THING THAT HE HEARD FROM
15 THE DEFENDANT COMING THROUGH. THEY CLEARLY ARE RELEVANT
16 TO THE FACT THAT BECAUSE OF THESE NEWS ARTICLES THE
17 TESTIMONY IS GOING TO BE THAT PEOPLE START READING THIS IN
18 THE PAPER, THEY COME IN AND THEY ASK MORE QUESTIONS. MR.
19 OWEN RELAYS NOT ONLY WHAT IS TOLD TO HIM BY THE DEFENDANT
20 ABOUT THE SELL BUT WHAT IS ALSO PRINTED IN THE PAPER.
21 ADDITIONALLY, SOME OF THE OTHER ONES ARE RELEVANT TO THE
22 FACT THAT WHY INVESTORS ARE COMING IN AND ASKING QUESTIONS
23 BECAUSE THESE ARE, SOME OF THESE ARE FRONT PAGE, I HAVE
24 BOTH THE INTERNET AND THE ACTUAL ARTICLE, YOUR HONOR.
25 SOME OF THESE ARE FRONT PAGE ARTICLES. AND WHERE THE

1 TESTIMONY IS GOING TO BE GOING IS THAT BASED UPON THESE
2 ARTICLES SEVERAL INVESTORS COME IN, AND AS YOUR HONOR HAS
3 ALREADY HEARD, SOME OF THESE INVESTORS ARE THE ONES THAT
4 ARE TOLD BY MR. OWEN AND OTHER PEOPLE ABOUT THE SELL OF
5 THE CALIFORNIA BANK. AND THROUGH A SERIES OF ADDITIONAL
6 EMAILS AFTER THIS REGARDING WHAT MR. OWEN, BASED UPON NOT
7 ONLY WHAT MR. SHEPPARD TOLD HIM BUT WHAT MR. SHEPPARD SAID
8 IN THE NEWSPAPER ARTICLES AND WHAT MR. MORRIS AND MR. OWEN
9 SAYING IN THE NEWSPAPER ARTICLES ABOUT THE FINANCIAL
10 CONDITION. WE THINK THAT STATES FURTHER FOR THE
11 CONSPIRACY. WE ARE NOT OFFERING NECESSARILY FOR THE TRUTH
12 OF THE MATTER ASSERTED BUT JUST MERELY THAT THESE COME UP,
13 PEOPLE READ THEM AND THAT PROMPTS THEM TO COME IN TO THE
14 CAROLINA INVESTORS AND TALK TO MR. MORRIS OR MR. OWEN OR
15 ANY OTHER INVESTMENT COUNSELOR ABOUT THE STATUS OF THEIR
16 INVESTMENT AT CAROLINA INVESTORS.

17 THE COURT: MR. GRIFFIN.

18 MR. GRIFFIN: YOUR HONOR, A COUPLE OF ISSUES. ONE
19 IS, CAN THIS WITNESS AUTHENTICATE THESE DOCUMENTS, I DON'T
20 THINK HE CAN. THEY ARE COPIES OF STATE NEWSPAPER ARTICLES
21 AND GREENVILLE NEWS ARTICLES. THE SECOND ISSUE IS, THESE
22 ARTICLES ARE NOT, AS I UNDERSTAND IT, PRESS RELEASES ARE
23 TAKEN FROM THEM, THEY MAY BE TAKEN FROM PRESS RELEASES, I
24 DON'T KNOW. HOMEGOLD DID SEND OUT PRESS RELEASES. THESE
25 ARTICLES, AS I UNDERSTAND IT, AT LEAST THE ONES THAT THEY

1 PROFFERED IS NOT DERIVED FROM A PRESS RELEASE. THEY ARE
2 QUOTES FROM SOME REPORTER WHO IS WRITING DOWN WHAT,
3 RESULTS FROM AN INTERVIEW. SO, I MEAN THERE IS, AND I CAN
4 TELL YOUR HONOR, JUST FROM THIS TRIAL THERE HAVE BEEN,
5 FROM THE WITNESSES TESTIMONY AND IT HAS BEEN REPORTED IN
6 THE PAPER AND IT BEARS NO FACTUAL, IT IS HARD TO DETERMINE
7 WHAT WAS REPORTED IN THE PAPER VERSUS WHAT COMES OUT HERE
8 IN THIS COURTROOM. SO, AS A REPORTER WRITING DOWN A STORY
9 OF AN INTERVIEW AND I AM MISQUOTED MORE OFTEN THAN NOT
10 WHEN I AM QUOTED IN THE PAPER. SO, IT IS NOT RELIABLE, IT
11 IS JUST HEARSAY AS TO WHAT IS BEING QUOTED. AND MR.
12 SHEPPARD BEING QUOTED BECAUSE WHAT IS THE QUOTE, YOUR
13 HONOR, WHETHER IT IS DAVID DYKES OR ED DONAHUE OR BEN
14 WARNER, IT IS THEIR STATING THIS IS WHAT SOMEONE SAID TO
15 THEM. THAT IS WHY IT IS HEARSAY, IT IS NOT THE
16 DEFENDANT'S STATEMENT THEMSELVES. AND THE DOCUMENTS
17 AREN'T AUTHENTICATED. THANK YOU.
18 MS. EVANS: YOUR HONOR, RULE 902(6), CLEARLY STATES
19 THAT NEWSPAPER ARTICLES ARE SELF-AUTHENTICATING SO THEY
20 ARE SELF-AUTHENTICATING, IT DOESN'T MATTER IF THIS WITNESS
21 CAN OR NOT, IT CLEARLY SAYS NEWSPAPERS AND PERIODICALS,
22 PRINTED MATERIAL PURPORTING TO BE A NEWSPAPER ARTICLE OR
23 PERIODICAL ARE SELF-AUTHENTICATED. SO THE AUTHENTICITY IS
24 NOT AN ISSUE HERE. THE ISSUE HERE IS HEARSAY AND AS I
25 SAID, WE ARE NOT GOING TO PUT THE TRUTH OF THE MATTER

1 ASSERTED AND CERTAINLY MR. GRIFFIN CAN ON
2 CROSS-EXAMINATION SAY, MR. OWEN, IS THIS MISQUOTED, IS
3 THAT A DIRECT FINANCIAL THING. BUT THE RELEVANCY OF THESE
4 ARTICLES COME OUT AND WHAT IS THE NATURE OF THE ARTICLES
5 IN IT, THEY ARE NOT GOING FOR THE TRUTH OF THE MATTER
6 ASSERTED. THEY ARE GOING TO SHOW THAT THESE CAME OUT,
7 INVESTORS READ THEM AND CAME INTO CAROLINA INVESTORS. AND
8 IT GOES DIRECTLY TO THE TESTIMONY THAT YOUR HONOR HAS
9 PREVIOUSLY HEARD FROM THE INVESTORS THAT AFTER THESE
10 NEWSPAPER ARTICLES, THEY CAME IN, THEY SPOKE TO MR. OWEN
11 AND MR. OWEN TOLD THEM ABOUT THE IMPAC DEAL OR THE
12 CALIFORNIA BANK DEAL AS YOUR HONOR HAS HEARD. SO, THEY
13 ARE NOT COMING IN FOR THE TRUTH OF THE MATTER ASSERTED.
14 AND MR. GRIFFIN CAN CERTAINLY CROSS-EXAMINE ON WHETHER
15 NEWSPAPER REPORTERS GET THINGS RIGHT OR NOT ON
16 CROSS-EXAMINATION. BUT THEY ARE SELF-AUTHENTICATING AND
17 WE ARE NOT PUTTING THEM IN FOR THE TRUTH OF THE MATTER
18 ASSERTED, JUST WHAT PEOPLE READ AND WHY THEY CAME IN AND
19 DID IT.

20 THE COURT: ALL RIGHT, I HATE TO DO THIS BUT I THINK
21 I AM GOING TO HAVE TO ASK YOU TO LET ME READ THOSE
22 ARTICLES AND I WILL MAKE A RULING TOMORROW MORNING.

23 MR. GRIFFIN: YOUR HONOR, I WOULD LIKE TO POINT OUT,
24 I AM NOT SURE IF IT IS THIS ARTICLE, IT IS KIND OF LONG.
25 JUST SO YOU WILL KNOW WHERE THIS IS HEADED AND I BELIEVE

1 IS WHERE IT IS HEADED IS THIS REFERENCE IN THESE ARTICLES
2 ABOUT THE SELL TO A LARGE WEST COAST BANK. AND I THINK
3 WHEN THE WYCHE LAWYERS READ THE ARTICLE THEY WROTE A
4 LETTER PERHAPS OR THEY HAD SOME CONCERNS ABOUT
5 REPRESENTING THIS ENTITY THAT WAS MAKING THIS PURCHASE WAS
6 A BANK, A WEST COAST BANK RATHER THAN A MORTGAGE COMPANY
7 CALLED IMPAC BANK. AND IN THAT, THAT IS, THAT GOES TO
8 THIS MISQUOTE, IMPAC BANK AND THE NEWSPAPER SAYS, THIS
9 SAYS A BANK. AND WE ARE GOING TO GET IN THIS TRIAL, I
10 SUSPECT, IF THESE ARTICLES COME IN ABOUT WHAT WAS SAID.
11 AND THE QUESTION, WHO CAN I CROSS-EXAMINE AND I THINK IT
12 IS QUOTED EITHER MR. MORRIS OR SOMEONE. AND, YOU KNOW,
13 WHO AM I GOING TO CROSS-EXAMINE ON THIS, I CERTAINLY CAN'T
14 CROSS-EXAMINE MR. MORRIS.

15 THE COURT: I UNDERSTAND YOUR ARGUMENTS, I WILL TAKE
16 A LOOK AT THEM AND RULE IN THE MORNING BEFORE WE CONTINUE.

17 MR. GRIFFIN: THANK YOU.

18 THE COURT: ANYTHING ELSE?

19 MS. EVANS: NO, YOUR HONOR.

20 THE COURT: WE WILL START AT 9:30 TOMORROW MORNING.
21 IF I CAN HAVE EACH OF THOSE, A COPY OF THEM PLEASE.
22 BEFORE WE BREAK, THIS IS FOR THE BENEFIT OF THE AUDIENCE.
23 APPARENTLY ON THURSDAY WHEN WE BROKE THERE WAS A SPECTATOR
24 WHO WAS ON THE ELEVATOR WITH ONE OF THE JURORS WHO MADE AN
25 INAPPROPRIATE COMMENT. AND I WOULD DIRECT ALL SPECTATORS,

1 THE JUROR CANNOT IDENTIFY THAT INDIVIDUAL. I DON'T KNOW
2 WHO IT WAS, I HAVE DISCUSSED IT WITH COUNSEL. I WOULD
3 DIRECT ALL OF THOSE IN THE AUDIENCE NOT TO HAVE ANY
4 CONTACT DIRECT OR INDIRECT WITH ANY JUROR. IF YOU GO GET
5 ON THE ELEVATOR AND THERE ARE JURORS ON THE ELEVATOR WAIT
6 FOR THE NEXT ONE. WE WILL RECESS UNTIL 9:30 IN THE
7 MORNING. MR. OWEN, YOU CANNOT DISCUSS YOU TESTIMONY. BE
8 BACK IN THE MORNING.

9 (WHEREUPON, THE TRIAL WILL RESUME THE NEXT MORNING AT
10 9:30 A.M.)

11 THE COURT: ANYTHING WE NEED TO TEND TO OTHER THAN
12 THE RULING THE COURT NEEDS TO MAKE ON THE NEWSPAPER
13 ARTICLES?

14 MS. EVANS: NOTHING FROM THE STATE.

15 MR. GRIFFIN: NOTHING FROM THE DEFENDANT.

16 THE COURT: I HAVE REVIEWED THE ARTICLES LAST NIGHT,
17 THE DEFENDANT'S OBJECTION IS SUSTAINED. I KNOW THE RULES
18 DOES SAY THAT THEY ARE SELF-AUTHENTICATING BUT THAT
19 DOESN'T MEAN THAT THEY ARE AUTOMATICALLY ADMISSIBLE. YOU
20 MAY STILL BE ABLE TO ASK QUESTIONS ABOUT THEM BUT THE
21 ARTICLES THEMSELVES, I WILL SUSTAIN THE OBJECTION TO THEM.

22 MR. GRIFFIN: THANK YOU.

23 MS. EVANS: JUST SO I AM CLEAR. MY ONLY MEANS OF
24 QUESTIONING WAS THAT, A SERIES OF ARTICLES COME OUT AND IN
25 GENERAL TERMS ABOUT WHAT THEY WERE ABOUT BECAUSE IT CAUSES

1 A RUN OR SEVERAL WITHDRAWALS AT CAROLINA INVESTORS. THE
2 COURT IS FINE WITH THAT LINE OF QUESTIONING.

3 THE COURT: IF THE WITNESS YOU ARE QUESTIONING CAN
4 IDENTIFY THAT THEY WERE ARTICLES, THAT IS FINE.

5 MS. EVANS: THAT IS WHAT I WAS ASKING. CAN I GET
6 THOSE COPIES BACK. THANK YOU VERY MUCH.

7 THE COURT: LET'S GET MR. OWEN BACK. BRING THE JURY
8 IN, PLEASE.

9 (WHEREUPON, THE JURY CAME INTO OPEN COURT AT
10 APPROXIMATELY 9:45 A.M.)

11 THE COURT: GOOD MORNING, LADIES AND GENTLEMEN. YOU
12 CAN CONTINUE, MS. EVANS.

13 MS. EVANS: THANK YOU, YOUR HONOR. IF IT PLEASES THE
14 COURT.

15 THE COURT: ALL RIGHT.

16 CONTINUE DIRECT EXAMINATION

17 BY MS. EVANS:

18 Q MR. OWEN, I BELIEVE WHEN WE STOPPED YESTERDAY WE WERE
19 AROUND AUGUST OF 2002 AND JUST TALKED ABOUT AN AMMUNITION
20 MEETING. AND LATE AUGUST, EARLY SEPTEMBER OF 2002 WAS
21 THERE A SERIES OF ARTICLES THAT CAME OUT ABOUT HOMEGOLD?

22 A IT WAS.

23 Q WAS THERE SEVERAL OR A COUPLE OF ARTICLES THAT CAME
24 OUT IN THE GREENVILLE NEWS?

25 A YES, THERE WAS TWO ARTICLES BUT I THINK MAYBE THE

1 23RD AND THE 29TH OR THE 29TH AND 30TH, SOMEWHERE ALONG
2 THERE.

3 Q WHAT MONTH, SIR?

4 A AUGUST.

5 Q AND IN GENERAL TERMS, WITHOUT GOING INTO WHAT THEY
6 WERE ABOUT, WAS THAT POSITIVE NEWS OR NEGATIVE NEWS ABOUT
7 HOMEGOLD?

8 A IT WAS ABOUT, I THINK IT WAS ANNOUNCED IN THE SECOND
9 QUARTER LOSS AND I BELIEVE THE SECOND ARTICLE ANNOUNCED
10 THAT THE SO CALLED LETTER OF INTENT FROM THE FIRM WITH THE
11 WEST COAST THAT HAD AN INTEREST IN BUYING HOMEGOLD'S
12 RETAIL MORTGAGE DIVISION.

13 Q AND THAT LETTER OF INTENT ON THE SALES OF THE WEST
14 COAST MORTGAGE DIVISION, IN GENERAL TERMS FROM WHAT YOU
15 REMEMBER READING WAS THAT SIMILAR TO WHAT THE DEFENDANT
16 TOLD YOU ABOUT IT?

17 A A LOT MORE DETAIL. ACTUALLY WHEN THEY CAME TO
18 PICKENS AND TOLD US ABOUT IT THERE WAS VERY LITTLE DETAIL
19 INVOLVED IN IT.

20 Q WAS THERE A SUBSEQUENT ARTICLE THAT YOU READ THAT
21 TALKED ABOUT THE CREDIT RATING?

22 A YES, THERE WAS.

23 Q AND WAS THERE ANOTHER ARTICLE THAT YOU READ THAT
24 TALKED ABOUT RESIGNATIONS OF CFO'S?

25 A YES.

1 Q AND THOSE, SOME OF THOSE ARTICLES WERE YOU QUOTED?

2 A I THINK ONE OF THEM I WAS QUOTED.

3 Q WAS EARLE MORRIS QUOTED?

4 A YES, HE WAS.

5 Q WAS THE DEFENDANT QUOTED?

6 A YES.

7 Q AROUND THIS TIME WHEN THESE ARTICLES CAME OUT, WHAT
8 HAPPENED AT CAROLINA INVESTORS?

9 A WHEN THE FIRST ARTICLE CAME OUT, I BELIEVE IT WAS ON
10 THE 23RD, WE HAD A RUN. I THINK THAT WAS THE ONE THAT
11 ANNOUNCED THE LETTER OF INTENT TO SELL THE RETAIL MORTGAGE
12 DIVISION TO THE FIRM ON THE WEST COAST. AND LIKE I SAID
13 IT CAME OUT ON A FRIDAY MORNING AND WE JUST HAD A PANIC
14 RUN THAT ENTIRE DAY. A LOT OF PEOPLE SAW THAT ARTICLE. I
15 DON'T KNOW WHAT THEY THOUGHT THE ARTICLE WAS ABOUT BUT WE
16 DID HAVE A RUN AND THE RUN LASTED FOR THE BIGGEST PART OF
17 THE NEXT THREE TO FOUR WEEKS BEFORE IT STARTED TO SLOW
18 DOWN.

19 Q AND YOU ALSO TALKED ABOUT AN ARTICLE THAT CAME OUT
20 THAT ANNOUNCED THE SECOND QUARTER LOSSES. DO YOU REMEMBER
21 ULTIMATELY WHAT THE SECOND QUARTER LOSSES FOR 2002 WERE?

22 A YES, \$14.6 MILLION. I THINK THAT FIGURE MIGHT OF
23 BEEN CONTAINED IN THE SAME ARTICLE. I THINK THAT LOSS
24 FIGURE IS ACTUALLY WHAT CAUSED THE MAJORITY OF THE PANIC?

25 Q AND WHEN THE PEOPLE STARTED COMING IN DID YOU CALL

1 INDIVIDUALS AT HOMEGOLD ABOUT THIS?

2 A YES.

3 Q AND WHO DID YOU TALK TO?

4 A WELL, I TALKED TO FORREST FERRELL MOSTLY. I TALKED
5 TO HIM SEVERAL TIMES AS A MATTER OF FACT THAT DAY AND ON
6 SUBSEQUENT DAYS. BUT TOWARDS THE END OF FRIDAY I CALLED
7 HIM IN A PANIC BECAUSE WE WERE, I WAS RUNNING BACK AND
8 FORTH FROM ONE OFFICE TO THE OTHER AND MR. MORRIS WASN'T
9 SCHEDULED TO COME INTO WORK UNTIL TUESDAY. HE NORMALLY
10 WORKED TUESDAYS, WEDNESDAYS AND THURSDAYS. AND MY
11 CONVERSATION WITH FORREST LATER FRIDAY AFTERNOON AND HE
12 ASKED ME IF I WOULD CALL EARLE AND SEE IF EARLE WOULD COME
13 IN ON MONDAY TO TRY TO HELP US GET A HANDLE ON THINGS, YOU
14 KNOW, TO HELP GET PEOPLE SETTLED DOWN.

15 Q CALM THE INVESTORS DOWN?

16 A YES.

17 Q AND WERE YOU RELAYING BACK TO HOMEGOLD WHAT YOU AND
18 MR. MORRIS WERE DOING TO CALM THE INVESTORS DOWN?

19 A ABSOLUTELY.

20 Q AND WHAT WERE YOU TELLING THEM?

21 A WELL, WE WERE TELLING THEM, OF COURSE, THAT THEY HAD
22 THE LETTER OF INTENT FROM THE BANK ON THE WEST COAST AND
23 WE FELT LIKE AT THE TIME, NOT KNOWING ANY OF THE DETAILS
24 OF THE TRADE OR THE POSSIBLE PURCHASE, WE FELT LIKE IT WAS
25 A GOOD POSITIVE THING. AND WE TRIED TO CONVINCE THE

1 INVESTORS THAT IT WAS A POSITIVE THING IN SPITE OF THE
2 \$14.6 MILLION DOLLAR LOSS FOR THE SECOND QUARTER. A LOT
3 OF THEM JUST DIDN'T BUY IT THOUGH, THEY, WELL A LOT OF
4 PEOPLE SAID, YOU KNOW, I AM GOING TO TAKE IT DOWN. IF
5 THAT SELL GETS COMPLETED I WILL BRING IT BACK.

6 Q AND DID YOU RELAY ANYTHING THAT THE DEFENDANT TOLD
7 YOU TO SOME OF THOSE INVESTORS TO TRY TO CALM THE
8 INVESTORS DOWN?

9 A WELL, SURE. WE USED THE INFORMATION THAT WE WERE
10 GIVEN AT THAT AUGUST 14TH AMMUNITION MEETING, THE
11 VALUATION, WE USED ALL OF THE INFORMATION PERTAINING TO
12 THEIR EXPANSION AND THE ADDITIONAL LOAN OFFICERS. WE
13 ENUMERATED ALL OF THE MEASURES THAT THEY WERE USING TO TRY
14 TO RETURN PROFITABILITY OR AT LEAST WHAT THEY TOLD US THEY
15 WERE TRYING TO DO TO RETURN TO PROFITABILITY, WE CONVEYED
16 THOSE, EVERYTHING TO THE PEOPLE TO TRY TO STOP THE RUN.

17 Q FROM YOUR RECOLLECTION, THE STATEMENT THAT YOU, MR.
18 MORRIS, MR. SHEPPARD GAVE TO THE PRESS, WERE THEY
19 DOWNPLAYING THE NEGATIVE ROLES?

20 A SURE.

21 Q WAS THERE ALSO AN ARTICLE THAT CAME OUT ABOUT THE
22 RESIGNATIONS OF SOME TOP OFFICIALS AT HOMEGOLD?

23 A YES, THERE WAS. I BELIEVE IT CAME OUT IN THE STATE
24 PAPER ANNOUNCING THE RESIGNATION OF KEVIN MARTIN AND DAVID
25 GAFFNEY.

1 Q AND THIS WAS AROUND WHAT TIME FRAME AGAIN?

2 A IT WAS AROUND THE END OF AUGUST, THE FIRST OF
3 SEPTEMBER.

4 Q WERE YOU AWARE, WHO IS DAVID GAFFNEY AGAIN?

5 A DAVID GAFFNEY WAS THE IN-HOUSE CORPORATE ATTORNEY.

6 Q AND WHO WAS KEVIN MARTIN?

7 A KEVIN MARTIN WAS CHIEF FINANCIAL OFFICER, BOTH OF
8 THEM FOR HOMEGOLD.

9 Q AND BASED UPON WHAT YOU READ, WERE YOU, DID THAT
10 RELIEVE SOME OF YOUR FEARS ABOUT THEIR RESIGNATIONS?

11 A WELL, THE RESIGNATIONS CAME OUT ACTUALLY A FEW DAYS
12 AFTER THE FIRST NEWSPAPER ARTICLE CAME OUT. AND, OF
13 COURSE, ERIC PANTSARI WITH THE SECURITIES COMMISSION
14 CALLED ME AND ASKED WHY THEY RESIGNED. AND I HAD TALKED
15 WITH FORREST FERRELL AND ASKED HIM WHY THEY RESIGNED. AND
16 FORREST TOLD ME THAT KEVIN RESIGNED, ACTUALLY SAID THAT
17 THE BOARD HAD ALREADY VOTED TO FIRE KEVIN. AND THAT KEVIN
18 RESIGNED BECAUSE HE PROBABLY GOT WIND THAT HE WAS GOING TO
19 BE FIRED AND JUST WENT AHEAD AND RESIGNED ANYWAY. AS FAR
20 AS DAVID GAFFNEY WAS CONCERNED, HE TOLD ME WITH THIS
21 MERGER OR THE BUY OUT OF THE COMPANY BY THAT WEST COAST
22 COMPANY, LOOKING LIKE IT WAS GOING TO HAPPEN THAT DAVID
23 GAFFNEY WITH ALL THE WRITING ON THE WALL REALIZED THAT HE
24 WOULDN'T BE NEEDED ONCE THAT SELL TOOK PLACE AND THAT WAS
25 THE REASON THAT HE LEFT.

1 Q DID ANYBODY AT HOMEGOLD SHARE WITH YOU A RESIGNATION
2 LETTER FROM KEVIN MARTIN?

3 A ABSOLUTELY NOT. I DIDN'T SEE THAT LETTER UNTIL JUST
4 BEFORE MY TRIAL.

5 Q AND YOU ACTUALLY DID SEE--

6 A TO BE HONEST WITH YOU, I NEVER DID SEE IT, I JUST
7 HEARD ABOUT IT.

8 Q SO, YOU HAVE NEVER SEEN IT. I WILL SHOW YOU WHAT HAS
9 BEEN ENTERED INTO EVIDENCE STATE'S EXHIBIT NUMBER 63. IS
10 THAT WHAT YOU WERE INFORMED ABOUT JUST PRIOR TO YOUR
11 TRIAL?

12 A YES.

13 Q BUT YOU HAD NEVER SEEN THAT LETTER BEFORE?

14 A NO, I HAVEN'T.

15 Q AND WHO IS IT ADDRESSED TO?

16 A IT IS ADDRESSED TO RONNIE SHEPPARD.

17 Q CAN YOU JUST GLANCE OVER IT, DOES IT SAY ANYTHING
18 ABOUT IN THERE, THAT HE WAS GETTING READY TO GET FIRED?

19 A I DON'T SEE ANYTHING RELATING TO A FIRING.

20 Q WHAT IS THE DATE OF THAT LETTER?

21 A AUGUST 29TH OF 2002.

22 Q IF THEY HAD SHOWN YOU A COPY OF THAT LETTER WOULD
23 THAT LETTER HAD CAUSED YOU CONCERN IN AUGUST OF 2002?

24 A IF I HAD KNOWN OF THE EXISTENCE OF THAT LETTER I
25 PROBABLY WOULD OF RESIGNED MYSELF.

1 Q AND YOU JUST BROUGHT, WELL, WHY?

2 A WELL, HE IS THE CHIEF FINANCIAL OFFICER OF HOMEGOLD.
3 AND IF HE IS RESIGNING BECAUSE HE DOESN'T FEEL LIKE THAT
4 HOMEGOLD WILL EVER BE ABLE TO REPAY CAROLINA INVESTORS THE
5 MONEY IT IS OWED AFTER MR. SHEPPARD AND THE OTHER HOMEGOLD
6 MANAGEMENT CAME TO PICKENS REPEATEDLY DURING THE PAST
7 PRIOR TWO YEARS AND DID EVERYTHING THEY COULD TO CONVINCE
8 US THAT THEY WERE RETURNING TO PROFITABILITY AND FED US
9 ALL OF THOSE NICE GLORIOUS STORIES. FOR HIM TO REALIZE
10 THERE WAS NO CHANCE FOR HOMEGOLD TO REPAY THE MONEY, I
11 WOULD OF BEEN A FOOL TO HANG AROUND REALIZING THAT IT WAS
12 GOING TO GO DOWN.

13 Q AND FROM WHAT YOU REMEMBER READING IN THE ARTICLE
14 ABOUT THE TOP EXECUTIVE STEPPING DOWN WAS THAT ANYTHING
15 SIMILAR TO WHAT FORREST FERRELL TOLD YOU WHY THEY WERE
16 STEPPING DOWN?

17 A ABSOLUTELY NOT.

18 Q WAS IT ANYTHING SIMILAR TO WHAT WAS IN MR. MARTIN'S
19 LETTER ABOUT WHY HE WAS RESIGNING?

20 A NOT AT ALL.

21 Q YOU JUST TALKED ABOUT AFTER THOSE ARTICLES CAME OUT
22 THAT ERIC PANTSARI CALLED YOU. AFTER THAT PHONE CALL DID
23 YOU RECEIVE A LETTER FROM ERIC PANTSARI?

24 A I DID.

25 Q I AM GOING TO SHOW YOU A LETTER DATED SEPTEMBER 3RD

1 OF 2002, CAN YOU IDENTIFY THAT?

2 A YES, THIS IS THE LETTER HE WROTE ME CONCERNING THE
3 RESIGNATION.

4 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
5 MOVE THIS IN AS STATE'S EXHIBIT 188.

6 THE COURT: ANY OBJECTION?

7 MR. GRIFFIN: NO OBJECTION.

8 THE COURT: STATE'S 188 IS ADMITTED.

9 (WHEREUPON, STATE'S EXHIBIT NO. 188 WAS ADMITTED INTO
10 EVIDENCE.)

11 Q AND PLEASE READ TO THE JURY THE CONTENTS OF THAT
12 LETTER.

13 A IT SAYS, DEAR MR. OWEN, WE HAVE WRITTEN MR. RONALD
14 SHEPPARD CONCERNING THE RECENT RESIGNATION OF TWO OF HIS
15 EXECUTIVES REQUESTING HIS COMMENTS AS TO THE REASONS WHY.

16 Q AND DID YOU WRITE HIM A RESULT OF THAT LETTER OR DID
17 YOU TALK TO ANYBODY AFTER YOU GOT THAT LETTER?

18 A I CALLED DOWN AND I THINK THAT I ASKED FOR MR.
19 SHEPPARD BUT HE WASN'T AVAILABLE. I ENDED UP TALKING TO
20 FORREST FERRELL.

21 Q AND DID THEY CONFIRM THAT THEY TOO HAD GOTTEN THAT
22 LETTER?

23 A YES.

24 MS. EVANS: YOUR HONOR, MAY WE APPROACH.

25 THE COURT: YES.

1 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
2 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
3 JURY.)

4 Q MR. OWEN, IN THAT LETTER THAT YOU SAID IN THE FIRST
5 LINE THAT MR. PANTSARI HAD ALSO WRITTEN A LETTER TO MR.
6 RONALD SHEPPARD?

7 A YES.

8 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
9 MARK THE LETTER OF SEPTEMBER 3RD OF 2002 TO MR. SHEPPARD
10 FOR STATE'S EXHIBIT FOR ID PURPOSES ONLY AS 189.

11 THE COURT: MARKED FOR IDENTIFICATION ONLY AT THIS
12 TIME.

13 (WHEREUPON, STATE'S EXHIBIT NO. 189 WAS MARKED FOR
14 IDENTIFICATION ONLY.)

15 Q MR. OWEN, I AM GOING TO SHOW YOU A LETTER DATED
16 SEPTEMBER 17TH, HAVE YOU SEEN THIS LETTER BEFORE?

17 A I THINK I DID SEE A COPY OF ^{IT} WHEN IT WAS FIRST
18 READ.

19 MS. EVANS: YOUR HONOR, I WOULD LIKE TO MOVE THIS IN
20 AS STATE'S EXHIBIT NUMBER 190.

21 THE COURT: ANY OBJECTION.

22 MR. GRIFFIN: NO OBJECTION.

23 THE COURT: WITHOUT OBJECTION STATE'S 190 IS IN
24 EVIDENCE.

25

1 (WHEREUPON, STATE'S EXHIBIT NO. 190 WAS ADMITTED INTO
2 EVIDENCE.)

3 Q MR. OWEN, WILL YOU READ THE FIRST, FIRST OF ALL, WHO
4 WROTE THAT LETTER?

5 A FORREST FERRELL, THE PRESIDENT OF HOMEGOLD.

6 Q WILL YOU READ THE FIRST LINE OF THE SECOND PARAGRAPH
7 TO THE JURY, PLEASE.

8 A WHILE I WASN'T PART OF THE DISCUSSIONS WITH DAVID AND
9 KEVIN REGARDING THEIR RESIGNATION I AM GENERALLY AWARE
10 THAT BOTH MEN LEFT ON GOOD TERMS AND WE CONTINUE TO HAVE
11 GOOD RELATIONSHIPS WITH EACH.

12 Q WITHOUT READING THE ENTIRE LETTER, ANYWHERE IN THAT
13 LETTER DOES IT DISCUSS MARTIN'S RESIGNATION LETTER?

14 A NO, MA'AM.

15 Q ANYWHERE DOES IT DISCUSS THAT THE BOARD HAD DECIDED
16 TO FIRE MR. MARTIN?

17 A NO.

18 Q AND IS THAT, WHAT IS IN THAT LETTER IS THAT WHAT
19 FORREST FERRELL TOLD YOU ABOUT MR. GAFFNEY AND MR. MARTIN
20 LEAVING?

21 A NOT AT ALL.

22 Q AROUND THIS TIME YOU HAVE BEEN TOLD BY MR. SHEPPARD
23 AND OTHERS THAT YOU PREVIOUSLY TESTIFIED ABOUT THIS
24 CALIFORNIA BANK SALE. DID YOU AT SOME POINT RECEIVE
25 SOMETHING AT ONE OF YOUR OFFICES REGARDING THE ACTUAL

1 CALIFORNIA BANK SALE?

2 A YES, ONE OF OUR FAX MACHINES IN PICKENS RECEIVED A
3 COPY OF THE PROPOSAL FROM THE WEST COAST INSTITUTION
4 PURELY THROUGH ACCIDENT.

5 Q WHICH OFFICE WAS IT?

6 A THE BEREA OFFICE.

7 Q AND PLEASE TELL THE JURORS WHAT HAPPENED.

8 A ONE OF THE YOUNG LADIES IN THE BEREA OFFICE CALLED
9 AND SAID SHE HAD RECEIVED A COPY OF A FAX WHICH SHE WASN'T
10 ACTUALLY SUPPOSE TO HAVE RECEIVED. IT WAS SENT BY MR.
11 STERLING, JACK STERLING, THE CHAIRMAN OF THE BOARD OF
12 HOMEGOLD. AND IT CAME TO THE BEREA OFFICE THROUGH AN
13 ACCIDENT AND SHE CALLED HIM AND HE TOLD HER THAT IT
14 SHOULDN'T HAVE COME THERE AND FOR HER TO DESTROY IT. BUT
15 IT WAS PERTAINING TO THAT LETTER OF INTENT SO SHE KNEW
16 THAT I WOULD BE INTERESTED IN IT SO SHE FAXED ME A COPY OF
17 IT BEFORE SHE DESTROYED IT.

18 Q AND DO YOU REMEMBER APPROXIMATELY THE TIME FRAME THAT
19 YOU RECEIVED THAT?

20 A TO THE BEST OF MY MEMORY IT WAS SOMETIME MAYBE MID TO
21 LATE SEPTEMBER.

22 Q AND AT THIS POINT ARE YOU STILL TELLING INVESTORS
23 WHAT YOU HAD BEEN TOLD AT THE PREVIOUS BOARD MEETING ABOUT
24 HOW GREAT THIS DEAL WAS?

25 A YES.

1 MR. GRIFFIN: OBJECTION, YOUR HONOR, I OBJECT TO THE
2 FORM OF THE QUESTION.

3 THE COURT: I OVERRULE ON THE LAST QUESTION. YOU MAY
4 CONTINUE.

5 Q WHAT WERE YOU TELLING INVESTORS ABOUT THE CALIFORNIA
6 BANK DEAL AFTER THAT CAROLINA INVESTORS BOARD MEETING?

7 A WELL, WE HAD BEEN TOLD THAT THE VALUE OF THAT SELL
8 WAS GOING TO BE \$185, \$186 MILLION DOLLARS. AND AT THAT
9 TIME THAT CERTAINLY WOULD OF BEEN ENOUGH MONEY TO HAVE
10 TAKEN CARE OF THE CAROLINA INVESTORS DEBT AND SO WE WERE
11 TELLING PEOPLE THAT IT WAS GREAT. AND WE WERE HOPING AND
12 PRAYING THAT ONCE THEY FINISHED THE DUE DILIGENCE WORK
13 THAT IT WAS GOING TO BE CLOSED. IN FACT, THEY HAD TOLD US
14 THAT THEY ANTICIPATED FOR IT TO BE CLOSED ON OR BEFORE
15 THANKSGIVING.

16 Q AND WHEN YOU GOT THAT, WHAT WAS FAXED ACCIDENTALLY,
17 DID YOU READ THE TERMS OF THAT DEAL?

18 A I ATTEMPTED TO.

19 Q AND WHAT DO YOU MEAN THAT YOU ATTEMPTED TO?

20 A IT WAS THE MOST CONVOLUTED UPSIDE DOWN, BACKWARD
21 DOCUMENT THAT I EVER TRIED TO READ IN MY LIFE. WITHOUT A
22 COLLEGE DEGREE I JUST COULDN'T READ IT AND MAKE ANY
23 UNDERSTANDABLE SENSE OF IT. THE PAYMENT TERMS WERE SO
24 COMPLICATED THAT I THINK IT WOULD OF TAKEN A PHILADELPHIA
25 LAWYER TO UNDERSTAND IT.

1 Q AND IN ESSENCE FROM WHAT YOU READ IS THAT WHAT YOU
2 WERE TOLD AT THAT AUGUST 2002 MEETING FROM THE DEFENDANT?

3 A CERTAINLY NOT. I TELL YOU ONE SENTENCE THAT I DID
4 UNDERSTAND IN THERE. AT THE CLOSE OF THE DEAL HOMEGOLD
5 WAS ACTUALLY GOING TO HAVE TO LEND THAT COMPANY \$5 MILLION
6 DOLLARS AND I THOUGHT THAT WAS KIND OF STUPID OR SCREWY.

7 Q DID YOU SHARE THAT IMPAC DEAL, THAT FAX THAT WAS SENT
8 TO YOU THAT WAS SENT TO THE OFFICE ACCIDENTALLY WITH
9 ANYBODY?

10 A I SHOWED IT TO MR. MORRIS. IN FACT I GAVE HIM THE
11 DOCUMENT AND LET HIM KEEP IT A COUPLE OF DAYS AND LOOK IT
12 OVER. AND HE CAME BACK AND GAVE IT BACK TO ME, HE WAS AS
13 MUCH CONFUSED AS I WAS.

14 Q AND WHAT DID HE THINK WHAT HE HAD HEARD ABOUT THE
15 AUGUST MEETING AND WHAT HE READ IN THAT DEAL?

16 MR. GRIFFIN: OBJECTION.

17 THE COURT: SUSTAINED.

18 Q DID HE TELL YOU ANYTHING ABOUT THAT DEAL?

19 MR. GRIFFIN: OBJECTION.

20 THE COURT: SUSTAINED.

21 Q BASED UPON YOUR CONVERSATION WAS MR. MORRIS, NOT
22 TELLING WHAT MR. MORRIS SAID, DID YOU HAVE ANY BETTER
23 UNDERSTANDING ABOUT THE TERMS OF THE DEAL?

24 A NO.

25 Q AT THIS POINT WHAT DID YOU START DOING TO TRY TO GET,

1 ABOUT THE CALIFORNIA BANK DEAL AND GETTING INFORMATION
2 FROM HOMEGOLD?

3 A I CALLED DOWN THERE ALMOST EVERY DAY AND TALKED TO
4 FORREST FERRELL, OCCASIONALLY TALKED TO RONNIE BUT MOSTLY
5 TALKED TO FORREST FERRELL ABOUT THE STATUS OF IT. EACH
6 TIME I CALLED DOWN THERE I WAS TOLD THAT THE DUE DILIGENCE
7 WAS UNDER WAY AND EVERYTHING WAS LOOKING GOOD AND DIDN'T
8 ANTICIPATE ANY PROBLEM. IN FACT, THEY WERE EVEN SO
9 HOPEFUL THAT IT MIGHT CLOSE EVEN A WEEK OR TWO BEFORE
10 THANKSGIVING.

11 Q MR. OWEN, I AM GOING TO SHOW YOU AN EMAIL DATED
12 OCTOBER 24TH OF 2002. DO YOU RECOGNIZE THIS?

13 A YES.

14 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
15 MOVE THAT EMAIL INTO EVIDENCE AS STATE'S EXHIBIT NUMBER
16 191.

17 THE COURT: ANY OBJECTION?

18 MR. GRIFFIN: NO OBJECTION.

19 THE COURT: STATE'S 191 IS ADMITTED.

20 (WHEREUPON, STATE'S EXHIBIT NO. 191 WAS ADMITTED INTO
21 EVIDENCE.)

22 Q AND BEFORE WE GET TO THAT, DO YOU ALSO RECOGNIZE THIS
23 EMAIL DATED 11/6/2002?

24 A YES.

25 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO

1 OFFER THAT INTO EVIDENCE ALSO.

2 THE COURT: ANY OBJECTION TO THAT?

3 MR. GRIFFIN: NO OBJECTION.

4 THE COURT: STATE'S 192 IS ADMITTED.

5 (WHEREUPON, STATE'S EXHIBIT NO. 192 WAS ADMITTED INTO
6 EVIDENCE.)

7 Q MR. OWEN, I AM GOING TO SHOW YOU WHAT HAS BEEN MARKED
8 AS STATE'S EXHIBIT 191, CAN YOU PLEASE READ THE FIRST LINE
9 OF THAT TO THE JURY?

10 A FORREST AND RONNIE, THIS LATEST RUMOR UP HERE IS THAT
11 THE DEAL HAS FALLEN THROUGH AND CII IS CLOSING ITS DOORS
12 BY YEAREND.

13 Q DID YOU REMEMBER GETTING ANY RESPONSE TO THAT EMAIL
14 OR ANY PHONE CALLS OR ANYTHING ABOUT THAT TIME FRAME?

15 A NOT AT THAT IMMEDIATE TIME, NO.

16 Q AND LET'S MOVE ON TO, EXCUSE ME, FURTHER ON DOWN ON
17 THAT READING ARE YOU STILL ASKING ABOUT THE CALIFORNIA
18 DEAL?

19 A SURE.

20 Q LET'S MOVE ON TO STATE'S EXHIBIT 192, CAN YOU PLEASE
21 READ THAT, WHAT IS THE DATE ON THAT.

22 A NOVEMBER THE 6TH OF 2002. IT SAYS, FORREST, YOU
23 INDICATED TO ME THAT ON OR ABOUT OCTOBER 22ND THAT THE
24 MORTGAGE VOLUME SHOULD BE AROUND \$116 MILLION FOR OCTOBER.
25 WITH THAT LEVEL WE SHOULD DEFINITELY HAVE HIT A PROFIT.

1 DID WE HIT EITHER TARGET, CALL ME. I NEED ALL THE MORAL
2 BUILDERS WE CAN GET. ALSO, WHAT IS THE HOLDUP ON THE SALE
3 AND WHERE DO WE STAND WITH IMPAC.

4 Q AND AGAIN, THE DATE OF THAT EMAIL?

5 A NOVEMBER THE 6TH.

6 Q DID YOU ALL HAVE A BOARD MEETING SHORTLY AFTER THOSE
7 TWO EMAILS?

8 A YES, WE HAD ONE ON NOVEMBER THE 19TH.

9 Q THIS HAS BEEN MOVED IN AS DEFENSE EXHIBIT NUMBER 13.
10 I AM GOING TO SHOW YOU A COPY OF THAT. IS THAT BOARD
11 MEETING THAT YOU WERE JUST TALKING ABOUT?

12 A IT APPEARS TO BE, YES.

13 Q AND I DRAW YOUR ATTENTION TO THE TOP OF PAGE 2 OF
14 THAT, DID YOU PREPARE THOSE MINUTES?

15 A YES.

16 Q GO BACK TO PAGE 1, WHO ATTENDED THAT MEETING?

17 A IT WAS ATTENDED BY MR. MORRIS, JACK STERLING, MYSELF,
18 RONALD SHEPPARD, DON BOBO, DANNY SHARPE, FORREST FERRELL
19 AND KAREN MILLER.

20 Q AND THIS IS MID-NOVEMBER, WHEN IS THE LAST TIME THAT
21 YOU ALL HAD AN ACTUAL SITDOWN IN-PERSON BOARD MEETING WITH
22 THE INDIVIDUALS AT HOMEGOLD, A FULL BOARD MEETING?

23 A I BELIEVE IT MIGHT OF BEEN FEBRUARY.

24 Q AND DO YOU REMEMBER, FEBRUARY OF 2002?

25 A YES.

1 Q THE NEXT ONE WAS A TELECONFERENCE?

2 A THAT'S RIGHT.

3 Q AND THE NEXT ONE WAS WHEN THE DEFENDANT AND MR.
4 FORREST CAME UP AND HAD TO LEAVE REAL QUICKLY?

5 A THAT'S RIGHT.

6 Q AND SO WAS THERE SOME FRUSTRATION BY YOU ABOUT TRYING
7 TO GET DOWN AND HEARING FROM THE OFFICIALS AT HOMEGOLD?

8 A YES, WE, AS I MENTIONED BEFORE WE WERE HAVING TROUBLE
9 GETTING FINANCIAL STATEMENTS TO BEGIN WITH AND BY THIS
10 POINT WE WERE HAVING TROUBLE GETTING PRETTY MUCH ANY
11 FINANCIAL INFORMATION FROM DOWN THERE.

12 Q LET'S GO TO PAGE 2 OF THAT. WILL YOU READ FIRST, THE
13 FIRST COUPLE OF SENTENCES ON THE SECOND PAGE OF THOSE
14 MINUTES?

15 A OKAY. THE BALANCE OF THE MEETING CONCERNED A
16 PROPOSAL WHEREBY RONNIE SHEPPARD WOULD PURCHASE THE RETAIL
17 MORTGAGE DIVISION FROM HOMEGOLD FINANCIAL. THE NEW
18 COMPANY, EMMCO CREDIT CORPORATION WILL GIVE HOMEGOLD
19 FINANCIAL \$25 MILLION IN PREFERRED STOCK WITH A DIVIDEND
20 RATE OF EIGHT PERCENT. THIS STOCK WILL REDUCE THE
21 INTER-COMPANY DEBT BY \$25 MILLION DOLLARS. THE REMAINING
22 INTER-COMPANY DEBT WILL BE PAID OVER A FIVE YEAR PERIOD BY
23 QUARTERLY PAYMENTS BASED ON ONE-HALF OF THE EARNINGS OF
24 THE NEW COMPANY.

25 Q DOES IT GO ON TO SAY OF WHO WILL BE IN CHARGE OF THE

1 NEW COMPANY?

2 A YES.

3 Q AND WHO IS THAT?

4 A RONNIE SHEPPARD.

5 Q DOES IT GO ON TO SAY WHO WOULD BECOME IN CHARGE OF
6 HOMEGOLD AFTER THAT?

7 A YES, FORREST FERRELL WOULD BECOME THE CEO AND
8 CHAIRMAN OF HOMEGOLD.

9 Q AND DOES IT ALSO TALK ABOUT WHAT CAROLINA INVESTORS
10 FUNDS WOULD BE USED FROM THERE ON OUT?

11 A YES.

12 Q WHAT DOES IT SAY?

13 A IT TALKS ABOUT CAROLINA INVESTORS WOULD NO LONGER
14 LOAN ANY MONEY TO THE RETAIL MORTGAGE DIVISION BUT THE
15 FUTURE LOANS WOULD BE DOING CONFORMING AND NON-CONFORMING
16 MORTGAGES ALONG WITH FINANCIAL SUPPORT FROM FLEXCHECK
17 OPERATIONS THROUGH HOMEGOLD.

18 Q AND YOU HAVE ALREADY TALKED ABOUT FLEXCHECK. ON THE
19 NEXT LINE IT SAYS ABOUT THE TRANSACTION, WHAT DO THEY SAY
20 ABOUT WHO WOULD APPROVE IT AND I WILL DRAW YOUR ATTENTION
21 TO THAT.

22 A ALL OF THIS TRANSACTION IS SUBJECT TO REGULATORY
23 APPROVAL, SHAREHOLDER APPROVAL AND A FAIRNESS OPINION
24 LETTER ALL TO BE RECEIVED WITHIN A MATTER OF DAYS.

25 Q AND IN THE NEXT PARAGRAPH WHO TALKS ABOUT FLEXCHECK?

1 A MR. SHEPPARD, MR. FERRELL AND KAREN MILLER DISCUSS
2 THE PRESENT VALUE OF FLEXCHECK BASED UPON A RECENT STUDY
3 AND A POTENTIAL VALUE OVER THE NEXT TWO TO THREE YEARS AND
4 IT LOOKS VERY ATTRACTIVE AS A VIABLE INCOME STREAM WITH
5 LITTLE RISK.

6 Q AND THE FIRST PAGE, AND I DON'T LIKE TO SKIP OVER IT
7 BUT I DON'T WANT TO GO IN ANY GREAT DETAIL, THEY DO TALK
8 ABOUT THE INCOME STATEMENT AND THERE ARE SOME FINANCIALS
9 THAT ARE DISCUSSED AT THAT NOVEMBER THE 19TH, 2002
10 MEETING, CORRECT?

11 A IT IS ALWAYS LIMITED TO JUST A BALANCE SHEET,
12 PROFIT/LOSS STATEMENT, NO SUPPORTING INFORMATION ON
13 COLLECTIONS OR ANYTHING ELSE.

14 Q THEY DO TALK ABOUT SOME FINANCIALS?

15 A VERY LIMITED, YES.

16 Q AT THAT MEETING DO YOU REMEMBER THE DEFENDANT, WHAT
17 HE TOLD YOU ABOUT WHAT THEY EXPECTED IN THE FORTH QUARTER
18 OF 2002?

19 A YES, AT THAT MEETING MR. SHEPPARD AND FORREST FERRELL
20 BOTH, IN FACT KAREN MILLER ELUDED TO IT AS WELL THAT THE
21 COMPANY WAS EXPECTED TO MAKE \$4 AND A HALF MILLION DOLLARS
22 BASED UPON PRELIMINARY CONVERSATIONS WITH THEIR AUDITORS.

23 Q AND DO YOU REMEMBER AT THAT MEETING THAT ANYONE FROM
24 HOMEGOLD INCLUDING THE DEFENDANT TALKED TO YOU ABOUT,
25 ANYTHING ABOUT BANKRUPTCY COUNSEL OR THE FACT THAT THEY

1 HAD PREVIOUSLY HIRED A BANKRUPTCY COUNSEL OR A
2 CONSERVATORSHIP FOR CAROLINA INVESTORS?

3 A ABSOLUTELY NOT. AS A MATTER OF FACT, MR. SHEPPARD
4 WAS ON A HIGH THAT DAY BECAUSE HE WAS JUMPING AROUND AND
5 TALKING ABOUT ALL OF THESE SOURCES OF REVENUES AND SOURCES
6 OF INCOME THAT HOMEGOLD WOULD HAVE TO REPAY CAROLINA
7 INVESTORS DEBT AND THERE WAS ABSOLUTELY NO REASON WHY THE
8 CAROLINA INVESTORS BOARD SHOULDN'T JUMP ALL OVER THE DEAL.

9 Q DID ANYONE FROM CAROLINA INVESTORS BOARD HAVE ANY
10 NEGOTIATIONS REGARDING THE EMMCO TRANSACTION AND THE
11 SILENT TERMS OF THE DEAL?

12 A ABSOLUTELY NONE.

13 Q AT THAT MEETING DOES IT SAY ANYWHERE ABOUT HOW MUCH
14 CASH MR. SHEPPARD WOULD BE GETTING UP FRONT?

15 A NO.

16 Q DID HE TALK ABOUT \$8.4 MILLION DOLLARS?

17 A NOT AT THAT MEETING, NO.

18 Q AND THIS HAS ALREADY BEEN MOVED INTO EVIDENCE. BUT
19 DO YOU REMEMBER LATER THAT MONTH OR EARLY IN DECEMBER
20 GETTING AN INVOICE FROM RAYBURN AND ASSOCIATES, THAT WAS
21 SENT AND I WILL SHOW YOU RIGHT HERE. IT HAS BEEN MOVED
22 INTO EVIDENCE AS STATE'S EXHIBIT NUMBER 83. DO YOU
23 REMEMBER THIS COMING TO CAROLINA INVESTORS?

24 A I DO.

25 Q AND WHAT DID YOU THINK?

1 A IT CAME ON NOVEMBER THE 5TH TO THE BEST OF MY MEMORY
2 AND PAT EVETT WHO WAS OUR, SHE WORKED IN THE ACCOUNTING
3 DEPARTMENT, TOOK CARE OF PAYING MOST OF THE BILLS, BROUGHT
4 IT TO MY ATTENTION AND SHE DIDN'T UNDERSTAND WHAT IT WAS
5 AND QUITE FRANKLY I DIDN'T EITHER. I PICKED UP THE PHONE
6 AND CALLED KAREN MILLER AND KAREN MILLER SAID WE SHOULD
7 HAVE NEVER GOTTEN THE BILL AND SAID IT WAS SENT TO US BY
8 MISTAKE AND I TOLD HER SHE SHOULD BE MORE CAREFUL ABOUT
9 HOW SHE MARKED OUT THINGS THAT SHE WAS SENDING OUT. SHE
10 ASKED ME TO MAIL THE BILL BACK TO HER AND SHE WOULD TAKE
11 CARE OF IT DOWN THERE.

12 Q AND THE WAY YOU RECEIVED THAT BILL, WAS THAT TOP LINE
13 BLACKED OUT THE WAY IT WAS BLOCKED OUT THERE?

14 A IT IS, YES.

15 Q DID THAT CAUSE YOU SOME CONCERN?

16 A IT DID AT THE TIME AND THAT IS THE REASON I MADE THE
17 COMMENT TO HER. AT THE TIME AND QUICKLY LOOKING OVER IT I
18 FIRST DIDN'T THINK IT APPLIED TO CAROLINA INVESTORS AT ALL
19 BUT ONCE I SAW THE LANGUAGE CONCERNING THE CONSERVATORSHIP
20 IT STILL DIDN'T RING AN ALARM BELL BECAUSE I WASN'T SURE
21 WHAT A CONSERVATORSHIP WAS.

22 Q AND WAS, DID ANYBODY FROM HOMEGOLD EXPLAIN ANY OF
23 THIS TO YOU?

24 A NO.

25 Q AND WHAT DID YOU DO ONCE YOU GOT THIS BILL?

1 A WE SENT IT BACK TO KAREN MILLER.

2 Q DID YOU REVIEW EVERYTHING THAT WAS IN IT?

3 A I JUST, I GLANCED DOWN AT IT AND REALIZED IT WAS
4 MOSTLY TELEPHONE CALLS.

5 Q AND TELEPHONE CALLS BETWEEN WHO?

6 A BETWEEN THE ATTORNEYS IN A CHARLOTTE FIRM AND
7 HOMEGOLD PEOPLE, TOP MANAGEMENT. AND THERE WERE ACTUALLY
8 SOME CONFERENCES AS WELL BETWEEN THE FIRM IN CHARLOTTE AND
9 THE LAW FIRM IN GREENVILLE.

10 Q AND CONFERENCES INCLUDING THE DEFENDANT?

11 A YES.

12 Q MOVING ON, WE HAVE TALKED ABOUT THOSE NEWS ARTICLES
13 THAT CAME OUT AROUND THIS TIME. WAS THIS EVENTUALLY
14 CLEARED UP LATER AND WE WILL GET TO THAT IN A SECOND. DID
15 YOU FINALLY HAVE A CONVERSATION WITH SOMEONE?

16 A YES, I DID.

17 Q WE WILL GET TO THAT IN A SECOND. GOING BACK TO THOSE
18 NEWS ARTICLES THAT CAME OUT AND YOUR DISCUSSIONS ABOUT
19 WHAT WAS HAPPENING AT CAROLINA INVESTORS, DID YOU PREPARE
20 A LETTER TO GO TO THE CAROLINA INVESTORS ABOUT THE
21 INFORMATION THAT YOU WERE SEEING IN THE PRESS, A LETTER
22 THAT YOU PREPARED TO GIVE TO CAROLINA INVESTORS?

23 A YES, I PREPARED A SUMMARY LETTER THAT I GAVE OUT TO
24 THE STAFF AND INSTRUCTED THEM TO GIVE IT OUT TO OUR
25 INVESTORS AS THEY CAME IN AND INQUIRED ABOUT HOMEGOLD.

1 MS. EVANS: MAY WE APPROACH?

2 THE COURT: SURE.

3 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
4 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
5 JURY.)

6 THE COURT: ANY OBJECTION ON THAT DOCUMENT WILL BE
7 OVERRULED AND IT WILL BE MARKED AND ADMITTED, HAS THE
8 WITNESS IDENTIFIED THIS?

9 MS. EVANS: NO, LET ME HAVE HIM IDENTIFY IT.

10 Q IS THIS THE LETTER THAT YOU WERE JUST SPEAKING ABOUT,
11 MR. OWEN?

12 A YES, IT IS.

13 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
14 MOVE THIS INTO EVIDENCE.

15 THE COURT: OVER OBJECTION IT IS ADMITTED.

16 MS. EVANS: 193.

17 (WHEREUPON, STATE'S EXHIBIT NO. 193 WAS ADMITTED INTO
18 EVIDENCE.)

19 Q MR. OWEN, CAN YOU AGAIN TELL THE JURY WHY YOU
20 PREPARED THAT?

21 A WELL, WITH THE NEWSPAPER ARTICLE HAVING COME OUT AND
22 ANNOUNCED THE LOSSES THAT HOMEGOLD HAD IN THE SECOND
23 QUARTER AND ALSO ANNOUNCED THE LETTER OF INTENT TO
24 PURCHASE THE RETAIL MORTGAGE DIVISION AND OTHER THINGS
25 THAT WERE GOING ON AT HOMEGOLD. I FELT LIKE I NEEDED TO

1 JUST KIND OF SUMMARIZE ALL OF THAT IN A CONCISE LITTLE
2 LETTER THAT WOULD BE UNDERSTOOD BY OUR INVESTORS WITHOUT
3 BEING SO COMPLICATED AS TRYING TO READ THE PROSPECTUS.

4 Q AND WAS THERE AN AMENDMENT TO THAT PROSPECTUS THAT
5 WAS FILED IN AUGUST OF 2002?

6 A THERE WAS, THERE WAS A COUPLE OF SUPPLEMENTS TO THE
7 PROSPECTUS THAT WERE FILED WITH THE SECURITIES COMMISSION.

8 Q BEFORE WE GET TO THAT LETTER I AM GOING TO SHOW YOU
9 WHAT HAS ALREADY BEEN MOVED INTO EVIDENCE AS STATE'S
10 EXHIBIT 51. IS THIS THE AMENDMENT TO THE PROSPECTUS IN
11 AUGUST?

12 A YES, DATED AUGUST THE 22ND.

13 Q AND IN GENERAL TERMS, WITHOUT READING IT ALL TO THE
14 JURY, WHAT WAS UPDATED IN THAT PROSPECTUS THAT WAS
15 ORIGINALLY FILED APRIL 1ST OF 2002?

16 A THIS SUPPLEMENT PRETTY MUCH UPDATES THE CHANGES THAT
17 HAVE OCCURRED IN HOMEGOLD'S PRODUCTION LEVELS DURING THE
18 YEAR. AND THERE IS SPECIFIC MENTION OF THE FACT THAT IF
19 ALL THE RETAIL OFFICES COME UP TO FULL POWER THEN THEIR
20 CHANCES OF RETURNING PROFITABILITY MAY BE SOMEWHAT
21 IMPROVED.

22 Q AND DO THEY ALSO TALK ABOUT THE LOSSES THAT YOU
23 PREVIOUSLY TESTIFIED TO AND I DRAW YOUR ATTENTION TO THE
24 FIRST PARAGRAPH.

25 A YES, FIRST, THE FIRST SENTENCE IN THE SECOND

1 PARAGRAPH STATES THAT HOMEGOLD FINANCIAL INCORPORATED,
2 PARENTING COMPANY SUSTAINED OPERATING LOSSES OF \$26.6
3 MILLION FOR THE SIX MONTHS ENDING JUNE 30TH. AND AS I
4 HAVE ALREADY TESTIFIED, THAT IS THE \$9.6 IN THE FIRST
5 QUARTER AND THEN THE \$14.6 IN THE SECOND QUARTER.

6 Q NOW, LET'S GO BACK TO THAT LETTER. DID YOU ASK
7 ANYBODY AT HOMEGOLD IF YOU COULD PREPARE THAT LETTER?

8 A NO.

9 Q THE INFORMATION THAT IS CONTAINED IN THAT LETTER,
10 WHERE DID THAT INFORMATION COME FROM?

11 A THE PROSPECTUS.

12 Q AND DRAW YOUR ATTENTION DOWN TO THE THIRD PARAGRAPH
13 WHERE YOU BEGIN.

14 A ON PAGE F11.

15 Q ALL RIGHT. AND, AGAIN, WAS IT THAT PAGE F11?

16 A PAGE F11 DENOTES ALL THE NEW OFFICES THAT THEY HAD
17 OPENED, LOAN OFFICERS THAT THEY HAD HIRED, THE INCREASE IN
18 MORTGAGE VOLUME AND IT ALSO STATES THE VALUE OF THE RETAIL
19 MORTGAGE DIVISION BY THE TWO AUDIT FIRMS.

20 Q AND IS THAT THE INFORMATION THAT YOU GOT FROM THE
21 PROSPECTUS?

22 A THAT'S RIGHT.

23 Q AND DRAW YOUR ATTENTION DOWN TO THE NEXT PARAGRAPH.
24 WITHOUT READING IT TO THE JURY AT THIS POINT WHERE DID
25 THAT INFORMATION COME FROM THAT WAS PUT IN THAT

1 PROSPECTUS?

2 A WELL, THAT IS THE DISCUSSION CONCERNING THE LETTER OF
3 INTENT FROM THE WEST COAST BANK WHICH IS INFORMATION GOT,
4 MR. SHEPPARD AND MR. FERRELL ORIGINALLY AND THEN LATER
5 FROM THE NEWSPAPER ARTICLES.

6 Q AND IN GENERAL TERMS WHAT DO YOU DISCUSS ABOUT THAT?

7 A WE JUST FELT LIKE IT WOULD BE A GOOD THING FOR
8 CAROLINA INVESTORS, POLICY FOR OUR INVESTORS.

9 Q AND WAS THAT THE WAY IT WAS TOLD TO YOU, THE AUGUST
10 2002 MEETING?

11 A ABSOLUTELY.

12 Q AND IS THAT THE SIMILAR LANGUAGE THAT YOU PUT IN
13 THERE?

14 A YES, PROCEEDS FOR THAT SELL WOULD BE USED TO PAY OFF
15 CAROLINA INVESTORS DEBT.

16 Q AND YOU NEVER SENT THAT TO ANYBODY FOR THEIR
17 APPROVAL?

18 A NO.

19 Q YOU STARTED HANDING THAT OUT TO INVESTORS WITH THE
20 PROSPECTUS?

21 A THAT IS RIGHT, SOMETIME I BELIEVE MAYBE IN THE MIDDLE
22 OF SEPTEMBER.

23 Q AND AT SOME POINT DID YOU GET A LETTER OR TWO LETTERS
24 FROM MR. BILL KEHL WITH THE WYCHE LAW FIRM?

25 A I DID.

1 Q MR. OWEN, AS A RESULT OF THE LETTER THAT YOU GOT FROM
2 MR. BILL KEHL, WHAT DID YOU DO?

3 A THE LETTER FROM MR. KEHL SUGGESTED THAT I CONTACT
4 ERIC PANTSARI--

5 Q DON'T SAY WHAT THE LETTER SAID, JUST SAY WHAT YOU
6 DID.

7 A I CALLED ERIC PANTSARI.

8 Q AND DID YOU ALSO CALL SOMEBODY AT HOMEGOLD TO GO WITH
9 YOU?

10 A I CALLED FORREST FERRELL AND RONNIE SHEPPARD.

11 Q WHO ACTUALLY CAME TO THE SECURITIES COMMISSION WITH
12 YOU?

13 A I BELIEVE BOTH RONNIE SHEPPARD AND FORREST FERRELL
14 AND I CAN'T REMEMBER IF KAREN MILLER CAME OR NOT.

15 Q ARE YOU SURE THAT MR. SHEPPARD WAS THERE AT THAT
16 MEETING? LET'S MOVE ON. WHAT DID YOU BRING MR. PANTSARI?

17 A WELL, I BROUGHT MR. PANTSARI A COPY OF THE LETTER.

18 Q DID YOU ALSO HAVE THE NEWS CLIPPINGS OF THOSE
19 ARTICLES THAT WE HAD BEEN TALKING ABOUT THAT WAS ATTACHED
20 TO THAT LETTER?

21 A I DID, YES.

22 Q APPROXIMATELY WHAT TIME FRAME WAS THIS?

23 A I AM TRYING TO THINK.

24 MS. EVANS: YOUR HONOR, CAN I SHOW HIM THE LETTER TO
25 REFRESH HIS MEMORY.

1 THE COURT: YOU CAN DO THAT WITHOUT PUTTING THE
2 DOCUMENT IN EVIDENCE.

3 Q I AM GOING TO SHOW YOU THE LETTER TO REFRESH YOUR
4 MEMORY, PLEASE DON'T READ IT BUT LOOK AT THAT AND SEE IF
5 THAT REFRESHES YOUR MEMORY.

6 A YES, THAT VISIT WOULD OF BEEN JUST PRIOR TO
7 THANKSGIVING, YES.

8 Q AND WHAT DID YOU TELL MR. PANTSARI ABOUT THAT LETTER?

9 A I SHOWED HIM A COPY OF THE LETTER AND BY THE WAY, I
10 DON'T THINK MR. SHEPPARD WAS AT THAT PARTICULAR MEETING
11 NOW THAT I RECALL. I SHOWED HIM A COPY OF THE LETTER THAT
12 I HAD RECEIVED FROM MR. KEHL.

13 Q WHAT DID YOU TELL HIM ABOUT THAT LETTER?

14 A I TOLD HIM THAT MR. KEHL WAS UPSET WITH THE FACT THAT
15 WE WERE HANDING THAT LETTER OUT WITH THE PROSPECTUS WHEN
16 IT WAS ACTUALLY NOT A PART OF THE PROSPECTUS AND HE WAS
17 QUITE UPSET BECAUSE WE SHOULDN'T OF BEEN DOING THAT.

18 Q LET'S NOT TALK ABOUT WHAT MR. KEHL SAID. I AM ASKING
19 YOU WHAT DID YOU TELL HIM ABOUT HOW YOU WERE GOING TO BE
20 USING THAT LETTER? DID YOU TELL HIM YOU WERE NO LONGER
21 GOING TO BE USING THAT LETTER?

22 A CERTAINLY, HE OBJECTED TO THE LETTER AND ASK ME TO
23 WITHDRAW IT AND NOT EVER HAND IT OUT AGAIN. OF COURSE, I
24 TOLD MY STAFF AND INSTRUCTED THEM TO DESTROY IT AND NOT TO
25 USE IT ANY LONGER.

1 BOARD. AT THIS POINT DID YOU BECOME A MEMBER OF THE
2 HOMEGOLD BOARD?

3 A I WAS ASKED BY FORREST FERRELL EARLY IN DECEMBER, I
4 BELIEVE IT WAS, IF I WOULD BE WILLING TO SERVE ON THE
5 HOMEGOLD BOARD. AND I SPECIFICALLY ASKED HIM WHY HE
6 WANTED ME TO SERVE ON THE BOARD NOW WHEN I WAS TURNED DOWN
7 IN 2001. AND HE TOLD ME THAT, OF COURSE, MR. SHEPPARD HAD
8 RESIGNED AND MR. STERLING HAD RESIGNED FROM THE CAROLINA
9 INVESTORS BOARD. AND THEY WANTED ME, ACTUALLY I HAD HEARD
10 THROUGH RUMORS THAT SOME OTHER BOARD MEMBERS HAD RESIGNED
11 FROM HOMEGOLD BOARD AS WELL. AND SO THEY REALLY ONLY HAD
12 TWO OR THREE BOARD MEMBERS LEFT.

13 Q NOW, WHEN YOU WERE ON THE BOARD DO YOU REMEMBER WHO
14 THE OTHER BOARD MEMBERS WERE?

15 A JACK STERLING, KAREN MILLER AND FORREST FERRELL, THAT
16 WAS IT.

17 Q DO YOU REMEMBER MR. PHILPOTT?

18 A I THINK PHILPOTT STAYED ON UNTIL MAYBE JANUARY.

19 Q OKAY. AND WHEN OFFICIALLY DID YOU BECOME A MEMBER OF
20 HOMEGOLD?

21 A I THINK I WAS ELECTED TO THEIR BOARD IN JANUARY.

22 Q AND AS A MEMBER OF THE HOMEGOLD BOARD DID YOU ALSO,
23 LET ME GO BACK. DO YOU REMEMBER WHEN CAROLINA INVESTORS
24 WERE TOLD ABOUT THE EMMCO TRANSACTION AND YOU SIGNED OFF
25 IN THAT DECEMBER 16TH, WERE YA'LL GIVEN ANY MORE DOCUMENTS

1 OR JUST THAT RESOLUTION?

2 A NO, JUST THE RESOLUTION.

3 Q I AM GOING TO SHOW YOU A RESOLUTION BY THE HOMEGOLD
4 FINANCIAL, INCORPORATED BOARD. CAN YOU LOOK AT THAT AND
5 DO YOU RECOGNIZE THAT?

6 A YES, DATED DECEMBER 31ST.

7 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO
8 MOVE INTO EVIDENCE STATE'S EXHIBIT 194.

9 MR. GRIFFIN: NO OBJECTION.

10 THE COURT: STATE'S 194 IS ADMITTED.

11 (WHEREUPON, STATE'S EXHIBIT NO. 194 WAS ADMITTED INTO
12 EVIDENCE.)

13 Q MR. OWEN, WHAT IS THAT, YOU DON'T HAVE TO READ THE
14 ENTIRE THING TO THE JURY, JUST GENERAL TERMS?

15 A IT IS A RESOLUTION REGARDING THE SELL OF CERTAIN
16 ASSETS OF HOMEGOLD TO EMMCO.

17 Q AND DO YOU REMEMBER APPROXIMATELY WHEN YOU SIGNED
18 THAT?

19 A IT WAS ON UP IN THE MONTH OF JANUARY.

20 Q AND WAS ANYTHING PRESENTED TO YOU BESIDES THAT
21 RESOLUTION WHEN YOU SIGNED THAT?

22 A I DON'T RECALL ANYTHING ELSE.

23 Q AND SO THAT WAS APPROVING THE EMMCO TRANSACTION AS OF
24 WHAT DATE?

25 A AS OF DECEMBER 31ST.

1 Q AND APPROXIMATELY WHEN DID YOU SIGN THAT?

2 A SOME TIME IN THE MIDDLE OF JANUARY.

3 Q YOU WERE STILL A MEMBER OF CAROLINA INVESTORS BOARD,
4 WEREN'T YOU?

5 A YES, I WAS.

6 Q AND DO YOU REMEMBER AT SOME POINT, WAS CAROLINA
7 INVESTORS, WERE THEY I GUESS FOR A BETTER TERM, DID THE
8 WYCHE LAW FIRM CONTINUE TO REPRESENT CAROLINA INVESTORS IN
9 2003?

10 A NO, I RECEIVED A LETTER FROM, I THINK IT WAS BILL
11 KEHL AROUND JANUARY THE 10TH RESIGNING AS ATTORNEY FOR
12 CAROLINA INVESTORS.

13 Q I AM GOING TO SHOW YOU A LETTER DATED JANUARY THE
14 10TH AND JUST HAVE YOU LOOK AT WHO SIGNED IT AND WILL THAT
15 REFRESH YOUR MEMORY WHO SIGNED THE LETTER?

16 A CARY HALL ACTUALLY SIGNED THE LETTER, YES.

17 Q SO, AS OF JANUARY 10TH THE WYCHE LAW FIRM NO LONGER
18 REPRESENTED CAROLINA INVESTORS?

19 A THAT'S CORRECT.

20 Q AND WE HAD PREVIOUSLY TALKED ABOUT AMENDMENTS TO THE
21 PROSPECTUS IN 2002. WAS THERE ANOTHER TO THIS PROSPECTUS
22 FROM CAROLINA INVESTORS IN NOVEMBER OF 2002?

23 A YES.

24 Q AND DO YOU REMEMBER IF THERE WAS ANOTHER ONE ON
25 DECEMBER THE 31ST OF 2002?

1 A YES, THERE WAS.

2 Q MR. OWEN, DO YOU REMEMBER WHEN YOU SENT A COPY OF
3 THAT TO THE SECURITIES COMMISSION?

4 A YES.

5 Q I WILL SHOW YOU THIS SO YOU CAN REFRESH YOUR MEMORY.
6 DON'T READ FROM IT BUT JUST LOOK AT THAT.

7 A OKAY.

8 Q PLEASE TELL THE JURORS WHAT DAY YOU SENT TO THE
9 SECURITIES COMMISSION THE LETTER TO THE, THE AMENDMENT TO
10 THE PROSPECTUS DATED DECEMBER 31ST OF 2002?

11 A JANUARY 10TH OF 2003.

12 Q I WILL ASK YOU TO LOOK AT THIS AGAIN.

13 A I AM SORRY, FEBRUARY THE 10TH OF 2003.

14 Q AT THIS POINT YOU ARE NOW ON CAROLINA INVESTORS BOARD
15 AND HOMEGOLD BOARD. DO YOU REMEMBER ATTENDING YOUR FIRST
16 HOMEGOLD BOARD MEETING?

17 A YES, I DO.

18 Q AND WHEN WAS THAT, MR. OWEN?

19 A FEBRUARY THE 19TH OF 2003.

20 Q AND PLEASE TELL ME WHAT THAT BOARD MEETING WAS LIKE?

21 A IT WAS A DISASTER. WHEN I GOT THERE THERE WAS NOBODY
22 THERE BUT ME AND JACK STERLING AND I BELIEVE KAREN MILLER,
23 I CAN'T REMEMBER IF FORREST WAS THERE OR NOT. THEY TALKED
24 ABOUT THINGS IN GENERAL, THEY TALKED ABOUT THE LAWSUIT ON
25 THE NORTH CAROLINA LAWSUIT RESULT FROM AN OLD MORTGAGE,

1 HOMES AND THAT IS THE DIFFERENCE BETWEEN THE OLD MOTOR
2 HOME AND THE NEW MOTOR HOME. AND THAT BLEW ME AWAY. I
3 MEAN, HERE WE ARE, CAROLINA INVESTORS, WE ARE STRUGGLING
4 AND TRYING TO KEEP OUR INVESTORS AND TRYING TO KEEP
5 EXPENSES DOWN AND TRY TO HELP THEM RETURN PROFITABILITY
6 AND HERE HE IS PAYING \$227 THOUSAND DOLLARS, THE
7 DIFFERENCE BETWEEN AN OLD MOTOR HOME AND A NEW MOTOR HOME.

8 Q DID YOU LEARN ANYTHING ELSE ABOUT THE EXPENSES THAT
9 WERE GOING ON AT HOMEGOLD WHEN YOU ATTENDED THAT FIRST
10 HOMEGOLD BOARD MEETING?

11 A THERE WAS A LOT OF OTHER EXPENSES THAT WERE OUT OF
12 CONTROL. I FOUND OUT SHORTLY THEREAFTER THAT THEY WERE
13 PAST DUE ON A LOT OF BILLS, TELEPHONE BILLS AND BLUECROSS
14 BLUESHIELD BILLS.

15 Q AND THE PICTURE OR THE FINANCIAL PICTURE THAT YOU GOT
16 WHEN YOU ATTENDED YOUR FIRST HOMEGOLD MEETING, HOW DID
17 THAT COMPARE TO WHAT YOU WERE HEARING FOR THE PAST
18 PREVIOUS TWO YEARS?

19 A IT WAS OFF THE CHART. I MEAN, YOU KNOW, EVERYTHING
20 THAT THEY HAD BEEN TELLING US WAS, SOUNDED LIKE POSITIVE
21 AND MOVING IN THE RIGHT DIRECTION. AND NEVER DID WE GET
22 ANYTHING THAT WOULD INDICATE THAT KIND OF A FIGURE.

23 Q AND IS THERE ANYTHING ELSE THAT YOU LEARNED ABOUT
24 EXPENSES AT THAT FIRST HOMEGOLD BOARD MEETING? AND IN
25 JUST GENERAL TERMS, THE LEVEL OF EXPENSES?

1 A THEY WERE ASTRONOMICAL COMPARED TO WHAT WE HAD BEEN
2 TOLD THEY WERE GOING TO BE. I MEAN CAROLINA INVESTORS,
3 THE LAST FINANCIAL STATEMENT THAT WE RECEIVED AND THE
4 BOARD MEETING THAT WE HAD, ON NOVEMBER THE, THE LAST BOARD
5 MEETING THAT WE HAD WAS A WEEK AFTER THE FEBRUARY 19TH
6 BOARD MEETING. AND EVEN AT THAT MEETING WE HAD TO REVIEW,
7 NOVEMBER THE 30TH BALANCE SHEET AND P&L STATEMENTS. AND
8 OUR EXPENSES AND INCOME AT THAT TIME WAS SHOWING A VERY
9 POSITIVE.

10 Q IS THAT NOT WHAT YOU HEARD AT THE HOMEGOLD BOARD
11 MEETING?

12 A ABSOLUTELY NOT.

13 (WHEREUPON, A BENCH CONFERENCE WAS HELD IN THE
14 PRESENCE OF THE JURY BUT OUT OF THE HEARING OF THE
15 JURY.)

16 THE COURT: MADAM FORELADY AND LADIES AND GENTLEMEN,
17 I HAVE A MATTER TO TAKE UP OUTSIDE OF YOUR PRESENCE. A
18 GOOD TIME FOR A BREAK FOR ABOUT TEN OR FIFTEEN MINUTES.
19 PLEASE DON'T TALK ABOUT THE CASE. YOU ARE EXCUSED AND
20 EVERYONE ELSE STAY SEATED, PLEASE.

21 (WHEREUPON, THE JURY WAS EXCUSED FROM OPEN COURT FOR
22 A BREAK.)

23 THE COURT: ALL RIGHT, A DOCUMENT HAS BEEN HANDED UP
24 THAT THE STATE WANTS TO TENDER AND THERE IS AN OBJECTION
25 TO IT. MR. GRIFFIN, YOUR OBJECTION, PLEASE.

1 WHAT HAS BEEN MARKED AS DEFENSE EXHIBIT NUMBER 13, ARE
2 THOSE THE MINUTES OF THAT MEETING?

3 A YES, THEY ARE.

4 Q AND WHO WAS IN ATTENDANCE AT THAT MEETING, MR. OWEN?

5 A MR. MORRIS, MYSELF, MR. FERRELL, MS. MILLER, DON BOBO
6 AND DANNY SHARPE.

7 Q AND YOU ALREADY MENTIONED IT BUT WHAT WERE SOME OF
8 THE THINGS THEY TALKED ABOUT, HOW HOMEGOLD COULD GO
9 FORWARD. WHAT IS THE DATE OF THAT MEETING, FIRST OF ALL.

10 A FEBRUARY THE 26TH.

11 Q AND WHAT WERE SOME THINGS THEY TALKED ABOUT AT THAT
12 MEETING?

13 A WELL, THEY TALKED ABOUT HOW FLEXCHECK WAS GOING TO
14 CONTRIBUTE TO HOMEGOLD TO BUILD IT TO REPAY ALL THE MONEY
15 TO CAROLINA INVESTORS. THEY TALKED ABOUT THE PAYMENTS
16 THAT WOULD BE COMING IN QUARTERLY FROM EMMCO, MR.
17 SHEPPARD'S COMPANY. THEY TALKED ABOUT THE WHOLESALE
18 DIVISION WHICH AT THAT TIME AS TO MY UNDERSTANDING WAS
19 GOING TO BE RETAINED BY HOMEGOLD AND HOW WELL IT WAS
20 DOING. THE VOLUME FROM ALL OF THE REMAINING RETAIL
21 OFFICES AT HOMEGOLD WAS ACTUALLY KEEPING, WAS GOING TO
22 CONTRIBUTE SIGNIFICANTLY AND ONCE THEY GOT UP TO PRODUCING
23 \$15 MILLION DOLLARS A MONTH IN MORTGAGE VOLUME. AND BEST
24 OF ALL WAS THAT CAROLINA INVESTORS WOULD NOT HAVE TO LOAN
25 HOMEGOLD ANY MORE MONEY AND THAT CAROLINA INVESTORS WOULD

1 ACCUMULATE A \$5 MILLION DOLLAR CASH BALANCE IN THE BANK
2 AND THEN USE ALL OF OUR EXCESS FUNDS TO MAKE WAREHOUSE
3 LOANS TO SOUTH CAROLINA MORTGAGE BROKERS.

4 Q AND WHAT WAS THE TONE OF THAT MEETING COMPARED TO
5 WHAT YOU HAD JUST HEARD THAT LED YOU TO WRITE THAT LETTER
6 JUST A WEEK BEFORE?

7 A JUST THE OPPOSITE. I MEAN KAREN MILLER CAME UP,
8 FORREST FERRELL AND KAREN I THINK DID MOST OF THE TALKING.
9 AND SHE WAS JUST OVER THE TOP AS FAR AS OPTIMISM ABOUT THE
10 FUTURE OF HOMEGOLD AND CAROLINA INVESTORS AND TALKING
11 ABOUT ALL OF THE REVENUE. AND THAT THEY WERE MEETING WITH
12 ONE OF OUR HOMEGOLD'S STOCKHOLDERS THERE IN PICKENS
13 IMMEDIATELY FOLLOWING OUR DIRECTORS MEETING AND THEY WERE
14 JUST REALLY EXCITED ABOUT EVERYTHING. AND THEY HAD A
15 MEETING JUST THE DAY BEFORE WITH ERIC PANTSARI TO EXPLAIN
16 AN ITEM.

17 Q MR. OWEN, I AM GOING TO SHOW YOU TWO LETTERS. CAN
18 YOU PLEASE LOOK AT THEM AND TELL ME IF YOU CAN IDENTIFY
19 THOSE?

20 A YES.

21 Q WHAT IS THE FIRST LETTER THAT I SHOWED YOU, THIS ONE
22 RIGHT HERE.

23 A THE FIRST LETTER IS A LETTER FROM ERIC PANTSARI
24 FOLLOWING UP A TELEPHONE CONVERSATION THAT HE AND I HAD.

25 MS. EVANS: YOUR HONOR, AT THIS TIME I WOULD LIKE TO

1 MOVE IN, THERE IS ACTUALLY NO DATE ON THE TOP BUT I WOULD
2 LIKE TO MOVE IN THE LETTER OF MR. OWEN AS STATE'S EXHIBIT
3 195.

4 THE COURT: ANY OBJECTION?

5 MR. GRIFFIN: NO, YOUR HONOR.

6 THE COURT: STATE'S 195 IS ADMITTED.

7 (WHEREUPON, STATE'S EXHIBIT NO. 195 WAS ADMITTED INTO
8 EVIDENCE.)

9 MS. EVANS: AND, ALSO YOUR HONOR, A LETTER DATED
10 FEBRUARY THE 26TH OF 2003 FROM MR. OWEN INTO EVIDENCE.

11 THE COURT: ANY OBJECTION TO THAT ONE?

12 MR. GRIFFIN: NO, YOUR HONOR.

13 THE COURT: 196 IS ADMITTED ALSO.

14 (WHEREUPON, STATE'S EXHIBIT NO. 196 WAS ADMITTED INTO
15 EVIDENCE.)

16 Q MR. OWEN, YOU HAD JUST TALKED ABOUT THE MEETING THAT
17 WAS HELD AT THE SECURITIES COMMISSION. DID THOSE TWO
18 LETTERS ADDRESS THAT MEETING AT THE SECURITIES COMMISSION?

19 A THESE TWO LETTERS ADDRESSED A MEETING THAT WE HAD AT
20 THE SECURITIES COMMISSION BETWEEN MR. PANTSARI AND FORREST
21 FERRELL AND KAREN MILLER.

22 Q AND THE FIRST LETTER FROM MR. PANTSARI TO YOU AND
23 TELL US WHAT THAT LETTER IS ABOUT.

24 A HE HAD CALLED ME, I THINK THE DAY BEFORE ABOUT A CALL
25 THAT HE HAD RECEIVED FROM THE UPSTATE AND HE SAID IT COULD

1 POSSIBLY BEEN FROM ONE OF OUR COMPETITORS INDICATING TO
2 HIM THAT HOMEGOLD WAS CONTINUING TO USE MONEY FROM
3 CAROLINA INVESTORS AND HE WANTED ME TO CONFIRM WHETHER OR
4 NOT THAT WAS TRUE. AND I TOLD HIM I KNEW WHAT WAS SUPPOSE
5 TO BE TRUE BUT SINCE ALL THE CONTROLS WERE HELD IN
6 COLUMBIA, ALL OF THE ACCOUNTING AND EVERYTHING WAS DOWN IN
7 COLUMBIA I HAD NO WAY OF REALLY KNOWING. SO, I CALLED
8 FORREST AND KAREN AND TOLD THEM THAT THEY NEEDED TO MEET
9 WITH MR. PANTSARI IMMEDIATELY TO SHOW HIM WHERE THEY WERE
10 NOT CONTINUING TO USE CAROLINA INVESTORS MONEY BECAUSE SHE
11 SAID THEY WEREN'T.

12 Q OKAY. AND LOOKING AT YOUR LETTER THAT YOU FOLLOWED
13 UP WITH MR. PANTSARI WHEN DO YOU TELL THEM THAT THEY HAD
14 STOPPED USING CAROLINA INVESTORS FUNDS?

15 A SEPTEMBER 3RD OF 2002.

16 Q AND ATTACHED TO THAT LETTER IS THERE A SPREADSHEET?

17 A I AM SORRY?

18 Q IS THERE A SPREADSHEET THAT IS ATTACHED TO THAT
19 LETTER?

20 A YES.

21 Q AND WHO GAVE YOU THAT SPREADSHEET TO SEND TO THE
22 SECURITIES COMMISSION?

23 A KAREN MILLER.

24 Q AND WHAT DID SHE TELL YOU ABOUT THAT SPREADSHEET?

25 A THEY HAD A CONVERSATION WITH HIM AND THEN SHE

1 FOLLOWED UP BY LETTING ME KNOW WHAT THE CONVERSATION WAS
2 AND THEN I WROTE THIS LETTER BACK TO MR. PANTSARI THANKING
3 HIM FOR THE MEETING AND KIND OF RECOUNTING WHAT SHE HAD
4 TOLD ME. AND BY THIS CHART SHE INDICATES THAT THEY HAD
5 ACTUALLY PAID BACK TO CAROLINA INVESTORS \$1.6 MORE THAN
6 THEY HAD USED. THAT WAS LATER SHOT DOWN.

7 Q AND WHAT ACTUALLY HAD HAPPENED FROM THE SEPTEMBER
8 2002 FORWARD?

9 A THEY HAD INCREASED THE DEBT, THE STATEMENT THAT I
10 SAW, FINALLY AFTER THE OFFICE CLOSED ON DECEMBER THE 31ST,
11 THAT THEY HAD INCREASED FROM \$144 MILLION TO \$247 MILLION.

12 Q THAT WAS THE END OF, DECEMBER 31ST OF 2002?

13 A THAT'S RIGHT.

14 Q MR. OWEN, I SKIPPED OVER ONE THING. DO YOU REMEMBER
15 A MEETING THAT YOU HAD WITH MR. MORRIS AND MR. STERLING
16 BEGINNING OF JANUARY OF 2003.

17 A YES.

18 Q AND WHAT WAS THE NATURE OF THAT CONVERSATION WITH MR.
19 STERLING AND YOU AND MR. MORRIS.

20 A WELL, MR. STERLING CALLED ME UP AND ASKED ME IF I
21 COULD GET EARLE AND MEET HIM AT FATZ RESTAURANT IN EASLEY
22 FOR LUNCH. AND I CALLED EARLE AND TOLD HIM THAT MR.
23 STERLING WANTED TO HAVE LUNCH AND HE SAID OKAY. SO, WE
24 DROVE TO EASLEY AND MET WITH MR. STERLING. AND I THINK IT
25 WAS AROUND JANUARY THE 7TH OR THE 9TH, ONE OF THOSE TWO

1 DATES OF 2003. AND WHEN WE GOT THERE, OF COURSE, WE WENT
2 IN AND WERE SEATED AND PLACED OUR ORDER. AND MR. STERLING
3 STARTED TALKING--

4 MR. GRIFFIN: YOUR HONOR, OBJECT TO HEARSAY AS TO
5 WHAT MR. STERLING SAID.

6 MS. EVANS: YOUR HONOR, THE STATEMENTS ARE IN
7 FURTHERANCE OF THE CONSPIRACY.

8 THE COURT: OVERRULED. GO AHEAD.

9 A MR. STERLING STARTED TALKING ABOUT SOME MEETINGS THAT
10 THEY HAD WITH SOME ATTORNEYS CONCERNING SOME BANKRUPTCY
11 PROCEDURES. AND EARLE AND I BOTH GOT UPSET AND WE ASKED
12 HIM--

13 Q LET ME STOP YOU THERE. WAS IT PREVIOUS MEETINGS THAT
14 THEY HAD TALKING ABOUT PREVIOUS MEETINGS IN 2002?

15 A YES.

16 Q OKAY. CONTINUE ON, I AM SORRY, MR. OWEN.

17 A EARLE NAD I BOTH GOT UPSET AND GOT EXCITED AND MR.
18 STERLING THREW HIS HANDS UP AND SAID WAIT A MINUTE, WAIT A
19 MINUTE FELLOWS, LET ME EXPLAIN. HE SAID, HE SAID THIS IS
20 NOT GOING TO HAPPEN. HE SAID THE BANKRUPTCY IS NOT GOING
21 TO HAPPEN, HE SAID WE MET WITH THESE ATTORNEYS TO TRY TO
22 COME UP WITH A BANKRUPTCY PLAN THAT WOULD BE PUT IN PLACE
23 IN THE EVENT THAT CAROLINA INVESTORS HAD A LARGE RUN,
24 BIGGER THAN THE ONE THAT WAS IN AUGUST, THAT THE COMPANY
25 MIGHT NOT BE ABLE TO HANDLE. THERE WOULD BE A PROCEDURE

1 IN PLACE FOR THE EMPLOYEES TO FOLLOW SO THEY WOULD KNOW
2 WHAT TO DO. SO, HE PASSED IT OFF AS JUST A ROUTINE THING
3 THAT ANY PRUDENCE BUSINESS MANAGEMENT WOULD DO.

4 Q AND AT THAT POINT AFTER THAT CONVERSATION DID YOU
5 UNDERSTAND STATE'S EXHIBIT NUMBER 83, THE BILL THAT I
6 PREVIOUSLY SHOWED TO YOU THAT YOU HAD GOTTEN IN DECEMBER
7 OF 2002?

8 A IT MADE A LOT MORE SENSE.

9 Q IN WHICH STARTING BACK AS EARLY OCTOBER 27TH THEY HAD
10 CONSULTED HOMEGOLD, CONSULTED WITH A BANKRUPTCY ATTORNEY?

11 A YES, WE KNEW NOTHING ABOUT IT.

12 Q UNTIL THE MEETING IN JANUARY?

13 A UNTIL THE MEETING IN JANUARY.

14 Q MR. OWEN, LET'S GO TO MARCH OF 2003. CAN YOU PLEASE
15 TELL THE JURY ABOUT THE LAST WEEK THAT CAROLINA INVESTORS
16 REMAINED OPEN?

17 A WELL, THE LAST WEEK THE CHECKING ACCOUNT WAS GETTING
18 MIGHTY THIN AND WE WERE CONTINUING TO HAVE A GOOD MANY
19 REDEMPTIONS, WE STILL WERE GETTING A FEW INVESTMENTS. WE
20 WERE IN CONTACT, VERY FREQUENT CONTACT WITH KAREN MILLER
21 AND FORREST AND FOLKS AT HOMEGOLD BECAUSE THEY KNEW THE
22 TENSION, THE WITHDRAWALS THAT WE WERE SUFFERING UP IN
23 PICKENS AND THE TIME THAT WE WERE HAVING, YOU KNOW,
24 CONVINCING PEOPLE TO LEAVE THEIR MONEY. AND SO WE WERE IN
25 DAILY CONTACT, HOURLY CONTACT ALMOST IN SOME CASES. AND

1 WE WERE HAVING TO SEND REPORTS TO THEM JUST EVERY FEW
2 MINUTES ON CASH FLOW AND SO FORTH. ON THURSDAY OF THAT
3 WEEK SHE CALLED ME AND ASKED ME IF I COULD--

4 Q SHE, YOU SAID SHE CALLED, WHO IS SHE?

5 A KAREN MILLER. KAREN MILLER CALLED ME AND ASKED ME IF
6 I COULD GET IN TOUCH WITH DON BOBO AND DANNY SHARPE AND
7 HAVE THEM MEET AT THE PICKENS OFFICE FOR A CONFERENCE
8 CALL. AND SO I GOT THEM DOWN THERE AND I AM TRYING TO
9 REMEMBER, I THINK EARLE MIGHT OF BEEN AT THAT MEETING, I
10 AM NOT POSITIVE. BUT ANYWAY THE CONFERENCE CALL CAME IN
11 ABOUT 11:00 AND THEY DISCUSSED SEVERAL DIFFERENT SOURCES
12 OF FUNDING, THAT THEY COULD PROVIDE FUNDS TO CAROLINA
13 INVESTORS. BECAUSE BY THAT TIME OUR CHECKING ACCOUNT
14 BALANCE WAS DOWN AROUND \$600 THOUSAND DOLLARS AND WE
15 ALWAYS TRIED TO KEEP \$2 OR \$3 MILLION DOLLARS IN THE
16 CHECKING ACCOUNT. AND SHE AND FORREST WENT OVER SEVERAL
17 DIFFERENT SOURCES, FOUR OR FIVE DIFFERENT SOURCES FROM
18 WHICH THEY COULD DRAW FUNDS. ONE OF THEM WAS THE LAWSUIT
19 IN NORTH CAROLINA, THEY HAD PUT UP AN ESCROW, A MILLION
20 AND A HALF AND THEY COULD DRAW IT BACK OUT. THEY WERE
21 SELLING MORTGAGES TOTALLY, I THINK, \$875 THOUSAND DOLLARS
22 AND THAT MONEY WAS DUE IN THE FOLLOWING TUESDAY. AND THEN
23 THEY SAID MR. SHEPPARD OWED THE COMPANY ABOUT A MILLION
24 AND A HALF DOLLARS AND THEY FELT SURE THAT THEY COULD GET
25 THAT FROM HIM. AND THEY MENTIONED TWO OR THREE OTHER

1 SOURCES OTHER THAN JUST REGULAR COLLECTIONS ON OUR LOANS
2 FROM WHICH THEY COULD GET MONEY. THEY SAID IF WE DIDN'T
3 HAVE ANYTHING LARGE GOING OUT THE NEXT DAY OR TWO THEN THE
4 COMPANY WOULD BE FINE.

5 Q AND WAS MR. STERLING ON THE PHONE?

6 A YES.

7 Q FORREST FERRELL?

8 A YES.

9 Q AND KAREN MILLER?

10 A KAREN MILLER.

11 Q AND WERE YOU STILL HAVING PEOPLE COME IN THAT DAY AND
12 INVEST MONEY INTO CAROLINA INVESTORS?

13 A YES.

14 Q TELL ME ABOUT THE FOLLOWING DAY, MARCH 22ND OF 2003?

15 A MARCH 21ST, ACTUALLY ON FRIDAY.

16 Q THE 21ST, I APOLOGIZE, MARCH 21ST OF 2003.

17 A I WILL NEVER FORGET THAT DAY. WE WENT IN AND OPENED
18 UP THE OFFICE AND AGAIN WE KNEW THAT THE MONEY WAS TIGHT
19 BUT I GOT A CALL FROM KAREN MILLER SOME TIME I THINK
20 AROUND 9:00 OR 9:30. AND SHE POLITELY INFORMED ME THAT WE
21 HAD \$84 THOUSAND DOLLARS TO OPERATE ON THAT DAY. AND I
22 SAID, HOW IN THE DEVIL CAN YOU EXPECT THIS COMPANY TO
23 OPERATE ON \$84 THOUSAND DOLLARS. AND SHE SAID, WELL, I
24 DON'T KNOW HOW BUT THAT IS ALL YOU HAVE GOT. AND SO I WAS
25 VERY UPSET AND ANGRY, HUNG UP AND FORTUNATELY WE WERE ABLE

1 TO GET IN SOME INVESTMENTS DURING THE COURSE OF THE DAY.
2 SO, I THINK A TOTAL, MAYBE AROUND \$265 THOUSAND DOLLARS
3 THAT WE ACTUALLY TOOK IN THAT DAY.

4 Q AT THAT TIME IT WAS ONLY \$84 THOUSAND DOLLARS, PEOPLE
5 WERE STILL COMING IN AND GIVING MONEY TO CAROLINA
6 INVESTORS?

7 A YES.

8 Q CONTINUE ON.

9 A ON UP IN THE MORNING I GOT ANOTHER CALL FROM HER AND
10 SHE WANTED TO KNOW IF I COULD GET THE BOARD OF DIRECTORS
11 BACK TOGETHER FOR ANOTHER CONFERENCE CALL AT 2:00. AND,
12 OF COURSE, I THINK EARLE WAS IN COLUMBIA SO HE WASN'T
13 THERE BUT I GOT THE OTHER TWO DIRECTORS DOWN TO THE OFFICE
14 AND AT 2:00 THEY CALLED. AND SHE WAS ON THE PHONE ALONG
15 WITH FORREST AND I THINK AN ATTORNEY, I CAN'T REMEMBER
16 HONESTLY WHERE HE IS FROM, I THINK ONE OF THE ATTORNEYS
17 THEY HAD TALKED WITH ABOUT THE ~~BANKRUPTCY~~ ⁴⁻ THING. AND SHE
18 POLITELY INFORMED US THAT THEY WERE NOT GOING TO BE ABLE
19 TO GET THE MONEY FROM THE DIFFERENT SOURCES THAT THEY HAD
20 TOLD US THE DAY BEFORE. AND THAT THEY WEREN'T GOING TO BE
21 ABLE TO FORWARD ANY MORE MONEY TO US AND THAT WE WERE
22 GOING TO HAVE TO CLOSE OUR DOORS AND THAT WE WERE GOING TO
23 HAVE TO SEEK AN ATTORNEY THAT COULD FILE SOME PAPERS FOR A
24 CONSERVATORSHIP SO THAT WE WOULDN'T BE REQUIRED TO PAY OUT
25 ALL THE FUNDS THAT WE HAD TO INVESTORS. I ASK HER, I

1 SAID, WELL WHAT ARE WE SUPPOSE TO DO. I MEAN THEY HAD
2 NEVER GOT BACK WITH ME TO GIVE US ANY DETAILS ON THEIR SO
3 CALLED PLAN THAT THEY HAD. AND SHE SAID, WELL, I CAN GIVE
4 YOU THE NAME OF A COUPLE OF ATTORNEYS FOR YOU TO CALL.
5 AND OF COURSE BY THEN I WAS BAWLING LIKE A BABY AND YOU
6 KNOW, I WAS TERRIFIED. BOTH OF OUR DIRECTORS WERE CRYING
7 TOO. SHE GAVE ME THE NAME OF AN ATTORNEY IN GREENVILLE
8 AND THE NAME OF AN ATTORNEY IN CHARLOTTE WITH THE
9 TELEPHONE NUMBERS. AND THE FIRST THING WAS I CALLED THE
10 ATTORNEY IN GREENVILLE AND HE SAID, WELL, I HAVE TALKED
11 WITH THEM BUT HE SAID I CAN'T DO ANYTHING WITHOUT THE
12 ATTORNEY IN CHARLOTTE STARTS THE PROCESS.

13 Q LET ME ASK YOU THIS. IN THAT CONVERSATION, WAS MR.
14 STERLING PART OF THAT CONVERSATION ON MARCH 21ST OF 2003?

15 A YES.

16 Q HE WAS STILL--

17 A YES, HE WAS INVOLVED IN THAT TELEPHONE CONVERSATION
18 AS WELL.

19 Q HAD YOU LEARNED WHETHER HE WAS STILL CHAIRMAN OF THE
20 BOARD OF HOMEGOLD?

21 A NO, HE HAD, IN READING THE GREENVILLE NEWS FIRST
22 THING THAT FRIDAY MORNING, THERE WAS AN ARTICLE IN THE
23 GREENVILLE NEWS WHERE HE HAD RESIGNED FROM THE BOARD, I
24 BELIEVE, THE NIGHT BEFORE.

25 Q CONTINUE ON ABOUT WHAT YOU DID, WHAT DID YOU DO AT

1 CAROLINA INVESTORS, DID YOU STAY OPEN AFTER THAT
2 CONVERSATION?

3 A NO. LIKE I SAID, I AM CRYING LIKE A BABY BUT I
4 INSTRUCTED ANN AND THE GIRLS TO GO BACK DOWNSTAIRS AND PUT
5 A SIGN ON THE DOOR THAT WE WERE CLOSED FOR A STAFF MEETING
6 FROM 4:00 O'CLOCK ON. AND WE DIDN'T KNOW ANYTHING TO DO
7 BUT JUST TO CLOSE THE OFFICE AND GO HOME. AND SO, BUT
8 WHEN I CALLED THE ATTORNEY IN GREENVILLE HE GAVE THE
9 NUMBER FOR THE OTHER ATTORNEY. AND THE OTHER ATTORNEY WAS
10 IN COLORADO ON A SNOW SKIING TRIP, SNOWED IN AND COULDN'T
11 GET BACK TO GREENVILLE. SO, THERE WASN'T ANYTHING THAT I
12 COULD DO ALL WEEKEND LONG. AND ALL DAY SATURDAY I TRIED
13 TO GET IN TOUCH WITH THE ATTORNEY IN COLORADO. AND IT WAS
14 ONLY THEN THAT TOMMY WYCHE HELPED ME GET IN TOUCH WITH THE
15 ATTORNEY AND FIND OUT THAT HE WAS SNOWED IN AND WHEN HE
16 WOULD BE HOME.

17 Q WHEN DID YOU TALK TO THAT ATTORNEY, NOT SAYING WHAT
18 HE SAID BUT WHEN DID YOU FINALLY GET TO TALK TO HIM?

19 A SUNDAY NIGHT AT 9:30 WAS THE FIRST CONVERSATION THAT
20 I HAD WITH THAT ATTORNEY.

21 Q AND WHAT DID YOU DO ON MONDAY?

22 A HE INSTRUCTED US ON SUNDAY NIGHT TO PUT SIGNS ON OUR
23 DOORS AND HE GAVE ME THE LANGUAGE TO PUT ON THE SIGNS AND
24 WE WENT TO THE OFFICE AND PREPARED THEM ON THE COMPUTER
25 AND PUT SIGNS ON EACH ONE OF OUR FOUR OFFICES THAT WE WERE

1 DEVASTATED BUT THE DOORS WERE CLOSED AND WOULD NOT BE ABLE
2 TO REOPEN. AND WE WENT BACK HOME AND GOT BACK IN BED AT
3 1:30, HE TOLD US TO ALL MEET, DO NOT BE AT ANY OF THOSE
4 OFFICES ON MONDAY MORNING. SO, WE WENT TO GREENVILLE AND
5 SPENT THE NIGHT WITH MY SON-IN-LAW, STEPSON.

6 Q AFTER YOU PLACED THOSE SIGNS ON THE DOOR THAT SUNDAY
7 NIGHT DID YOU EVER OPEN THOSE DOORS BACK AT CAROLINA
8 INVESTORS TO THE INVESTORS?

9 A NO.

10 Q AND, MR. OWEN, HAVE YOU PLEAD GUILTY TO A COURSE OF
11 BUSINESS TO DEFRAUD THE INVESTORS IN THIS CASE?

12 A YES, I DID.

13 Q AND WHAT WAY DID YOU DEFRAUD THE INVESTORS IN THAT
14 COURSE OF BUSINESS?

15 A I GAVE THE INVESTORS INFORMATION WHICH WAS OUTSIDE
16 THE PROSPECTUS THAT WAS REGISTERED WITH THE STATE OF SOUTH
17 CAROLINA. I GAVE THEM INFORMATION THAT PROVED TO BE LIES.

18 Q WHERE DID THAT INFORMATION THAT YOU GAVE THEM COME
19 FROM?

20 A IT CAME FROM MR. SHEPPARD, MR. STERLING AND THE
21 OTHER, KAREN MILLER, FORREST FERRELL AND THE PEOPLE AT
22 HOMEGOLD.

23 Q AND IN THE COURSE OF BUSINESS DID YOU ALSO PLEAD
24 GUILTY TO A COURSE OF BUSINESS TO DEFRAUD THE SECURITIES
25 COMMISSION?

1 A I DID.

2 Q AND IN WHAT WAYS.

3 A AS FAR AS THE CONSPIRACY TO COMMIT FRAUD, MR. MORRIS
4 AND I WERE THE TWO MAIN PEOPLE THAT CONTACTED THE PUBLIC,
5 THE INVESTORS. AND IF MR. MORRIS HAD BEEN RESPONSIBLE FOR
6 OPENING A PARTICULAR ACCOUNT WITH AN INVESTOR AND THAT
7 INVESTOR CAME IN TO TALK ABOUT WITHDRAWING THEIR FUNDS OR
8 WHATEVER, I WOULD USUALLY HAVE THAT INVESTOR CONTACT MR.
9 MORRIS OR HAVE MR. MORRIS CONTACT THAT INVESTOR. AND HE
10 WOULD DO THE SAME THING WITH ME. IT WAS PRETTY MUCH A
11 COURTESY BETWEEN THE TWO OF US. THAT WAS, YOU KNOW,
12 INTERPRETED TO BE THE CONSPIRACY, THE FACT THAT I REFERRED
13 CUSTOMERS TO HIM AND HE REFERRED CUSTOMERS TO ME SIMPLY
14 BECAUSE WE HAD BEEN IN THE HABIT OF DEALING WITH THEM.

15 Q AND WHAT ABOUT, DID YOU PLEAD GUILTY DURING THE
16 COURSE OF BUSINESS TO DEFRAUD THE SECURITIES COMMISSION?

17 A OH, THE SECURITIES COMMISSION ITSELF, THE SECURITIES
18 COMMISSION, THE MEETINGS THAT WE HAD WITH THEM STIPULATED
19 THAT WE WOULD KEEP THE SECURITIES COMMISSION INFORMED ON
20 IMPROVEMENTS THAT HOMEGOLD MADE TOWARD RETURNING THE
21 PROFITABILITY. AND WE FAILED IN THAT REGARD.

22 Q AND THE INFORMATION THAT YOU GAVE THE SECURITIES
23 COMMISSION, WHERE DID THAT COME FROM?

24 A FROM HOMEGOLD, MR. SHEPPARD AND MANAGEMENT OF
25 HOMEGOLD.

1 Q AND SPECIFICALLY THAT ONE LETTER THAT I SHOWED YOU,
2 AUGUST 3RD OF 2002 REGISTERING THAT PROSPECTUS, WHERE WAS
3 THAT LETTER DRAFTED?

4 A HOMEGOLD.

5 Q WHO WAS CEO AT THAT TIME?

6 A MR. SHEPPARD.

7 Q HAVE YOU ALSO PLEAD GUILTY TO INDIVIDUAL ACCOUNTS OF
8 SECURITIES FRAUD?

9 A YES.

10 Q AND HOW MANY ACCOUNTS?

11 A 21.

12 Q AND WHAT DOES THOSE INVOLVE WITHOUT GOING THROUGH
13 EACH ONE OF THOSE, IN GENERAL TERMS?

14 A THOSE SIMPLY INVOLVED GIVING INFORMATION TO THE
15 INVESTORS THAT WAS NOT TRUE AND GIVING INVESTORS
16 INFORMATION THAT WAS NOT CONTAINED WITHIN THE PROSPECTUS.

17 Q AND WHAT TYPE OF INFORMATION WAS THAT ON THOSE
18 ACCOUNTS?

19 A FINANCIAL INFORMATION CONCERNING HOW MR. SHEPPARD AND
20 HOMEGOLD WAS GOING TO RETURN TO PROFITABILITY.

21 Q WERE THOSE STATEMENTS NOT TRUE?

22 A NO, THEY WERE NOT.

23 Q AND WHERE DID YOU GET THOSE STATEMENTS FROM?

24 A FROM MR. SHEPPARD, MR. FERRELL, KAREN MILLER, JACK
25 STERLING.

1 Q AND DID YOU PLEAD GUILTY STRAIGHT UP?

2 A PARDON?

3 Q DID YOU PLEAD GUILTY STRAIGHT UP?

4 A YES.

5 Q WERE YOU OFFERED ANYTHING IN REGARD TO YOUR
6 COOPERATION BY THE STATE?

7 A NO, MA'AM.

8 Q ARE YOU CURRENTLY INCARCERATED IN THE DEPARTMENT OF
9 CORRECTIONS?

10 A I AM.

11 Q I HAVE NOTHING FURTHER OF THIS WITNESS. PLEASE
12 ANSWER ANY QUESTIONS MR. GRIFFIN HAS FOR YOU.

13 THE COURT: MR. GRIFFIN.

14 CROSS-EXAMINATION

15 BY MR. GRIFFIN:

16 Q GOOD AFTERNOON, MR. OWEN.

17 A GOOD AFTERNOON.

18 Q YOU STARTED WORKING AT CAROLINA INVESTORS IN 1960--

19 A 1970.

20 Q 1970. AND AS OF 1998 YOU HAD BEEN WORKING THERE FOR,
21 I GUESS, 28 YEARS.

22 A 28 YEARS.

23 Q NOW, AND YOU WORKED PRIMARILY IN THE PICKENS OFFICE
24 OF CAROLINA INVESTORS, CORRECT?

25 A THAT IS WHERE I SPENT MOST OF MY TIME, YES.

1 Q YOUR BACKGROUND, THOUGH, BEFORE YOU WENT TO WORK AT
2 CAROLINA INVESTORS YOU WERE A BANKING LENDER?

3 A I WORKED AT FIRST NATIONAL BANK OF EASLEY RIGHT OUT
4 OF HIGH SCHOOL FOR FIVE YEARS AND THEN I BECAME A BANK
5 EXAMINER FOR THE U.S. TREASURY DEPARTMENT.

6 Q AND THERE YOU WOULD GO AROUND AND EXAMINE THE BOOKS
7 AND RECORDS OF BANKS?

8 A THAT'S CORRECT.

9 Q THESE WERE FEDERALLY INSURED BANKING INSTITUTIONS?

10 A YES, NATIONAL BANKS.

11 Q AND THEN FROM THERE YOU WENT TO CAROLINA INVESTORS?

12 A THAT'S CORRECT.

13 Q AND INITIALLY YOU WENT TO WORK FOR MR. HOLDER AND
14 OTHERS THERE?

15 A YES.

16 Q NOW, UP UNTIL 1998, THOSE 28 YEARS, PICKENS COUNTY
17 AND PICKENS IS, FROM THAT 1970 TO 1998 IS A PRETTY TIGHT
18 NIT COMMUNITY?

19 A IT IS.

20 Q AND THE TOWN OF PICKENS IS ROUGHLY, HOW MANY PEOPLE?

21 A AROUND 5,000 PEOPLE.

22 Q AROUND 5,000 PEOPLE. AND YOU GOT TO KNOW THE
23 INVESTORS AT CAROLINA INVESTORS REAL WELL, DID YOU NOT?

24 A I DID.

25 Q AND YOU TREATED THEM LIKE FAMILY, CORRECT?

1 A YES.

2 Q FOR THE HOLIDAYS YOU WOULD TAKE AROUND TURKEYS TO
3 THESE INDIVIDUALS, WOULD YOU NOT?

4 A I STARTED IN 1974 AND DELIVERED A TURKEY FOR EACH
5 INVESTOR THAT HAD OVER \$25 THOUSAND DOLLARS IN THEIR
6 ACCOUNT. YES, I DID THAT.

7 Q AND THEN YOU WOULD SEND OUT CHRISTMAS CARDS TO THESE?

8 A YES.

9 Q AND YOU WOULD SEE THEM AROUND TOWN, IT WAS A SMALL
10 TOWN?

11 A SURE.

12 Q AND YOU HAD A LOT OF FAMILY AND FRIENDS ASIDE FROM
13 THIS BUSINESS RELATIONSHIP THAT INVESTED AT CAROLINA
14 INVESTORS, CORRECT?

15 A I DID.

16 Q AND IN THAT COMMUNITY YOU WERE PRETTY WELL THOUGHT
17 OF, WERE YOU NOT?

18 A YES.

19 Q AND YOU WERE THE, I GUESS THE FACE OF CAROLINA
20 INVESTORS IN PICKENS?

21 A THAT'S CORRECT.

22 Q MR. HOLDER WAS PROBABLY THE MOST SUCCESSFUL
23 BUSINESSMAN TO COME OUT OF PICKENS COUNTY?

24 A I WOULD SAY PROBABLY ONE OF THE MOST IF NOT THE MOST
25 SUCCESSFUL.

1 Q AND THEN IN 1991 MR. HOLDER SOLD OUT CAROLINA
2 INVESTORS TO MR. STERLING, MR. BUCK MICKEL AND OTHER
3 BUSINESSMEN OUT OF GREENVILLE, CORRECT?

4 A YES.

5 Q AND THEN YOU STAYED ON AND WORKED WITH MR. GIDDENS
6 FROM 1991 ON UP TO 2000?

7 A THAT'S CORRECT.

8 Q BUT YOU WERE STILL THE FACE IN THE COMMUNITY FOR
9 CAROLINA INVESTORS, CORRECT?

10 A YES.

11 Q AND THESE PEOPLE THAT INVESTED THEIR MONEY IN
12 CAROLINA INVESTORS WERE FRIENDS OF YOURS?

13 A YES.

14 Q NOW, IN 1998 CAROLINA INVESTORS HAD A, EXCUSE ME, A
15 MERGER TO HOMEGOLD, I CAN'T REMEMBER THE NAME AS OF 1998,
16 HAD A PRETTY DISASTROUS YEAR FINANCIALLY, DID THEY NOT?

17 A YES, THEY DID.

18 Q AND THEY LOST ROUGHLY--

19 A \$75 MILLION.

20 Q \$75 MILLION AND THAT WOULD BE AFTER SOME TAX
21 ADJUSTMENTS, DO YOU RECALL THAT?

22 A PARDON?

23 Q THAT \$75 MILLION WOULD BE AFTER SOME GAINS THAT THEY
24 MADE ON THE REPURCHASE OF THESE BONDS?

25 A WELL, THE BONDS ACTUALLY WEREN'T REPURCHASED UNTIL

1 '99.

2 Q SO, DO YOU RECALL 1998 AND LOST \$75 MILLION DOLLARS
3 AND DURING THAT TIME, BEFORE 1998 HOMEGOLD, CAROLINA
4 INVESTORS HAD LOANED HOMEGOLD A SUBSTANTIAL AMOUNT OF
5 MONEY?

6 A YES.

7 Q ROUGHLY INTER-COMPANY DEBT HAD RISEN ROUGHLY \$70, \$80
8 MILLION DOLLARS BY THEN?

9 A IT WAS SOMEWHERE IN THE NEIGHBORHOOD, YES.

10 Q AND NOW, FROM 1991, EXCUSE ME, FROM 1995, IN 1995 THE
11 ACCOUNTING AT CAROLINA INVESTORS CHANGED TO HOMEGOLD OR
12 EMERGENT AT THE TIME TO THE ACCOUNTING FUNCTION?

13 A YES.

14 Q AND STARTING IN 1995, WHEN AN INVESTOR WOULD COME IN
15 AND PUT MONEY INTO CAROLINA INVESTORS AND IT WOULD GO INTO
16 THIS BANK OF AMERICA OPERATING ACCOUNT, RIGHT?

17 A THAT'S CORRECT.

18 Q THEN STARTING IN '95 FORWARD THAT ACCOUNT WAS
19 CONTROLLED, SWEEPED UP BY HOMEGOLD?

20 A YES.

21 Q IT IS NOT SOMETHING THAT STARTED IN 2000, CORRECT?

22 A NO.

23 Q AND THERE WAS AN INTER-COMPANY NOTE FRANKLY THAT HAD
24 GONE BACK IN MR. HOLDER DAYS THAT CAROLINA INVESTORS WOULD
25 LOAN MONEY TO THESE OTHER OPERATING SUBSIDIARIES OF

1 CAROLINA INVESTORS?

2 A YES.

3 Q AND UNDER MR. HOLDER AND HIS GROUP, THERE WAS AN
4 AUTOMOBILE FINANCE COMPANY THAT WOULD RECEIVE MONEY FROM
5 CAROLINA INVESTOR TO OPERATE, CORRECT?

6 A CORRECT.

7 Q AND SO THIS INTER-COMPANY DEBT EXISTED WELL BEFORE
8 EVEN MR. STERLING'S GROUP BOUGHT CAROLINA INVESTORS,
9 CORRECT?

10 A IN A DIFFERENT FORM, YES.

11 Q BUT THE FORMAT OF BORROWING MONEY FROM THESE
12 INVESTORS AND LOANING IT TO OTHER PEOPLE AND CONTROL
13 BUSINESS ENTITIES CONTINUED THROUGH, WHEN MR. STERLING
14 CAME ON BOARD IN 1991?

15 A YES.

16 Q AND BY 1998, I THINK WE ESTABLISHED THAT THIS
17 INTER-COMPANY DEBT WAS SUBSTANTIALLY AROUND \$80 MILLION
18 DOLLARS?

19 A YES.

20 Q AND YOU HAD KNOWN UP TO 1998, BECAUSE IF YOU LIVED
21 THROUGH THE DEPRESSION BUT YOU CERTAINLY KNEW OF IT, THAT
22 A RUN ON THE BANK, ON ANY BANK COULD RUIN A BANK?

23 A SURE.

24 Q AND THAT THE MONEY, THE BANK KEEPS ALL THE MONEY THAT
25 IS DEPOSITED BUT THEY PUT THAT MONEY TO WORK, CORRECT?

1 A YES.

2 Q AND THAT WAS THE SAME WITH CAROLINA INVESTORS?

3 A YES, IT WAS.

4 Q AND IF AT ANY POINT AND TIME, EVEN BEFORE 1991, IF
5 EVERYONE SHOWED UP TO CLAIM THEIR DEPOSIT UNDER THE FIVE
6 MINUTE RULE OR THE FIFTEEN MINUTE RULE, IF EVERYBODY
7 SHOWED UP ON THE SAME DAY AT CAROLINA INVESTORS THERE
8 WOULD NOT OF BEEN MONEY THERE TO REPAY?

9 A TRUE.

10 Q NOW, MOVING FORWARD TO 1998 THERE ARE NEWS REPORTS OF
11 SUBSTANTIAL LOSSES OF HOMEGOLD, CORRECT?

12 A YES.

13 Q AND AT THAT POINT AND TIME THERE WERE PEOPLE IN THE
14 COMMUNITY CONCERNED ABOUT THEIR INVESTMENTS?

15 A TRUE.

16 Q AND YOU HAD KEPT UP AND FOLLOWED CLOSELY THE
17 FINANCIAL PERFORMANCE OF HOMEGOLD?

18 A YES.

19 Q AND YOU WERE CONCERNED ABOUT YOUR FAMILY, YOUR
20 FRIENDS AND YOUR ASSOCIATES AND INVESTMENTS AT CAROLINA
21 INVESTORS?

22 A SURE.

23 Q AND YOU WERE CONCERNED THAT THERE WOULD BE A RUN AT
24 CAROLINA INVESTORS BACK IN 1998, WERE YOU NOT?

25 A YES.

1 Q AND YOU HAD INVESTORS WHO YOU HAD BEEN DELIVERING
2 TURKEYS TO AND CHRISTMAS CARDS TO AND YOU WOULD SEE AT
3 CHURCH AND SEE YOU AROUND TOWN THAT CAME TO YOU IN 1998
4 AND SAYING, MR. OWEN, IS MY INVESTMENT SAFE. WOULD THEY
5 NOT?

6 A YES.

7 Q AND THEY WERE CONCERNED BECAUSE THEY HAD READ THAT
8 HOMEGOLD OWED SOME \$70 MILLION DOLLARS AND THEY TOO HAD
9 BEEN FOLLOWING THE RELATIONSHIP BETWEEN CAROLINA INVESTORS
10 AND HOMEGOLD, CORRECT?

11 A YES.

12 Q AND WHEN ASKED BY THESE FAMILY AND FRIENDS AND
13 ASSOCIATES IN THIS SMALL CLOSE NIT COMMUNITY, IS MY
14 INVESTMENT SAFE. YOU KNEW THAT YOUR RESPONSE, WHATEVER IT
15 WAS, WOULD BE SPREAD THROUGHOUT THE COMMUNITY PRETTY
16 QUICK?

17 A YES.

18 Q AND IF YOU HAD TOLD THEM IN 1998 THAT, HEY, YOUR
19 INVESTMENT IS NOT SAFE AND THERE IS A SUBSTANTIAL RISK AND
20 YOU WILL LOSE YOUR MONEY YOU FELT LIKE THAT WOULD CREATE A
21 RUN AT CAROLINA INVESTORS, CORRECT?

22 A SURE.

23 Q AND IF YOU TOLD THEM IN 1998 THAT YOUR INVESTMENT WAS
24 SAFE THAT THAT WORD WOULD SPREAD THROUGH THE COMMUNITY AND
25 IT WOULD NOT CREATE A RUN ON THE MONEY?

1 A YES.

2 Q AND IN 1998 FOR THE FIRST TIME YOU BEGIN LIEING TO
3 THESE INVESTORS AT CAROLINA INVESTORS, DID YOU NOT?

4 A IN 1998 I WAS GIVEN, I DID NOT OUTRIGHT LIE TO THE
5 INVESTORS, I WAS GIVING THE INVESTORS INFORMATION WHICH
6 WAS NOT CONTAINED WITHIN THE BODY OF THE PROSPECTUS WHICH
7 BY VIRTUE OF THAT WAS CONSIDERED A VIOLATION OF THE LAW.

8 Q YOU DIDN'T LIE TO INVESTORS IN 1998?

9 A NO. I AGREE THAT IN MR. MORRIS' TRIAL I ANSWERED
10 THAT QUESTION AND IN AN ATTEMPT TO GO BACK AND CLARIFY IT
11 AND WAS UNABLE TO DO THAT.

12 Q YOU AGREE IN MR. MORRIS' TRIAL YOU TESTIFIED UNDER
13 OATH, YOU TESTIFIED I STARTING LIEING TO INVESTORS IN
14 1998?

15 A YES, I DID.

16 Q NOW, IN MR. MORRIS' TRIAL YOU ALSO TESTIFIED THAT YOU
17 WERE NEVER KEPT IN THE DARK ABOUT² THE FINANCIAL CONDITION
18 OF CAROLINA INVESTORS, I MEAN ABOUT HOMEGOLD, CORRECT?

19 A I THINK I REMEMBER THAT, YES.

20 Q AND THEN YOU ALSO TESTIFIED THAT NO ONE AT HOMEGOLD,
21 MR. SHEPPARD OR ANYONE ELSE TRICKED OR DECEIVED YOU IN
22 BELIEVING THAT HOMEGOLD HAD MET THESE PROJECTIONS,
23 CORRECT?

24 A I AM SORRY. CAN YOU REPEAT THAT.

25 Q YOU ALSO RECALL TESTIFYING UNDER OATH THAT NO ONE AT

1 HOMEGOLD INCLUDING MR. SHEPPARD TRICKED OR DECEIVED YOU OR
2 ANYONE ELSE IN BELIEVING THAT HOMEGOLD HAS MET ITS
3 PROJECTIONS IN ANY FINANCIAL REPORT?

4 A I AM STILL CONFUSED ON YOUR QUESTION. SOMEONE
5 TRICKED ME.

6 Q DID ANYONE AT HOMEGOLD TRICK OR DECEIVE YOU IN
7 BELIEVING THAT THEY HAD BETTER FINANCIAL PERFORMANCE THAN
8 WHAT THEY SHOWED?

9 A THERE WAS A LOT OF TIMES THAT REPORTS WERE GIVEN TO
10 US AS BEING ONE THING AND THEN LATER ON DETERMINED TO BE
11 ANOTHER THING. WHETHER YOU CALL THAT A TRICK OR NOT, I
12 DON'T KNOW, IT WAS JUST A DIFFERENCE IN FIGURES.

13 Q DO YOU RECALL TESTIFYING IN MR. MORRIS' TRIAL AND YOU
14 WERE ASKED WHETHER ANYONE AT HOMEGOLD DECEIVED YOU OR
15 TRICKED YOU INTO THINKING THAT THEY HAD MET THE
16 PROJECTIONS. AND YOU ANSWERED NO.

17 A I MAY OF TESTIFIED TO THAT, ⁴YES.

18 Q AND AT MR. MORRIS' TRIAL YOU HAD PLEAD GUILTY AFTER
19 THE START OF YOUR OWN TRIAL?

20 A YES.

21 Q YOU DIDN'T PLEAD GUILTY BEFORE TRIAL?

22 A NO.

23 Q YOU PLEAD GUILTY AFTER YOU HEARD SOME INVESTORS GET
24 UP AND TESTIFY UNDER OATH?

25 A YES.