



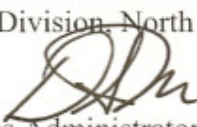
State of North Carolina
Department of the Secretary of State

ELAINE F. MARSHALL
SECRETARY OF STATE

Memorandum

Date: September 26, 2007

To: Joint Legislative Commission on Governmental Operations
Fiscal Research Division, North Carolina General Assembly

From: David Massey 
Deputy Securities Administrator

Re: Investor Protection and Education Trust Fund
Report for Fiscal Year ending June 30, 2007

Pursuant to N.C.G.S. § 147-54.5(f), the Department of the Secretary of State respectfully submits this report on the Investor Protection and Education Trust Fund activity for fiscal year 2007. This report also includes a requested update regarding the effectiveness of investor education awareness education efforts of the Department of the Secretary of State.

I. Investor Protection and Education Trust Fund Activity for FY 2007

The fund's opening balance on July 1, 2006, was \$1,083,227.29. During the 2007 fiscal year, deposits to the fund totaled \$729,087.62. This amount was comprised of the following components:

- A. A \$611,526.00 deposit resulting from a consent order in the matter of Wachovia Capital Markets. This was paid in connection with an investigation by the Securities Division into investment banking practices of Wachovia Capital Markets.
- B. \$69,311.62 in interest income.
- C. A \$25,000.00 deposit resulting from a consent order in the matter of Robert M. Lowe d/b/a Lowe Financial Planning. This was paid in connection with an investigation by the Securities Division of activities by an unregistered investment adviser.
- D. A \$20,000.00 deposit resulting from a consent order in the matter of EFR Financial Services, LLC. This was paid in connection with an investigation by the Securities Division of activities of an unregistered investment adviser.

- E. A \$2,500.00 deposit resulting from a consent order in the matter of Mark Patty and Southeastern Financial Resources, LLC. This was paid in connection with an investigation by the Securities Division into sales of unregistered securities by an unregistered securities salesperson.
- E. A \$750.00 deposit resulting from a consent order in the matter of Strategic Planning Corp – Michael Flanders. This was paid in connection with an investigation by the Securities Division of activities by an unregistered investment adviser and an unregistered investment adviser representative.

II. Investor Protection and Education Trust Fund Expenditures for FY 2007

The fund's closing balance on June 30, 2007, was \$1,698,848.70. During the 2007 fiscal year, expenditures from the fund totaled \$113,466.21. This amount was comprised of the following components:

- A. Payments totaling \$72,003.06 to conceive, coordinate and execute all of the Department's investor education outreach activities and initiatives. During FY 2007, such initiatives included (but were not limited to):
 - 1. Co-sponsorship of the public television broadcast of *MoneyTrack* (see #B below).
 - 2. Co-sponsorship of the Stock Market Game™ (see #C below) in North Carolina.
 - 3. Co-sponsorship of and presentations at regional Scam Jams (see #D below) with NC AARP.
 - 4. The production and distribution of copies of the video production, "Investor Education @ Your Library®" (see #E below).
 - 5. The continuation of a long-term outreach effort to registered insurance agents in North Carolina (see #F below).
 - 6. Co-sponsorship of and presentation at the "2007 Scam Jam & Senior Expo" organized by the Charlotte Better Business Bureau's Consumer Foundation (see #G below).
 - 7. Conceiving and implementing a series of investor protection presentations for civic organizations such as Rotary International, Kiwanis International and Civitan International. During FY 2006, the Securities Division contacted various civic clubs to arrange speaking engagements to discuss investment fraud. This practice was continued and expanded during FY 2007. Twenty-five additional civic speaking engagements were arranged.
 - 8. Responding to constituent queries and requests for information, meeting with interested constituents and constituent groups about investor education and protection activities, and researching investor education/protection topics for articles, letters and speeches.
- B. During FY 2006, the Department of the Secretary of State made a contribution to the Investor Protection Trust (IPT) to help fund Season One of the national PBS television series, *MoneyTrack*, whose mission is to educate people so that they can make wiser, more

informed investment decisions. During FY 2007, the Department made a \$13,000.00 contribution to help fund Season Two of MoneyTrack.

- C. A \$10,000.00 contribution was made to the North Carolina Council on Economic Education to sponsor the Stock Market Game™ in North Carolina. The Stock Market Game™ gives high school students the chance to invest a hypothetical \$100,000 in an on-line portfolio. The exercise teaches economic and financial concepts the student will use for the rest of his or her life.
- D. Another significant priority for the Securities Division is stopping investment fraud aimed at senior citizens. Information collected by the Securities Division and securities regulators across North America show that senior citizens are a favorite target of promoters of fraudulent investments. During FY 2006, the Securities Division partnered with the North Carolina chapter of AARP to promote attendance at free consumer protection seminars called Scam Jams. Senior citizens learned about the latest scams and ways to protect themselves from becoming victimized. This partnership continued into FY 2007, during which a payment of \$10,000.00 was made to the North Carolina chapter of AARP to help with the cost of newspaper advertisements inviting seniors to attend the Scam Jams. The Securities Division gave investor education/protection presentations at each seminar, held in 29 different cities across the state. Approximately 4,200 people attended this series of Scam Jams. The sponsored invitational advertisements reached approximately 182,000 people during the course of the outreach program.
- E. During FY 2006, the Department of the Secretary of State funded a pilot project in Charlotte called "Investor Education @ Your Library®". The program was the collaborative product of the Investor Protection Trust, American Library Association and the Evelyn Brust Financial Research and Education Foundation. The Securities Division secured the right to film the event and to distribute copies to public libraries in North Carolina. Production and distribution of the DVDs took place during FY 2007. A total of 2075 DVDs were produced and distributed. (\$4,456.42)
- F. During FY 2006, the Securities Division of the Department of the Secretary of State initiated a long-term outreach effort to registered insurance agents in North Carolina by first teaming with the Insurance Commissioner on a letter to all registered agents with important information about the state's securities laws. During FY 2007, outreach activities included providing articles for the newsletter of the Independent Insurance Agents of North Carolina explaining various aspects of the state's securities laws.
- G. The Department of the Secretary of State provided \$1,750.00 to sponsor a booth at the 2007 Scam Jam and Senior Expo presented by the Better Business Bureau Consumer Foundation of Charlotte. Investor protection and education materials were handed out to expo attendees. Organizers estimated 1200 people attended the expo.
- H. A payment of \$1,696.80 was made to Raleigh Vocational Center, Inc., for associated costs in the production of eight investor protection and education brochures.
- I. A convertible table covering with the departmental name/seal printed on it was purchased. It will be used on table displays during outreach presentations such as the Scam Jams. (\$348.50)

J. During FY 2007, the DVD duplicating machine that was purchased during FY 2005 required warranty repair. Shipping costs amounted to \$211.43.

This concludes the FY 2007 IPET activity report. Please contact me if the Department can provide further information.