

North Carolina Department of the Secretary of State

Hon. Elaine F. Marshall, Secretary

April 2017 SECURITIES NEWSLETTER Vol. 9, No. 4

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**NC Securities Division
Investor Protection
Hotline**

1-800-688-4507



Mailing Address:

PO Box 29622
Raleigh, NC 27626-0622



Swindler Ronald McCullough Sentenced to 10 Years in Prison for Foreign Currency Trading Scheme that Targeted the Faithful

Ronald McCullough

United States Attorney John Stuart Bruce [announced](#) on April 4 in federal court, United States District Judge Terrence W. Boyle sentenced Ronald McCullough, 45, of Atlanta, GA to 120 months imprisonment, followed by three years of supervised release. He also was ordered to make payment of \$1,726,400 in restitution.

McCullough was named in a Superseding Indictment filed on July 2, 2014. He was originally indicted on July 9, 2013. His co-defendant, David Mayhew, was previously convicted after a jury trial and sentenced to 26 years in prison.

At the codefendant Mayhew’s trial, the Government presented evidence that Mayhew and McCullough were involved in an investment fraud scheme that spanned from January 2009 to May 2012 and swindled more than \$2,000,000 from investors, promising them returns as much as 100-percent in 30 days. One victim testified that he had lost his family’s house as a result of the fraud. Two other victims testified that they had to back out of contracts to purchase property because of the fraud.

Special Agent in Charge Thomas J. Holloman III stated, “The IRS, Criminal Investigation is committed to using our Agent’s financial expertise to help bring those that prey on innocent taxpayers for their own enrichment to justice.”

"When making investment decisions, Investors should always consider that if it sounds too good to be true, it probably is," said David McGinnis, Inspector in Charge of the U.S. Postal Inspection Service Charlotte Division. "This case was especially egregious because the defendants used the victims’ religious beliefs to gain their trust and steal their money. The U.S. Postal Inspection Service will continue to vigorously pursue those who utilize the U.S. Mail to steal our customers’ hard earned money."

“For years, Ronald McCullough led a lavish lifestyle using money he swindled from innocent people. When his scheme was exposed, he chose to run rather than face his prison sentence. The FBI never stopped searching for McCullough and now he’s learned firsthand, you can’t escape justice,” said John Strong, Special Agent in Charge of the FBI in North Carolina.

Investigation of this case was conducted by the FBI, the IRS Criminal Investigation, the Postal Inspection Service, and the North Carolina Secretary of State’s office, Securities Division. Assistant United States Attorney David A. Bragdon represented the government at trial and Assistant United States Attorney Ethan Ontjes represented the government at McCullough’s sentencing.



SOSNC in the News

Raleigh News & Observer Business Reporter David Ranii recently did an informative [writeup](#) on Local Public Offerings, or LPOs. The newest investment/financing option for North Carolina’s investors and startups under the State’s new crowdfunding law, LPOs allow startups and small businesses to raise up to \$250,000 from investors.

For more information about all the new opportunities for both NC investors and small businesses under the North Carolina Providing Access to Capital for Entrepreneurs and Small Business Act (NC PACES) just visit the Secretary of State’s Website at: www.sosnc.gov/sec/Crowdfunding.aspx



Sign up for Our RSS Feed!

You can now [sign up](#) for SOSNC’s RSS (Really Simple Syndication) feed to receive our monthly Securities newsletter direct to your computer.

No checking your email inbox—just the latest securities and investor education updates from SOSNC each month, direct to your computer. Just click on the orange RSS icon above to sign up!

And follow SOSNC on Twitter, Facebook, LinkedIn and YouTube for more frequent updates on everything from investor education to trademarks enforcement and charitable solicitation regulation.

Click on the icons below to go to SOSNC’s social media accounts!



FINRA Senior Helpline Marks Second Anniversary

FINRA Securities Helpline for Seniors™

A toll-free number that senior investors can call to get assistance from the Financial Industry Regulatory Authority (FINRA) or raise concerns about issues with brokerage accounts and investments.

Call 844-57-HELPS (844-574-3577)
Monday – Friday • 9 a.m. – 5 p.m. Eastern Time
www.finra.org/seniorhelpline

Are you a senior investor with questions about your brokerage account statement or an investment in a brokerage account? Are you concerned that your account may have been mishandled by a broker? To help you with these and other investment-related questions, FINRA provides the Securities Helpline for Seniors.

The Financial Industry Regulatory Authority (FINRA) announced on April 20 that FINRA’s [Securities Helpline for Seniors®](#) marked its second anniversary with \$4.3 million in voluntary reimbursements to callers since its launch on April 20, 2015.

Susan Axelrod, Executive Vice President, Regulatory Operations, said, “FINRA is committed to protecting senior investors, and our dedicated helpline staff has done a great job responding to callers’ questions, recognizing and addressing concerns around certain products and issues, and promptly escalating relevant matters. The helpline’s success is also due in large part to firms that are proactively assessing issues raised to them by helpline staff and making customers whole where appropriate.”

You can read the full announcement [here](#).



SOSNC on YouTube

Have questions about filing your LLC’s annual reports? A series of informative videos available now on [SOSNC’s YouTube channel](#) has you covered!

The Department’s videos include step-by-step tutorials on how to file annual reports for LLCs and business corporations.



SEC Adopts JOBS Act Amendments to Help Entrepreneurs and Investors

The Securities and Exchange Commission [announced](#) on April 5 that it has adopted amendments to increase the amount of money companies can raise through crowdfunding to adjust for inflation. It also approved amendments that adjust for inflation a threshold used to determine eligibility for benefits offered to “emerging growth companies” (EGCs) under the Jumpstart Our Business Startups (JOBS) Act.

“Regular updates to the JOBS Act, as prescribed by Congress, ensure that the entrepreneurs and investors who benefit from crowdfunding will continue to do so,” said SEC Acting Chairman Michael S. Piowar. “Under these amendments, the JOBS Act can continue to create jobs and investment opportunities for the general public.”



Michael S. Piowar

The SEC is required to make inflation adjustments to certain JOBS Act rules at least once every five years after it was enacted on April 5, 2012. In addition to the inflation adjustments, the SEC adopted technical amendments to conform several rules and forms to amendments made to the Securities Act of 1933 (“Securities Act”) and the Securities Exchange Act of 1934 (“Exchange Act”) by Title I of the JOBS Act.

The Commission approved the new thresholds March 31. They will become effective when they are published in the Federal Register.

BACKGROUND



Section 101 of the JOBS Act added new Securities Act Section 2(a)(19) and Exchange Act Section 3(a)(80) to define the term “*emerging growth company*” (“EGC”). Pursuant to those sections, every five years the SEC is directed to index the annual gross revenue amount used to determine EGC status to inflation to reflect the change in the Consumer Price Index for All Urban Consumers (“CPI-U”) published by the Bureau of Labor Statistics (“BLS”). To carry out this statutory directive, the SEC has adopted amendments to Securities Act Rule 405 and Exchange Act Rule 12b-2 to include a definition for EGC that reflects an inflation-adjusted annual gross revenue threshold.

The JOBS Act also added new Securities Act Section 4(a)(6), which provides an exemption from the registration requirements of Section 5 under the Securities Act for certain crowdfunding transactions. In October 2015, the SEC promulgated Regulation Crowdfunding to implement that exemption. Sections 4(a)(6) and 4A of the Securities Act set forth dollar amounts used in connection with the crowdfunding exemption, and Section 4A(h)(1) states that such dollar amounts shall be adjusted by the SEC not less frequently than once every five years to reflect the change in the CPI-U published by the BLS. The SEC has adopted amendments to Rules 100 and 201(t) of Regulation Crowdfunding and Securities Act Form C to reflect the required inflation adjustments.

In addition, Sections 102 and 103 of the JOBS Act amended the Securities Act and the Exchange Act to provide several exemptions from a number of disclosure, shareholder voting, and other regulatory requirements for any issuer that qualifies as an EGC. The exemptions reduce the financial disclosures an EGC is required to provide in public offering registration statements and relieve an EGC from conducting advisory votes on executive compensation, as well as from a number of accounting and disclosure requirements. The regulatory relief provided under Sections 102 and 103 of the JOBS Act was self-executing and became effective once the JOBS Act was signed into law. The technical amendments that the SEC is adopting conform several rules and forms to reflect these JOBS Act statutory changes.

Table 1: Inflation-Adjusted Amounts in Rule 100 of Regulation Crowdfunding (Offering Maximum and Investment Limits)

Regulation Crowdfunding Rule	Original Amount	Rounded Inflation-
Maximum aggregate amount an issuer can sell under Regulation Crowdfunding	\$1,000,000	\$1,070,000
Threshold for assessing investor's annual income or net worth to determine investment limits (Rule 100(a)(2)(i) and (ii))	\$100,000	\$107,000
Lower threshold of Regulation Crowdfunding securities permitted to be sold to an investor if annual income or net worth is less than \$107,000 (Rule 100(a)(2)(i))	\$2,000	\$2,200
Maximum amount that can be sold to an investor under Regulation Crowdfunding in a 12-month period (Rule 100(a)(2)(ii))	\$100,000	\$107,000

Table 2: Inflation-Adjusted Amounts in Rule 201(t) of Regulation Crowdfunding (Financial Statement Requirements)

Regulation Crowdfunding Rule	Original Offering Threshold Amount	Rounded Inflation-
Rule 201(t)(1)	\$100,000	\$107,000
Rule 201(t)(2)	\$500,000	\$535,000
Rule 201(t)(3)	\$1,000,000	\$1,070,000



Justice Department Announces Actions to Dismantle Kelihos Botnet

The Justice Department on April 10th [announced](#) an extensive effort to disrupt and dismantle the Kelihos botnet – a global network of tens of thousands of infected computers under the control of a cybercriminal that was used to facilitate malicious activities including harvesting login credentials, distributing hundreds of millions of spam e-mails, and installing ransomware and other malicious software.

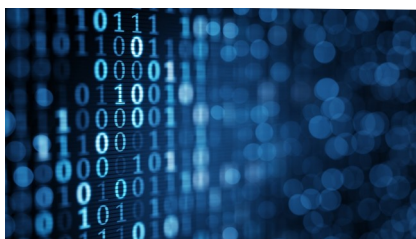
Acting Assistant Attorney General Kenneth A. Blanco of the Justice Department's Criminal Division, Acting U.S. Attorney Bryan Schroder for the District of Alaska, Assistant Director Scott Smith for the FBI's Cyber Division and FBI Special Agent in Charge Marlin Ritzman of the Anchorage Division made the announcement.

“The operation announced today targeted an ongoing international scheme that was distributing hundreds of millions of fraudulent e-mails per year, intercepting the credentials to online and financial accounts belonging to thousands of Americans, and spreading ransomware throughout our networks. The ability of botnets like Kelihos to be weaponized quickly for vast and varied types of harms is a dangerous and deep threat to all Americans, driving at the core of how we communicate, network, earn a living, and live our everyday lives,” said Acting Assistant Attorney General Blanco. “Our success in disrupting the Kelihos botnet was the result of strong cooperation between private industry experts and law enforcement, and the use of innovative legal and technical tactics. The Department of Justice is committed to combatting cybercrime, no matter the size or sophistication of the scheme, and to punish those who are engaged in such crimes.”



“Cybercrime is a worldwide problem, but one that infects its victims directly through the computers and personal electronic devices that we use every day,” said Acting U.S. Attorney Bryan Schroder for the District of Alaska. “Protecting the American people from such a worldwide threat requires a broad-reaching response, and the dismantling of the Kelihos botnet was such an operation. We are lucky that we have talented FBI agents and federal prosecutors with the skillsets to help protect Americans from this pervasive cybercrime.”

“On April 8, 2017, we started the extraordinary task of blocking malicious domains associated with the Kelihos botnet to prohibit further infections,” said FBI Special Agent in Charge Ritzman. “This case demonstrates the FBI's commitment to finding and eradicating cyber threats no matter where they are in the world.”



Kelihos malware targeted computers running the Microsoft Windows operating system. Infected computers became part of a network of compromised computers known as a botnet and were controlled remotely through a decentralized command and control system. According to the civil complaint, Peter Yuryevich Levashov allegedly operated the Kelihos botnet since approximately 2010. The Kelihos malware harvested user credentials by searching infected

computers for usernames and passwords and by intercepting network traffic. Levashov allegedly used the information gained from this credential harvesting operation to further his illegal spamming operation which he advertised on various online criminal forums. The Kelihos botnet generated and distributed enormous volumes of unsolicited spam e-mails advertising counterfeit drugs, deceptively promoting stocks in order to fraudulently increase their price (so-called “pump-and-dump” stock fraud schemes), work-at-home scams, and other frauds. Kelihos was also responsible for directly installing additional malware onto victims' computers, including ransomware and malware that intercepts users' bank account passwords.

As with other botnets, Kelihos is designed to operate automatically and undetected on victims' computers, with the malicious code secretly sending requests for instructions to the botnet operator. In order to liberate the victim computers from the botnet, the United States obtained civil and criminal court orders in the District of Alaska. These orders authorized measures to neutralize the Kelihos botnet by (1) establishing substitute servers that receive the automated requests for instructions so that infected computers no longer communicate with the criminal operator and (2) blocking any commands sent from the criminal operator attempting to regain control of the infected computers.



In seeking authorization to disrupt and dismantle the Kelihos botnet, law enforcement obtained a warrant pursuant to recent [amendments](#) to Rule 41 of the Federal Rules of Criminal Procedure. A copy of this warrant along with the other court orders are produced below. The warrant obtained by the government authorizes law enforcement to redirect Kelihos-infected computers to a substitute server and to record the Internet Protocol addresses of those computers as they connect to the server. This will enable the government to provide the IP addresses of Kelihos victims to those who can assist with removing the Kelihos malware including internet service providers.

The efforts to disrupt and dismantle the Kelihos botnet were led by the FBI's Anchorage Office and New Haven Office; Senior Counsel Ethan Arenson and Harold Chun, and Trial Attorney Frank Lin of the Computer Crime and Intellectual Property Section; and Assistant U.S. Attorneys Yvonne Lamoureux and Adam Alexander of the District of Alaska. Critical assistance was also provided by foreign partners, and invaluable technical assistance was provided by Crowd Strike and The Shadow server Foundation in executing this operation.

The details contained in the civil complaint and related pleadings are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

The Government has and will continue to share samples of the Kelihos malware with the internet security community so that antivirus vendors can update their programs to detect and remove Kelihos. A number of free and paid antivirus programs are already capable of detecting and removing Kelihos, including the Microsoft Safety Scanner, a free product.

The documents filed by the Government as well as the court orders entered in this case are available online at the following web address:

[Complaint](#)

[Motion for TRO & Order to Show Cause](#)

[Memorandum of Law in Support of TRO](#)

[Declaration in Support of TRO](#)

[TRO & Order to Show Cause](#)

[Search Warrant](#)

[Search Warrant Application & Affidavit](#)

[PRTT Order](#)

[PRTT Application](#)



Investor Alert: Beware of Stock Recommendations on Investment Research Websites

The SEC's Office of Investor Education and Advocacy is issuing this [Investor Alert](#) to warn investors that seemingly independent commentary on investment research websites may in fact be part of paid stock promotion campaigns.

When you read an article on an investment research website, be aware that the article may not be objective and independent. For example, the writer may have been paid directly or indirectly by a company to promote that company's stock. In some cases, the writer may not disclose compensation received or may go so far as to claim falsely that compensation was not received. Keep in mind that fraudsters may generate articles promoting a company's stock to drive up the stock price and to profit at your expense.



Stock promotion schemes also may be conducted through social media, investment newsletters, online advertisements, email, Internet chat rooms, direct mail, newspapers, magazines, television, and radio. Be wary if you receive communications (including new posts, tweets, text messages, or emails) promoting a stock from someone you do not know, even if the sender appears connected to someone you know. If a company's stock is promoted more heavily than its products or services, this may be a red flag of investment fraud.

Microcap stocks, some of which are penny stocks and/or nanocap stocks, may be particularly susceptible to stock promotion schemes and other forms of market manipulation. To learn about red flags of fraud and other risks to consider before investing in microcap stocks, read our Investor Bulletin: [Microcap Stock Basics \(Part 3 of 3: Risk\)](#).

SEC Enforcement Actions. The SEC has taken enforcement action against companies and individuals for generating deceptive articles on investment research websites. The SEC recently charged 27 parties – including public companies, firms, and writers – with fraud for generating articles that promoted certain stocks when some or all of the writers allegedly:

- Failed to disclose that they received payment, even though they had been paid directly or indirectly by the companies;
- Used different pseudonyms to publish multiple articles that promoted the same stock; and/or
- Used fake credential (for example, misrepresenting that the writer was an accountant, fund manager, or research analyst who had certain academic degrees).

Additionally, the SEC alleged that some writers engaged in scalping (recommending a stock to drive up the stock price and then selling shares of the stock at inflated prices to generate profits).

Even if articles on an investment research website appear to be an unbiased source of information or provide commentary on multiple stocks, they may be part of an undisclosed paid stock promotion. Never make an investment based solely on information published on an investment research website. Before investing in a particular stock, research the company thoroughly and make sure you understand its business. As with any investment decision, carefully review all of the materials available to you and if possible, verify what you are told about the investment.





A Recovery Checklist for Victims of Investment Fraud

Sadly, most of us know someone who has been a victim of a crime, or we may have been ourselves a target, which made this year's annual observances of [National Crime Victims' Rights Week](#) (April 2-8) poignant and important, both to victims and those who provide assistance. If you are the victim of a crime, you are not alone, and there are ways you can get assistance.



If you are a victim of investment fraud, you may be coping with the aftermath of a compromised identity, damaged credit, and financial loss, as well as a painful range of emotions including anger, fear and frustration. The toll of financial fraud may extend well beyond lost money. A [recent study](#) funded by the FINRA Foundation found that nearly two-thirds of fraud victims experience at least one severe emotional consequence—including stress, anxiety, insomnia, and depression.

While full financial recovery may be difficult to achieve, it is critical that you report the crime as quickly as possible. Reporting any financial fraud, no matter how small, helps law enforcement, regulators, and government agencies put a stop to the fraud, prevent the victimization of more consumers, and pursue the criminals committing the fraud.

Very often perpetrators will dispose of your money immediately after taking it, so you may never get your money back. However, your recovery is about more than lost money. It's about protecting your future financial health and assets and finding ways for you to recover emotionally from the crime.

Investment Fraud Victim Recovery Checklist

The checklist below can help reclaim power from the fraudsters and help you move forward.

1. Create an investment fraud file. Start by collecting all relevant documentation concerning the fraud in one file that's kept in a secure location. The file should include a contact sheet of the perpetrator's name, mail and email addresses, telephone numbers and website address. Also include the fraudster's purported regulatory registration numbers, if they were provided to you, and a timeline of events, which may span many years. Your file should include the police report, if any, and any call notes or relevant documentation about the fraud. And add one more important piece of information: your most recent credit report from all three [credit reporting companies](#).



2. Know your rights. Federal and, in some cases, state law give rights to victims of crime. Learn about your rights to better protect yourself. On the federal level, the U.S. Department of Justice (DOJ) provides [information](#) on victim rights and financial fraud. In addition, check out the DOJ's Office for Victims of Crime's (OVC) brochure, [What You Can Do If You Are a Victim of Crime](#), which provides an overview of crime victim rights, and where you can get help. On the state level, check with the [NC Attorney General's Office](#). The North American Securities Administrators Association publishes a helpful "[Investor Bill of Rights](#)."

3. Report fraud to regulators. National, federal and state regulatory agencies for investment products and professionals may be able to help. You may benefit from reporting the investment fraud to as many agencies as apply.

NC Department of the Secretary of State Securities Division: (800) 688-4507 or [file a complaint](#).

U.S. Securities and Exchange Commission: (800) SEC-0330 or [file a complaint](#).

FINRA: (844) 57-HELPS or [file a tip](#).

North American Securities Administrators Association: (202) 737-0900 or www.nasaa.org.

National Association of Insurance Commissioners: report fraud or file a complaint with your [state Commissioner](#).

National Futures Association: (312) 781-1467 or [file a complaint](#).

U.S. Commodity Futures Trading Commission: (866) 366-2382 or [file a tip or complaint](#).

Internet Crime Complaint Center (a partnership between the FBI and the National White Collar Crime Center): www.ic3.gov.

It may also be helpful to file a report with the Federal Trade Commission (FTC), by contacting the FTC's Complaint Assistant at: (877) FTC-HELP or go to www.ftccomplaintassistant.gov. Lodging a complaint will enter the fraud into the Consumer Sentinel Network so that law enforcement can stop ongoing fraud and track these crimes. This process, however, will not initiate a criminal investigation of your case.



4. Report the fraud to law enforcement. Reporting the investment fraud to law enforcement is important to begin the recovery process, ensure the responsible parties are investigated, and prevent further damage to other individuals.

- NC Secretary of State, Securities Division—File a complaint with the NC Securities Division [online](#) or call toll-free at (800) 688-4507.
- Local Law Enforcement—Contact any local law enforcement office to file a police report.
- District Attorney—Contact your local District Attorney's Office.
- Attorney General—Contact your state's Attorney General's Consumer Protection unit and the prosecution unit to report the fraud.
- Federal Law Enforcement—Contact your local FBI Field Office or submit an online tip at <http://tips.fbi.gov>

5. Consider your options. It can be difficult to recover assets lost to fraud or other scenarios in which an investor has experienced a problem with an investment. But there are legitimate [ways to attempt recovery](#). In most cases, you can do so on your own—at little or no cost.

6. Follow Up. Review the steps you've taken and follow up after 30 days with any law enforcement agencies or organizations that serve victims.

Here's a final sobering reality. If you have been already been a victim of investment fraud, you are more likely to be re-targeted, perhaps for a different investment fraud. Be on your guard. You can learn more about spotting the red flags of fraud by going to the [Avoid Fraud section](#) of FINRA.org/investors.



Triangle Family Services

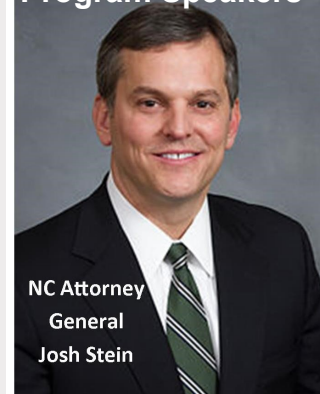
In partnership with Bank of America
and Wake County Human Services

Present

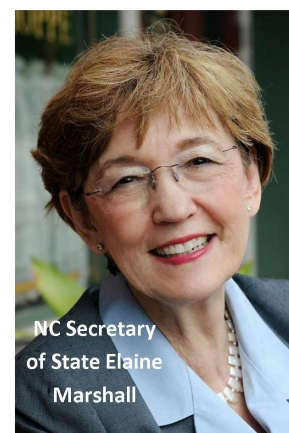
Senior Scam Jam

Thursday,
May 18th
8:30 am—Noon

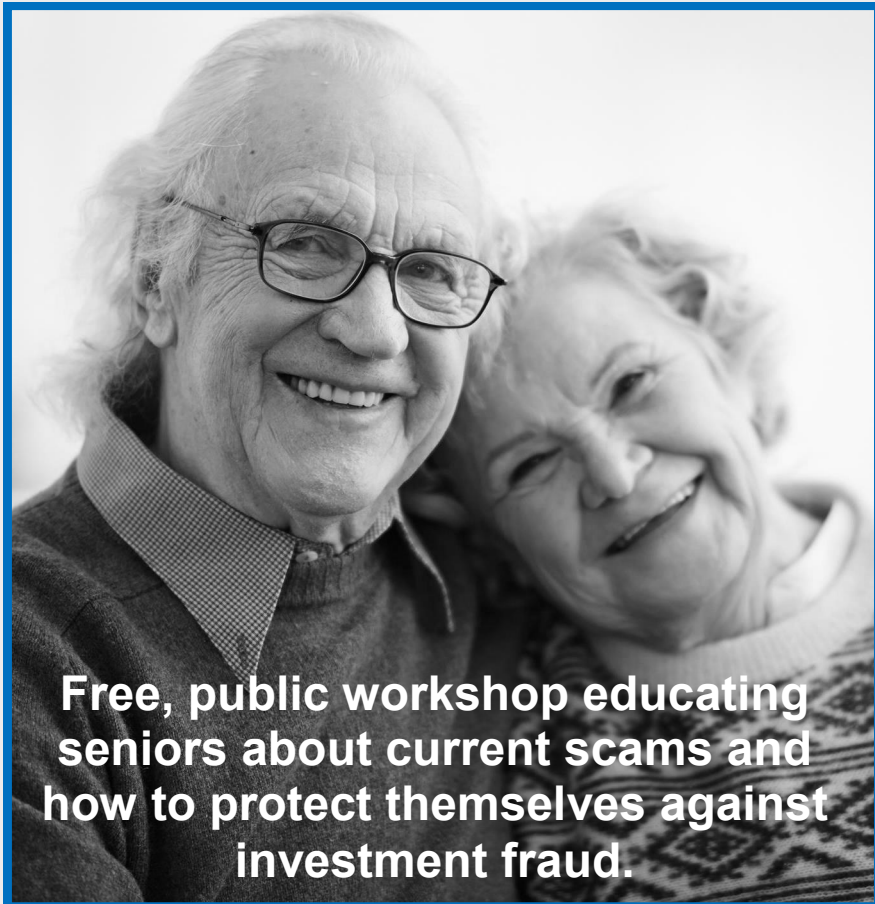
Program Speakers



NC Attorney
General
Josh Stein



NC Secretary
of State Elaine
Marshall



Free, public workshop educating seniors about current scams and how to protect themselves against investment fraud.

Learn: What to do if you believe you or a loved one is a victim
Ways to protect yourself National & local resources



**Breakfast provided, space limited, register today!*

Northern Wake County Senior Center
Wake Forest Renaissance Centre
405 Brooks Street Wake Forest, NC 27587

[Register Here](#)

Event Topics Include: Healthcare Fraud | Counterfeit Prescription Drugs | Medicare/Health Insurance Fraud | Internet Scams and Fraud | Investment Scams | Pyramid and Ponzi Schemes | Fraudulent Anti-Aging Products | Marketing/Telemarketing Scams | Sweepstakes and Lottery Scams | Emotional/Personal Manipulation | The “Sweetheart Scam” | The “Grandparent Scam”

Since 1937 Triangle Family Services has served as the place to turn for innovative solutions for families facing crisis. TFS accomplishes its mission of, “Building a Stronger Community by Strengthening the Family”, through its three core program of, Family Safety, Financial Stability and Mental Health. TFS has been a part of our community for 80 years providing data-driven effective services, serving more than 13,000 annually.

tfsnc.org | 919.821.0790



Questions & Comments may be directed to mbuice@tfsnc.org or 919.821.0790 x335



Calendar of Upcoming Events

A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Dates and times are subject to cancellation (although cancellations are rare), so please call the contact number listed to confirm the event is still on before leaving for it. All presentations are free and open to the public unless otherwise indicated. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) at (800) 688-4507. For a complete list of all upcoming events, please check out our online [calendar](#).

- | | | |
|--------|-----------|--|
| 5/2/17 | Raleigh | Investor protection & crowdfunding presentation at The Food Entrepreneurs Round Table, NC Dept. of Agriculture, Agronomics Building, 4300 Reedy Creek Road, Raleigh. Time: 10:00 AM -- 12:00 PM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation at the Food Entrepreneurs Round Table of Raleigh on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. This presentation will also include an overview of investment crowdfunding for businesses that may want to utilize this option. Topics covered will encompass: a regulatory overview and how crowdfunding fits within securities laws; the legal do's and don'ts of a crowdfunding offering; the marketing aspects – what you can say and how to reach investors; and utilizing a web site intermediary – picking one and connecting with investors. For more information, please contact Annette Dunlap at annette.dunlap@ncagr.gov |
| 5/2/17 | Pittsboro | "Understanding crowdfunding – the new option for local financing in N.C." at Chatham County Community College, Pittsboro Campus, 764 West Street in Pittsboro. Time: 6:00 PM -- 8:00 PM. Small businesses in North Carolina will soon be permitted to raise up to \$2 million from average investors with certain limits. This is the result of legislation passed by the North Carolina General Assembly in July 2016. Businesses that use the "Invest N.C. exemption" can utilize the Internet to organize such a fundraiser. In addition, businesses currently can garner up to \$1 million in a federal crowdfunding offering. However, firms must follow certain rules, including requirements on how much can be raised from each investor, what kind of financial information must be disclosed, and periodic reporting requirements to keep investors informed. The N.C. Securities Division will oversee administration of the state crowdfunding exemption. This presentation is planned as an overview of investment crowdfunding for businesses that may want to utilize this option. A representative of the N.C. Secretary of State, Securities Division, will cover the following: a regulatory overview and how crowdfunding fits within securities laws; the legal do's and don'ts of a crowdfunding offering; the marketing aspects – what you can say and how to reach investors; and utilizing a web site intermediary – picking one and connecting with investors. For more information, please contact Jon Spoon at jspoo035@cccc.edu . |

5/4/17	Weldon	Annual Small Business Resource & Appreciation Day at Halifax Community College, 100 College Drive, Building 400, Weldon. Time: 11:00 AM -- 2:00 PM. Free and open to the public. For more information, or to register, please visit www.ncsbc.net . The North Carolina Securities Division will be among those participating in Halifax Community College's 3rd Annual Small Business Resource & Appreciation Day. This fair will offer business owners the opportunity to network with local and state small business owners and to explore resources available. Topics covered will include Financing a Small Business, Marketing, Finding Customers, Business Taxes and Business Planning. We are encouraging expert and novice business owners to attend this informative and interactive session. For additional information, please contact Jerry Edmonds at jedmonds080@halifaxcc.edu
5/16/17	Fayetteville	"Combating Frauds Against the Elderly: A Partnership Working Together" presentation during Day 1 of the 2nd Annual Patient Centered Care for the Older Adult Conference at Southern Regional AHEC Conference, Holiday Inn Fayetteville, 1944 Cedar Creek Road. Time: 1:00 PM -- 2:00 PM. Register online . Older adults are the number one victims of fraud. Medical professionals are among the most highly trained observers. This seminar seeks to enlist your help in fighting fraud against your patients while at the same time helping you learn how to recognize and avoid possible investment scams, how to do your due diligence, and the questions to ask your investment professional. This seminar will help you to understand what to do if you or your patient becomes a victim of an investment scam. Information will also be presented about the Advance Health Care Directive Registry which the Secretary of State's office maintains. For more information, please contact Andrea Novak at andrea.novak@sr-ahec.org
5/16/17	Clayton	Investor protection & crowdfunding presentation at Johnston Community College Workforce Development Center, Classroom #1032, 135 Best Wood Drive in Clayton. Time: 6:00 PM -- 8:00 PM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. This presentation will also include an overview of investment crowdfunding for businesses that may want to utilize this option. Topics covered will encompass: a regulatory overview and how crowdfunding fits within securities laws; the legal do's and don'ts of a crowdfunding offering; the marketing aspects – what you can say and how to reach investors; and utilizing a web site intermediary – picking one and connecting with investors. For more information, please contact Pat Killete at pwkillete@johnstoncc.edu
5/18/17	Wake Forest	"Scam Jam" anti-fraud presentation sponsored by Triangle Family Services at Wake Forest Renaissance Centre, 405 Brooks Street, Wake Forest. Time: 11:00 AM -- 1:00 PM. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. Secretary of State Elaine F. Marshall will deliver a message at 11:45 AM. Topics will include identity theft, how to establish a protective 'freeze' on one's credit report, securities fraud, charitable giving fraud and medical/Medicare fraud. For more information, please contact Alice Lutz at Alutz@tfsnc.org or Cari Boram at cboram@tfsnc.org .

5/18/17	Fayetteville	Financial Literacy and Vocational Job Fair at Headquarters Library 300 Maiden Lane in Fayetteville. Time: 5:30 PM -- 7:30 PM. Free and open to the public. The North Carolina Securities Division will be among those participating in the Financial Literacy and Vocational Job Fair hosted by the Cumberland County Public Library and Information Center. The fair includes a financial literacy element and aims to provide guidance to teens and young adults on topics such as budgeting, staying out of debt, building good credit, "want versus need" and other related issues. Community agencies and businesses will be on hand to assist attendees and provide information. For more information, please contact Jennifer Hatcher at jhatcher@cumberland.lib.nc.us .
5/23/17	Concord	"Scam Jam" anti-fraud presentation at Cabarrus Senior Center, 331 Corban Ave SE in Concord. Time: 8:30 AM -- 12:30 PM. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. For more information, please contact Kim Henderson at 704-582-9776.
5/23/17	Lumberton	"Scam Jam" anti-fraud presentation at Pine Street Senior Center, 801 N Pine Street in Lumberton. Time: 10:00 AM -- 1:30 PM. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. For more information, please contact Rachell Hodnett at rachell.hodnett@lrcog.org .
5/24/17	Cary	"Investment Fraud: Guarding Your Assets in a Scary World" at SearStone Retirement Community, 17001 Searstone Drive, Cary. Time: 10:00 AM -- 11:00 PM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Shannon Hoffman at shoffman@searstone.com .
6/1/17	Matthews	"Investment Fraud: Guarding Your Assets in a Scary World" presentation at Levine Senior Center, 1050 DeVore Lane. Time: 9:00 AM - 10:00 AM. A representative of the NC Department of the Secretary of State Securities Division will attend the Levine Senior Center's Veterans Canteen event to give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Kim Henderson 704-582-9776.
6/1/17	Matthews	"Investment Fraud: Guarding Your Assets in a Scary World" presentation at BBB Charlotte Headquarters, 9719 Northeast Parkway, Suite 300, Matthews. Time: 12:00 PM - 1:00 PM. A representative of the NC Department of the Secretary of State Securities Division will attend the BBB of Piedmont's Lunch and Learn series to give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Maryanne Dailey at mdailey@charlotte.bbb.org

- 6/6/17 Dallas "Scam Jam" anti-fraud presentation at Gaston County Senior Center, 1303 Dallas-Cherryville Hwy., Dallas, NC. Time: 1:00 PM -- 4:00 PM. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. Topics will include identity theft, how to establish a protective 'freeze' on one's credit report, securities fraud, charitable giving fraud and medical/Medicare fraud. Attendees have learned how to keep their credit card information from being compromised, how to obtain truly free credit reports, how to protect themselves from being taken in by Ponzi schemes and other illegitimate investment come-ons, how to protect oneself against being taken advantage of by donation scams during times of national or international disaster and how to help reduce the more than 62 billion dollars in fraud that occurs each year in the Medicare program alone. For more information, please contact Jim Burke at jim.burke@gastongov.com.
- 6/9/17 Fayetteville "Investment Fraud: Guarding Your Assets in a Scary World" presentation at East Regional Public Library, 4809 Clinton Road, Fayetteville. Time: 10:00 AM - 11:00 AM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Jennifer Hatcher at jhatcher@cumberland.lib.nc.us.
- 6/13/17 Hickory "Investment Fraud: Guarding Your Assets in a Scary World" presentation at the ACAP-Hickory meeting, Mt. Olive Lutheran Church, 2780 N Center Street, Hickory. Time: 5:30 PM - 7:00 PM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Frances S. Hall at fhall@compascable.net.
- 6/15/17 Elizabethtown "Scam Jam" anti-fraud presentation at Trinity United Methodist Church, 901 W Broad Street, Elizabethtown. Time: 10:00 AM -- 1:30PM. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. Topics will include identity theft, how to establish a protective 'freeze' on one's credit report, securities fraud, charitable giving fraud and medical/Medicare fraud. Attendees have learned how to keep their credit card information from being compromised, how to obtain truly free credit reports, how to protect themselves from being taken in by Ponzi schemes and other illegitimate investment come-ons, how to protect oneself against being taken advantage of by donation scams during times of national or international disaster and how to help reduce the more than 62 billion dollars in fraud that occurs each year in the Medicare program alone. For more information, please contact Rachell Hodnett at rachell.hodnett@lrcog.org



Troy Barnes Sentenced to More than Two Years in Prison for Multi-Million Dollar Internet Ponzi Scheme

Co-Conspirator Previously Sentenced to Prison for Her Role in Scheme

Troy Barnes

Troy Barnes, 53, of Riverview, Michigan, was sentenced on April 25 to 33 months in prison for operating a multi-million dollar Internet Ponzi scheme that defrauded more than 10,000 investor victims worldwide, [announced](#) Jill Westmoreland Rose, U.S. Attorney for the Western District of North Carolina. Barnes was also ordered to spend three years under court supervision after he is released from prison. Furthermore, Barnes was ordered to forfeit \$4.7 million and to pay \$302,297 in restitution to victims.

Barnes' conspirator, Kristine Louise Johnson of Aurora, Colorado, was sentenced previously to 21 months in prison for her role in the scheme.

Michael Rolin, Special Agent in Charge of the United States Secret Service, Charlotte Field Office, joins U.S. Attorney Rose in making the announcement.

According to court documents, Barnes was the owner of "Work with Troy Barnes, Inc." (WWTB), which did business over the Internet under the name of "The Achieve Community" (TAC). Barnes was the President and Marketing Director of WWTB responsible for promoting the online scheme. Johnson served as TAC's Chief Financial Officer, and managed TAC's day-to-day operations, including the company's bank accounts.

Filed court documents indicate from about April 2014 to February 2015, Barnes induced victims to invest money in TAC, claiming "Achieve is the answer to all of our prayers..." and falsely promising investors would receive a bogus 700% return on their investment. According to the indictment to which he pleaded guilty, Barnes also told his victims they could make as much money as they wanted claiming the investment was "never-ending," when, in fact, TAC operated solely as a pyramid scheme and initial investors were paid with later victims' money. According to the criminal information to which she pleaded guilty, Johnson told victims that TAC was not a pyramid scheme when, in truth and in fact, TAC operated solely as a pyramid scheme.

According to court filings, as the scheme grew in size and scope, Barnes and Johnson concealed the true nature of the scheme through multiple misrepresentations. According to court records, when the conspirators became concerned that the use of the term "investment" would draw scrutiny from regulators, they instructed victim-investors, "We ARE NOT an INVESTMENT program, please don't use that term when you speak or post about our re-purchase strategy." Even when TAC was unable to operate because their payment processor concluded that TAC was indeed operating a Ponzi scheme and ceased doing business with the company, Barnes and Johnson lied to victims, falsely stating that, "The only reason that [TAC] is not paying out today is that our processor can't handle the volume of money we are paying our members."

According to court records, in order to sustain the scheme, Barnes and Johnson encouraged investors to "re-purchase" positions in the matrix, thereby reducing the amount of money needed to pay out to early investors and enabling the fraudsters to prolong the scheme. As indicated in court documents, the investment scheme began to crumble when payment processors stopped processing the Ponzi payments to victim-investors.

By the time the scheme collapsed in February 2015, the conspirators had defrauded over 10,000 investors in the Charlotte area and worldwide. According to court records, over the course of the scheme, Barnes used over \$140,000 of the victims' money for his own enrichment and Johnson misappropriated over \$200,000 for her own personal use.

Barnes will be ordered to the Federal Bureau of Prisons to begin serving his sentence upon designation of a federal facility. All federal sentences are served without the possibility of parole.

The U.S. Secret Service led the investigation. In making the April 25th announcement, U.S. Attorney Rose thanked the Denver Regional Office of the U.S. Securities and Exchange Commission for its assistance with the case.

Assistant U.S. Attorneys Corey F. Ellis, Daniel Ryan, and Taylor J. Phillips, of the U.S. Attorney's Office in Charlotte prosecuted the case.



News from the Regulators

The following are links to selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.

[FINRA Requests Comment on Rules Impacting Capital Formation](#)

Additional Proposals Include Updates to Rules on Underwriting Arrangements and Desk Commentary

April 12, 2017 — The Financial Industry Regulatory Authority (FINRA) is requesting comment on its rules governing the participation of its member firms in capital raising, as part of a continuing effort to modernize its regulation of those activities while maintaining important protections for investors. The request, part of the FINRA360 initiative, is one of three regulatory notices FINRA issued today related to the capital formation process, with the others seeking comment on proposed amendments to rules for underwriting arrangements and a proposed safe harbor from equity and debt research rules for desk commentary. All three proposals seek to clarify the requirements for FINRA member firms engaged in the capital formation process.

“A vibrant capital-raising process supports the growth of the large and small businesses that create jobs and strengthen the economy. Broker-dealers perform a critical role in that process,” said FINRA President and CEO Robert W. Cook. “As the environment for capital raising evolves, it is essential that we continue to assess how regulation can best facilitate capital formation on a strong foundation of investor protection and market integrity.”

[Regulatory Notice 17-14](#) requests comment on all of FINRA’s existing rules, operations and administrative processes that address the capital-raising activities of its member firms, including recent additions regarding capital acquisition brokers and funding portals. The Notice is part of the new FINRA360 initiative, in which FINRA is conducting a comprehensive review of its operations and programs.

[Kara Novaco Brockmeyer, Chief of FCPA Unit, to Leave SEC After 17 Years of Service](#)

April 4, 2017— The Securities and Exchange Commission announced on April 4 that Kara Novaco Brockmeyer, Chief of the Enforcement Division’s Foreign Corrupt Practices Act (FCPA) Unit, plans to leave the agency later by the end of April.

Since 2011, Ms. Brockmeyer has led a national unit of 38 attorneys, accountants, and other specialists focusing on violations of the anti-bribery and accounting provisions of the federal securities laws. In addition, Ms. Brockmeyer has played a leading role in SEC programs, having founded and served as the co-head of the Enforcement Division’s Cross Border Working Group, a proactive risk-based initiative focusing on U.S. companies with substantial foreign operations, and serving as a member of the Enforcement Division’s Cooperation Committee and the Enforcement Advisory Committee.

“Kara’s creativity and perseverance have led to truly outstanding results in the SEC’s FCPA program,” said Stephanie Avakian, Acting Director of the SEC’s Enforcement Division. “Her leadership of the unit has led to many successes in the FCPA area.”

[FINRA Foundation and First Nations Development Institute Publish In-Depth Analysis of Financial Capability of Native Americans](#)

April 6, 2017 — The FINRA Investor Education Foundation ([FINRA Foundation](#)) and First Nations Development Institute ([First Nations](#)) has published the nation’s most comprehensive analysis of the financial capability of American Indian/Alaska Natives, including the financial behavior, attitudes and knowledge of Native peoples. The publication of the report coincided with the Foundation’s observance of national Financial Literacy Month in April.

The report, [Race and Financial Capability in America: Understanding the Native American Experience](#), shows that Native Americans—even more so than other minority populations—face difficult financial circumstances and experience high levels of financial fragility. Statistics in the report are based on data from the FINRA Foundation’s [National Financial Capability Study](#) (NFCS).

Sixty-three percent of Native Americans surveyed indicated that it was difficult or very difficult to make ends meet, compared to 60 percent of African-Americans and 54 percent of Hispanics. Only 45 percent of whites and 47 percent of Asian-Americans reported difficulty paying expenses.

In addition, only a quarter of Native Americans could come up with \$2,000 in 30 days in the event of a financial emergency, as opposed to 46 percent of whites and 45 percent of Asian-Americans. Another important finding is that, on average, Native American and Alaska Native people are less likely than other ethnic groups to use traditional financial products.

All investors are strongly encouraged to contact the Securities Division at (919) 733-3924 or toll-free at (800) 688-4507 to check that their investment professional is properly registered ***before*** transferring any assets to that person’s control. One five-minute telephone call to the Securities Division could protect your entire life’s savings from being stolen from you. For a wealth of investor education information, please visit our web site, www.sosnc.gov. Click on the yellow box entitled “Investment Securities.”

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron@sosnc.gov), Director of the Investor Education Program, or call (919) 807-2106.

Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state.

If you no longer wish to receive mailings from the Securities Division, please send an email to: jmaron@sosnc.gov with “Remove from mailing list” in the subject line.

Remember that if an investment sounds too good to be true, it *probably* is!