





1           3. Mr. Smith was licensed in Oregon to sell mutual funds and annuities between May  
2 1990 and June 2002. The CRD number for Mr. Smith is #2099616.

3           4. In November 2002, Mr. Smith signed a Letter of Acceptance, Waiver and Consent  
4 with the National Association of Securities Dealers (NASD), which barred Mr. Smith from  
5 associating with any NASD member in any capacity, including clerical or ministerial  
6 functions. Mr. Smith has not been licensed to sell securities in Oregon since 2002.

7           5. In 2004, Mr. Smith was convicted of forgery and unauthorized use of a motor  
8 vehicle, a felony.

9           6. Around 2003, Mr. and Mrs. Smith formed an illegal investment company, Prosperity  
10 Financial Incorporated (hereinafter, "Prosperity") and a shell company, Kilohana Venture  
11 Capital (hereinafter, "Kilohana"). Prosperity is an Oregon corporation. Mr. Smith is the  
12 president of Prosperity, and Mrs. Smith is the secretary.

13           7. Between 2003 and 2005, Mr. and Mrs. Smith offered and sold stock and notes issued  
14 by Kilohana and Prosperity. Mr. and Mrs. Smith raised approximately \$1.3 million from 27  
15 investors. Many of the investors reside in Oregon, including two widows over the age of 80.  
16 One of the widows invested her entire life savings, nearly \$160,000.

17           8. The Division of Finance and Corporate Securities has no record of securities  
18 registration for the stock and notes sold by Mr. and Mrs. Smith.

19           9. Most of the investors paid for their investments by wire transfer or check payable to  
20 Prosperity. Those funds were deposited into Prosperity's account at Bank of America in  
21 Newport, Oregon. Mr. and Mrs. Smith were signors on the Prosperity account. Kilohana did  
22 not have a bank account, but Kilohana issued stock certificates to some of the investors. Most  
23 of the investors did not receive a prospectus or other disclosure documents.

24           10. Mr. and Mrs. Smith invested most of the funds they raised in two speculative  
25 companies, Digital Media Industries, Inc. (hereinafter, "DMI") and Community Services  
26 Network (hereinafter, "CSN"), that have never turned a profit. Through their company,

1 Prosperity, Mr. and Mrs. Smith received remuneration from DMI and CSN, in the form of  
2 stock and/or commissions.

3 11. Instead of investing all the money, Mr. and Mrs. Smith converted approximately  
4 \$250,000 of investor funds for their own use. They transferred some of the funds from the  
5 Prosperity business account to their personal account at Bank of America. They also used  
6 some of the funds in the Prosperity business account to pay for their personal expenses.

7 12. Mr. and Mrs. Smith failed to disclose to some of the investors: (1) that Mr. Smith  
8 was convicted of forgery and unauthorized use of a motor vehicle, a felony, in 1994; (2) the  
9 NASD barred Mr. Smith in 2002; (3) that the stock and notes Mr. and Mrs. Smith sold were  
10 not registered securities in Oregon; (4) that Mr. and Mrs. Smith were not licensed to sell  
11 securities in Oregon; (5) the commissions and other remuneration that Mr. and Mrs. Smith  
12 received from the sales of the securities; (6) the risks of the investment; and (7) the actual use  
13 of investor funds.

#### 14 CONCLUSIONS OF LAW

15 The Director **CONCLUDES** that:

16 1. The stock and notes offered and sold in Oregon by Michael Wayne Smith and  
17 Stacey Lynne Smith meet the definition of a "security" under ORS 59.015(19)(a) (2005).

18 2. The securities Michael Wayne Smith and Stacey Lynne Smith sold were not  
19 registered securities under ORS Chapter 59 and OAR Chapter 441.

20 3. Michael Wayne Smith and Stacey Lynne Smith offered and sold unregistered  
21 securities in Oregon, in violation of ORS 59.055.

22 4. Michael Wayne Smith and Stacey Lynne Smith each acted as a securities  
23 "salesperson" as defined by ORS 59.015(18)(a), by representing an issuer of a security in  
24 effecting transactions in securities.

25 5. Michael Wayne Smith and Stacey Lynne Smith acted as unlicensed securities  
26 salespersons in Oregon, in violation of ORS 59.165.

Division of Finance and Corporate Securities  
Labor and Industries Building  
350 Winter Street NE, Suite 410  
Salem, OR 97301-3881  
Telephone: (503) 378-4387





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1 4. Pursuant to ORS 59.045(2), Respondent Michael Wayne Smith is permanently  
2 **DENIED** the use of securities and transaction exemptions that would otherwise be available  
3 to him under ORS 59.025 and ORS 59.035, respectively;

4 5. Respondent Michael Wayne Smith is permanently **BARRED** from applying for,  
5 holding, or renewing any license or registration required by the Director in Oregon, including  
6 but not limited to insurance, consumer finance, manufactured home dealer or mortgage  
7 lending. He is further **BARRED** from acting as a mortgage loan originator or mortgage loan  
8 processor in Oregon.

9 The entry of this Order in no way limits further remedies which may be available to  
10 the Director under the Oregon Law.

11 Dated this 25<sup>th</sup> day of JANUARY, 2007, at Salem, Oregon.

12  
13 CORY STREISINGER, Director  
14 Department of Consumer and Business Services

15

16 David Tatman, Administrator  
17 Division of Finance and Corporate Securities

18  
19 APPROVED AS TO FORM:

20

21 Bruce McCrum  
22 Attorney for Respondent

Dated: 1/25/07

23 **CONSENT TO ENTRY OF ORDER**

24 I, Michael Wayne Smith, state that I am a resident of the State of Oregon, that I have  
25 read the foregoing Order and that I know and fully understand the contents hereof; that the  
26 factual allegations stated herein are true and correct; that I have been advised of my right to a

1 hearing, and that I have been represented by counsel in this matter; that I voluntarily consent  
2 to the entry of this Order without any force or duress, expressly waiving any right to a hearing  
3 in this matter; that I understand that the Director reserves the right to take further actions  
4 against me to enforce this Order or to take appropriate action upon discovery of other  
5 violations of the Oregon Securities Law by me; and that I will fully comply with the terms  
6 and conditions stated herein.

7 I further assure the Director that I will not engage in the activities of a broker-dealer,  
8 investment adviser, or mortgage broker, or act as a salesperson for any of these unless such  
9 activities are in full compliance with Chapter 59 of the Oregon Revised Statutes.

10 I understand that this Consent Order is a public document.

11 Dated this 25<sup>th</sup> day of January, 2007.

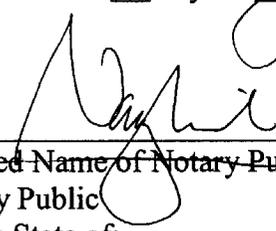
12  
13 

14 Michael Wayne Smith

15 SUBSCRIBED AND SWORN to before me this 25<sup>th</sup> day of January, 2007.



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\_\_\_\_\_  
(Printed Name of Notary Public) COURT CLERK  
Notary Public  
for the State of: \_\_\_\_\_  
My commission expires: \_\_\_\_\_

