

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



1 listed as both the president and secretary (hereinafter Smith and CMD shall be referred to
2 collectively as “Respondents”).

3 2. CMD’s business consisted of purchasing church curriculum, such as Sunday school
4 materials, bible lesson plans, and/or any other church related materials (hereafter “church
5 curriculum”) from publishers at wholesale prices and then reselling the church curriculum to
6 churches at a markup.

7 3. Between January 2003 and October 2004, Smith devised a number of methods of
8 raising capital for CMD including: 1) CMD’s air miles program; 2) stock sales; 3) investment
9 contract sales; and 4) the sale of promissory notes. Each of these methods is detailed below.

10 **B. Capital raised through CMD’s Air Miles Program**

11 4. One method used by Smith to raise capital was the CMD air miles program. In
12 2003, Smith created the air miles program in order to use consumer credit cards to raise
13 additional capital for CMD.

14 **a. Summary of CMD Air Miles Program**

15 5. The air miles program required investors to provide CMD with their credit card and
16 grant CMD the exclusive right to use the credit card. Investors were told that their credit cards
17 would only be used to purchase church curriculum directly from vendors. Investors were told
18 that CMD would pay off the entire balance on the credit card at the end of each month.

19 6. Respondents offered investors a \$50 “bonus” if investors changed their credit card
20 billing address to 11924 NE Sumner St., Portland, OR 97220. This is CMD’s business address.
21 If investors selected this option their statements were mailed directly to CMD and therefore these
22 investors were not able to review their statements to determine how their credit cards had been
23 used by CMD.

24 7. Respondents told the credit card holders that they would receive the benefit of
25 earning air miles at a very high rate. For example, CMD would use the investor’s credit card to



1 purchase \$20,000 in church curriculum directly from a vendor. The card holder was told that
2 they would earn the air miles associated with this high level of card usage. CMD promised to
3 pay the card holders balance in full each month. Investors understood that this process would
4 repeat each month. In this way, investors expected to earn a profit by accumulating air miles or
5 other credit card rewards that they could use personally in return for allowing Respondents to use
6 their credit.

7 8. Respondents have never registered the CMD air miles program as a security for
8 sale in the state of Oregon. Respondents have never been licensed to sell securities in the state of
9 Oregon.

10 **b. Actual Operation of CMD Air Miles Program**

11 9. Investors in CMD's air miles program expected a return on their investment in the
12 form of rewards earned for the use of their credit cards. Once investors joined the air miles
13 program, Respondents had management and control over the investors' credit cards.

14 10. Respondents used investors' credit cards in one of two ways. First, some
15 investors' cards were used to purchase materials directly from vendors. Second, other investors'
16 cards were charged directly to the CMD account. The funds from these charges were then used
17 at Smith's discretion.

18 11. Respondents initially made minimum payments on some of the credit cards that
19 were used. However, after the first couple of months, Respondents ceased making payments on
20 the cards. Investors began accruing interest and late fees due to Respondents' failure to make
21 payments as agreed. As a result, investors were unable to redeem their air miles or other rewards
22 because their account balances had not been paid by Respondents.

23 12. As of the date of this order, Respondents have not paid back any of the debt
24 incurred by investors in the air miles program.

25 **b. Disclosures that were not made to investors**



1 13. Respondents did not disclose to investors that CMD’s air miles program was not a
2 registered security in Oregon. Respondents also failed to disclose that they were not licensed to
3 sell securities in Oregon.

4 14. Respondents failed to make a prospectus available to investors outlining the
5 specific risks associated with investing in the CMD air miles program.

6 15. Respondents did not disclose CMD’s debt and poor financial condition to investors.
7 At the end of 2002, CMD was in debt and was continuing to incur additional debt on a monthly
8 basis. According to CMD’s profit and loss statement for the year 2002, CMD had a negative net
9 income of at least \$321,000.¹

10 16. Respondents did not disclose to investors that many credit card companies prohibit
11 consumer credit card holders from assigning their cards to other individuals or businesses. In
12 fact, such an assignment can be a violation of the terms of use agreements of some credit card
13 companies.

14 17. Respondents did not disclose to investors that many credit card companies do not
15 allow card holders to earn airline miles or rewards unless the card holder makes payments on
16 time every month. If the cardholder misses a payment or are late in making a payment, some
17 credit card companies will not allow rewards to accrue.

18 18. Respondents failed to disclose to investors the following facts about Smith
19 including: 1) Smith had not paid back investors that had previously invested with him; 2) Smith
20 went through bankruptcy in 1998; and 3) Smith had failed in his prior business venture, Dare to
21 Dream and Buz Smith Entertainment.

22 **c. Misstatements that were made to investors**

23 19. Respondents told investors that their credit cards would only be used to make
24 purchases directly from vendors. In reality, some investors’ cards were charged directly to the
25

¹ A second profit and loss statement for 2002 shows a negative net income of \$406,124.



1 CMD account as if they had purchased goods or services from CMD. Their money was then
2 spent at Smith's discretion.

3 20. Smith designed a brochure entitled "CMD Air Miles Partners Program." In the
4 brochure, Smith marketed the CMD credit card program as a way to use CMD's purchasing
5 power to benefit church ministries.

6 21. The brochure made the following statements which are not supported by fact: 1)
7 For the past three years, CMD has used its large purchasing power to help individuals and
8 organizations collect maximum air miles; 2) CMD pays off the credit card balance; 3) What does
9 this cost? Nothing; 4) CMD pays any credit card fees that accrue; and 5) CMD pays the annual
10 credit card fee.

11 22. In reality, Respondents credit card program: 1) had not existed for three years and
12 had not helped individuals and organizations collect air miles; 2) did not payoff the investors'
13 credit card balances; 3) actually cost investors over \$470,000; 4) did not pay investors' credit
14 card fees; and 5) did not pay the annual card fee.

15 C. Capital raised through stock sales

16 a. P.K.

17 23. On October 16, 2003, P.K. gave \$14,000 cash to Smith in order to purchase stock
18 in CMD. P.K. expected a return on his investment. The \$14,000 cash was deposited into the
19 CMD account in Oregon. Once P.K. gave Respondents his money, Respondents had
20 management and control over P.K.'s investment.

21 24. On October 23, 2003, in exchange for P.K.'s \$14,000 investment, Respondents
22 gave P.K. 210 shares of CMD common stock.

23 25. On March 31, 2004, P.K gave Smith a \$36,000 check written to CMD. P.K.
24 expected a return on his investment. The \$36,000 check was deposited into the CMD account in
25



1 Oregon. Once P.K. gave Respondents his money, Respondents had management and control
2 over P.K.'s investment.

3 26. On March 31, 2004, in exchange for P.K.'s \$36,000 investment, Respondents gave
4 P.K. 540 shares of CMD common stock.

5 27. In addition to the stock certificates issued by Respondents, P.K.'s \$50,000
6 investment is evidenced by a stock "buy-sell" agreement signed by both P.K. and Smith on April
7 5, 2004.

8 28. Respondents failed to provide P.K. with a prospectus or other disclosure materials
9 and failed to disclose the following facts to P.K. before he invested: 1) upon receiving P.K.'s
10 investment, Smith would deposit the money in an account used for both personal and business
11 expenses; 2) Smith had not paid back individuals that had previously invested with him; 3) the
12 stock issued was not registered for sale in the State of Oregon; 4) CMD's poor financial
13 condition; 5) Smith's 1998 bankruptcy; and 6) Smith had failed in his prior business ventures,
14 Buz Smith Entertainment and Dare to Dream.

15 **D. Capital raised through the sale of an investment contract**

16 **a. B.E.**

17 29. On January 20, 2004, B.E. invested with Respondents by causing a \$20,000 check
18 written out to CMD to be delivered to Smith. The entire \$20,000 check was deposited into the
19 CMD account in Oregon. B.E. expected a return on his investment. Once B.E. gave
20 Respondents his money, Respondents had management and control over B.E.'s investment.

21 30. On January 26, 2004, B.E. invested an additional \$30,000 with Respondents by
22 causing a \$30,000 check to be delivered to Smith. Smith deposited the \$30,000 check into his
23 personal bank account. Smith's wife then transferred the entire \$30,000 investment into the
24 CMD account in Oregon. B.E. expected a return on his investment. Once B.E. invested,
25 Respondents had management and control over B.E.'s money.



1 31. B.E. never received a promissory note from Respondents documenting his
2 investment.

3 32. Respondents failed to provide a prospectus or other disclosure materials to B.E. and
4 failed to disclose the following facts to B.E.: 1) Smith had not paid back prior investors; 2) the
5 security sold was not registered; 3) CMD's poor financial condition; 4) Smith's 1998
6 bankruptcy; and 5) Smith had failed in his prior business venture Dare to Dream and Buz Smith
7 Entertainment.

8 **E. Capital raised through the sale of promissory notes**

9 **a. A.F.**

10 33. In January 2004, Smith hired A.F. to work as a telephone salesperson at CMD.

11 34. In April of 2004, Smith solicited an investment from A.F. and provided A.F. with a
12 CMD business plan.

13 35. Smith promised A.F. an annual return of 10% on her investment. In order to earn
14 this return on her investment, A.F. was required to continue working for CMD. Based on the
15 promised return on investment, A.F. invested \$15,000 with Respondents.

16 36. On April 13, 2004, A.F. and Smith signed a promissory note. The note promised a
17 10% annual return on A.F.'s investment. The note required Smith to pay A.F. in full by April
18 14, 2006. Respondents had management and control over A.F.'s investment.

19 37. On April 13, 2004, A.F. gave Smith a \$15,000 check written to Smith. The check
20 was deposited in the CMD account in Oregon.

21 38. Respondents failed to disclose the following facts to A.F.: 1) upon receiving
22 investor's funds, Smith would deposit the money into an account used for both personal and
23 business expenses; 2) Smith had not paid back individuals who had previously invested with
24 him; 3) Smith's 1998 bankruptcy; and 4) Smith had failed in his prior business venture Dare to
25 Dream and Buz Smith Entertainment.



1 39. A.F. chose to leave CMD for personal reasons. As of the date of this Order,
2 Respondents have not returned the \$15,000 principal that A.F. invested Respondents.

3 **b. Pastor E.W.**

4 40. In 2004, Smith solicited an investment from E.W., a Pastor at Ridgefield Church of
5 the Nazarene located in Washington.

6 41. Smith told Pastor E.W. that CMD was a fast growing distribution company. Smith
7 told Pastor E.W. that he would pay a 12% return on his investment over six months. Based on
8 the promised return and the representations that Smith made, Pastor E.W. decided to invest
9 \$40,000 with Respondents.

10 42. On October 12, 2004, Pastor E.W. wired \$40,000 to the CMD account in Oregon.
11 On October 14, 2005, Pastor E.W. and Smith signed a promissory note. Pastor E.W. expected to
12 earn a return on his investment. Respondents had total management and control over Pastor
13 E.W.'s \$40,000 investment.

14 43. On October 29, 2004, fifteen days after Pastor E.W. invested with Respondents,
15 Smith closed CMD. All of Pastor E.W.'s money was used at Respondents' discretion. Pastor
16 E.W. lost all \$40,000 invested with Respondents.

17 44. Respondents failed to provide a prospectus or other disclosure materials to Pastor
18 E.W. and failed to disclose the following facts to Pastor E.W.: 1) upon receiving his money,
19 Smith would deposit the money in an account used for both personal and business expenses; 2)
20 Smith had not paid back prior investors; 3) the security sold was not registered; 4) CMD's poor
21 financial condition; 5) Smith's 1998 bankruptcy; and 6) Smith had failed in his prior business
22 venture, Dare to Dream and Buz Smith Entertainment.

23 **F. Use of Investors Funds**

24 45. CMD maintained Bank of America account ending in 7018 at 10120 Northeast
25 Sandy Boulevard, Portland, OR 97220-3326 (hereafter "CMD account"). This account was used

1 for all CMD business. Income from sales was deposited into this account. CMD expenses were
2 paid from this account. Investors' funds were deposited into this account.

3 46. Money from the CMD account was used to pay Smith's salary. In addition, Smith
4 used the money to pay for his home mortgage, his personal vehicle and his wife's personal
5 vehicle, and a recreational vehicle. In addition to these expenses, Smith often took personal
6 distributions from CMD's bank account in addition to his salary.

7 47. Smith states that all distributions from the CMD account were properly accounted
8 for as either personal income to him or as legitimate business expenses.

9 CONCLUSIONS OF LAW

10 A. Respondents Air Miles Program

11 1. Respondents' air miles program is a security as that term is defined by ORS
12 59.015(19)(a) because it is an "investment contract" under Pratt v. Kross, 276 Or. 483 (1976)
13 and included: 1) an investment of money (or money's worth (credit cards)); 2) in a common
14 enterprise (CMD); 3) with the expectation of a profit (air miles); 4) to be made through the
15 management and control of others (Respondents).

16 2. Respondents violated ORS 59.055 when they offered and sold securities in
17 Oregon to different investors without the securities having first been registered under ORS
18 59.065.

19 3. Respondents violated ORS 59.165 when they sold securities in Oregon to
20 investors without first obtaining a securities license.

21 4. Respondents committed securities fraud in violation of ORS 59.135(2) by selling
22 the securities described herein without first providing a prospectus disclosing the risks of
23 investing in the air miles program and by omitting to state the following material facts: 1) the
24 security being sold was not registered and Respondents were not licensed with the state of
25 Oregon; 2) CMD was in debt and had negative net income for the year ending 2002; 3) CMD's





1 air miles program could violate the investors' contract with their credit card company making it
2 impossible for them to collect air miles or other rewards; 4) Smith used CMD funds for his own
3 personal benefit; 5) Smith had not paid back investors that had previously invested with him; 6)
4 Smith went through bankruptcy in 1998; and 7) Smith had failed in his prior business venture
5 Dare to Dream and Buz Smith Entertainment.

6 **B. Stock sold by Respondents**

7 5. The stock sold by Respondents to P.K. are "securities" as that term is defined by
8 ORS 59.015(19)(a) because it is stock and/or an investment contract.

9 6. Respondents violated ORS 59.055 when they offered and sold securities in
10 Oregon to P.K. without those securities first being registered under ORS 59.065.

11 7. Respondents violated ORS 59.165 when they offered and sold securities in
12 Oregon to P.K. without first obtaining a securities license.

13 **C. Investment Contract sold by Respondents**

14 8. The investment sold by Respondents to B.E. was an "investment contract" and
15 therefore a "security" as that term is defined by ORS 59.015(19)(a) and Pratt v. Kross, 276 Or.
16 483 (1976) because it was: 1) an investment of money (or money's worth); 2) in a common
17 enterprise; 3) with the expectation of a profit; 4) to be made through the management and control
18 of others.

19 9. Respondents violated ORS 59.055 when they offered and sold a security in
20 Oregon to B.E. without that security having first been registered under ORS 59.065.

21 10. Respondents violated ORS 59.165 when they sold a security in Oregon to B.E.
22 without first obtaining a securities license.

23 **D. Notes sold by Respondents**

24 11. The notes sold by Respondents to Pastor E.W. and A.F. are "securities" as that
25 term is defined ORS 59.015(19)(a) because it is an investment contract and/or a note.

1 Respondents admit that they owe a total of \$264,833.22 to the individuals and in the
2 amounts listed on exhibit A attached and incorporated herein by reference. Respondents have
3 agreed to repay all \$264,833.22 by making 60 monthly payments of \$4,413.88 beginning on
4 October 15, 2011 and ending on June 15, 2016. Respondents shall make these restitution
5 payments to the Division. The Division will then distribute the funds collected from
6 Respondents to the individuals listed on exhibit A pro-rata. Respondents understand and agree
7 that a failure to comply with the Restitution repayments terms outlined herein is a violation of
8 this order. If Respondents are found to have violated any of the terms of this order, including the
9 payment of restitution as outlined herein, the suspended civil penalty may be imposed by the
10 Director.

11 The entry of this order in no way limits further remedies which may be available to the
12 Director under Oregon law.

13
14 **IT IS SO ORDERED.**

15 Dated this 3rd day of August, 2011, in Salem, Oregon.

16
17 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
18 SCOTT L. HARRA, ACTING DIRECTOR

19 /s/ David Tatman
20 David C. Tatman, Administrator
21 Division of Finance and Corporate Securities

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EXHIBIT A

Restitution

Number	First	Last	Amount
1	Redacted	Redacted	\$11,791.60
2	Redacted	Redacted	\$14,574.66
3	Redacted	Redacted	\$10,085.68
4	Redacted	Redacted	\$18,270.72
5	Redacted	Redacted	\$6,905.00
6	Redacted	Redacted	\$2,559.11
7	Redacted	Redacted	\$5,970.10
8	Redacted	Redacted	\$3,909.84
9	Redacted	Redacted	\$48,612.00
10	Redacted	Redacted	\$9,300.00
11	Redacted	Redacted	\$16,651.77
12	Redacted	Redacted	\$4,817.48
13	Redacted	Redacted	\$990.27
14	Redacted	Redacted	\$9,391.17
15	Redacted	Redacted	\$4,341.87
16	Redacted	Redacted	\$13,121.37
17	Redacted	Redacted	\$4,464.00
18	Redacted	Redacted	\$12,000.00
19	Redacted	Redacted	\$5,925.00
20	Redacted	Redacted	\$6,151.58
21	Redacted	Redacted	\$15,000.00
22	Redacted	Redacted	\$40,000.00
Total			\$264,833.22

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CONSENT TO ENTRY OF ORDER

I, Cecil F. Smith, state that I have read the foregoing Order and that I know and fully understand the contents hereof; that the factual allegations stated herein are true and correct; that I have been advised of my right to a hearing, and that I have been represented by counsel in this matter; that I voluntarily consent to the entry of this Order without any force or duress, expressly waiving any right to a hearing in this matter; that I understand that the Director reserves the right to take further actions against me to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law by me; and that I will fully comply with the terms and conditions stated herein.

I understand that this Consent Order is a public document.

Dated this 26 day of July, 2011.

/s/ Cecil F. Smith
Cecil F. Smith

SUBSCRIBED AND SWORN to before me this 26th day of July, 2011.

/s/ Saymor Kim
(Printed Name of Notary Public)
Notary Public
for the State of: Washington
My commission expires: 10/31/2011

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CORPORATE CONSENT TO ENTRY OF ORDER

I, Cecil F. Smith, state that I am an officer of Church Ministries Distribution, Inc (“Respondent”), and I am authorized to act on its behalf; that I have read the foregoing Order and that I know and fully understand the contents hereof; that I and this entity have been advised of the right to a hearing and of the right to be represented by counsel in this matter; that Respondent voluntarily and without any force or duress consents to the entry of this Consent Order, expressly waiving any right to a hearing in this matter; that Respondent understands that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of ORS chapter 59; and that Respondent will fully comply with the terms and conditions stated herein.

Respondent understands that this Consent Order is a public document.

Dated this 26 day of July, 2011.

CHURCH MINISTRIES DISTRIBUTION, INC

/s/ Cecil F. Smith

Cecil F. Smith

President

Position Held

CORPORATE ACKNOWLEDGMENT

There appeared before me this 26th day of July, 2011, Cecil F. Smith, who was first duly sworn on oath, and stated that he was an officer of Church Ministries Distribution Inc. and that he is authorized and empowered to sign this Consent to Entry of Order on behalf of Respondent, and to bind Respondent to the terms hereof.

/s/ Saymor Kim

(Printed Name of Notary Public)

Notary Public

for the State of: Washington

My commission expires: 10/31/2011

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