**STATE OF OREGON**
**DEPARTMENT OF CONSUMER AND BUSINESS SERVICES**
**DIVISION OF FINANCE AND CORPORATE SECURITIES**
**ENFORCEMENT SECTION**
**BEFORE THE DIRECTOR OF THE**
**DEPARTMENT OF CONSUMER AND BUSINESS SERVICES**

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| **In the Matter of:**<br><br>**Michael Wayne Smith and Stacey Lynne Smith,**<br><br>**Respondents.** | **S-06-0032**<br><br>**ORDER TO CEASE AND DESIST ORDER DENYING EXEMPTIONS AND CONSENT TO ENTRY OF ORDER AS TO STACEY LYNNE SMITH ONLY** |

**WHEREAS** the Director of the Department of Consumer and Business Services (hereinafter, "Director") has conducted an investigation of certain business activities conducted by Michael Wayne Smith and Stacey Lynne Smith and has determined that Michael Wayne Smith and Stacey Lynne Smith offered and sold securities in violation of the Oregon Securities Law;

**WHEREAS** Stacey Lynne Smith wishes to resolve and settle this matter with the **DIRECTOR**;

**NOW THEREFORE,** as evidenced by the authorized signature subscribed on this Order, Stacey Lynne Smith hereby **CONSENTS** to entry of this Order to Cease and Desist upon the Director's Findings of Fact and Conclusions of Law as stated hereinafter.

## FINDINGS OF FACT

1. Michael Wayne Smith (hereinafter, "Mr. Smith") and Stacey Lynne Smith (hereinafter, "Mrs. Smith") reside at 6117 NE Mason Avenue, Yachats, Oregon 97498.

2. Mrs. Smith has never been licensed as a securities salesperson, broker-dealer or investment adviser.

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350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

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

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

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

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

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

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

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

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

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

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

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

## CONCLUSIONS OF LAW

The Director **CONCLUDES** that:

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

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

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

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

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

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6. In connection with the offer and sale of securities to investors, Michael Wayne Smith and Stacey Lynne Smith omitted to state a material fact, in violation of ORS 59.135(2), by failing to disclose: (1) that Mr. Smith was convicted of forgery and unauthorized use of a motor vehicle, a felony, in 1994; (2) the NASD barred Mr. Smith in 2002; (3) that the stock and notes Mr. and Mrs. Smith sold were not registered securities in Oregon; (4) that Mr. and Mrs. Smith were not licensed to sell securities in Oregon; (5) the commissions and other remuneration that Mr. and Mrs. Smith received from the sales of the securities; (6) the risks of the investment; and (7) the actual use of investor funds.

## ORDER

**NOW THEREFORE, THE DIRECTOR ISSUES THE FOLLOWING ORDERS:**

1. The Director, pursuant to ORS 59.245 hereby **ORDERS** Respondent Stacey Lynne Smith to **CEASE and DESIST** from:

A. Offering or selling unregistered securities in Oregon, in violation of ORS 59.055.

B. Transacting business in Oregon as a securities salesperson without a license, in violation of ORS 59.165.

C. Making any untrue statement of material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in connection with the purchase or sale of a security or the conduct of a securities business, pursuant to ORS 59.135(2).

D. Violating any provision of the Oregon Securities Law, including ORS Chapter 59 and OAR Chapter 441.

2. Respondent Stacey Lynne Smith is permanently **BARRED** from applying for or renewing any investment adviser, broker-dealer or securities salesperson license in the State of Oregon;

3. Respondent Stacey Lynne Smith is permanently **BARRED** from applying to register or renew any securities registration in the State of Oregon;

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

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

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

Dated this 25th day of JANUARY, 2007, at Salem, Oregon.

CORY STREISINGER, Director
Department of Consumer and Business Services

David Tatman, Administrator
Division of Finance and Corporate Securities

APPROVED AS TO FORM:

J.F. Ouderkirk
Attorney for Respondent

Dated: 1/25/07

**CONSENT TO ENTRY OF ORDER**

I, Stacey Lynne Smith, state that I am a resident of the State of Oregon, 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

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

I understand that this Consent Order is a public document.

Dated this 23rd day of January, 2007.

Stacey L Smith
(Individual)

SUBSCRIBED AND SWORN to before me this 25th day of January, 2007.

Sharon S Ray
(Printed Name of Notary Public)
Notary Public
for the State of: Oregon
My commission expires: 07/21/08

OFFICIAL SEAL
SHARON S RAY
NOTARY PUBLIC - OREGON
COMMISSION NO. 382985
MY COMMISSION EXPIRES JUL. 21, 2008

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