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## **Yachats couple sentenced for operating investment scheme**

*Michael Wayne Smith pleaded guilty to racketeering, theft  
Stacey Lynne Smith pleaded no contest to two counts of theft*

(Newport) — A Lincoln County Circuit Court judge handed sentences Friday, May 4 to a Yachats couple who bilked approximately 27 Oregonians in an investment scheme. The sentences close the chapter on an investigation initiated in 2006 by the Department of Consumer and Business Services' Finance and Corporate Securities Division with assistance by the Lincoln County District Attorney's Office.

Judge Charles P. Littlehales sentenced Michael Wayne Smith to a prison term of 57 months and Smith's wife, Stacey Lynne Smith, to 30 days of home confinement, five years of supervised probation, and 320 hours of community service. As part of their sentences, the Smiths were ordered to pay about \$600,000 in victim restitution.

Between 2003 and 2005, the Smiths formed and operated Prosperity Financial Inc. and Kilohana Venture Capital. They raised more than \$1 million from approximately 27 investors who purchased stock and notes issued by Prosperity or Kilohana. Among the victims are two widows from Oregon who are more than 80 years old. One of those victims, a 91-year-old widow, believed Michael Smith was a "trusted friend," but lost all her retirement savings and is now living on food stamps and Social Security.

The Smiths invested most of the money they raised in two speculative companies that have never turned a profit. They diverted more than \$200,000 of the investor funds to their personal use, including a trip to Hawaii, jewelry from Cartier, and day-to-day living expenses. At that time, neither the Smiths nor their companies were licensed to sell securities, and the investments they sold were not registered.

Mr. Smith was licensed in Oregon to sell mutual funds and annuities between May 1990 and June 2002, but has not been licensed to sell securities since. In November 2002, the National Association of Securities Dealers barred Mr. Smith from associating with any NASD member in any capacity, and in 1994, he was convicted of forgery and unauthorized use of a motor vehicle in Douglas County. Mrs. Smith has never been licensed to sell securities.

The Smiths failed to provide written information or disclosures about the investments to most of the investors. The Smiths also failed to disclose material facts such as what they were doing with the investor proceeds, their lack of licenses and registrations, and his past violations of laws.

In January, Mr. Smith pleaded guilty to one count of racketeering, one count of theft in the first degree, and three counts of aggravated theft in the first degree. He has been in custody since March 29. Also in January, Mrs. Smith entered a plea of no contest to two theft charges. DCBS has ordered the Smiths to cease and desist from violations of the Oregon Securities Law, and has permanently barred the Smiths from having any securities license or registration in Oregon.

The department, through its Division of Finance and Corporate Securities (DFCS), began investigating the Smiths after a representative for one of the investors contacted DFCS, inquiring about the status of an investment. The department worked in cooperation with and under the authority of the Lincoln County District Attorney's Office to prosecute this case.

“With a prior criminal conviction for forgery, and the bar by the NASD, Michael Wayne Smith had no business being in the securities business when he formed his illegal investment companies and started raising money from investors,” said David Tatman, administrator of the Division of Finance and Corporate Securities. “An elderly widow in this case lost her entire life savings in this scheme, after entrusting her hard-earned money with the wrong people.”

Bernice Barnett, Lincoln County district attorney, said the partnership between the state and her office was essential in prosecuting the case.

“This shows how effective we can be when we work together,” she said. “I want to thank the fine lawyers from DFCS for utilizing their expertise to help prosecute complex financial fraud cases and protect our community from financial crime.”

DFCS encourages investors to check out the background of individuals and companies before they part with their money, Tatman said. You can do that by calling DFCS toll-free (866) 814-9710, (503) 378-4140 in Salem, or going to [www.dfcs.oregon.gov](http://www.dfcs.oregon.gov) and clicking on “Investor information program.”

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The Division of Finance and Corporate Securities, part of the Department of Consumer & Business Services, helps ensure that a wide range of financial products and services are available to Oregonians and helps protect consumers from financial fraud and abuse. For more information, visit [www.dfcs.oregon.gov](http://www.dfcs.oregon.gov).

The Department of Consumer and Business Services is Oregon's largest business regulatory and consumer protection agency. For more information, visit [www.dcbs.oregon.gov](http://www.dcbs.oregon.gov).