

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

IN THE MATTER OF: RESIDUAL INCOME, )  
ITS OFFICERS, DIRECTORS, )  
EMPLOYEES, AFFILIATES, SUCCESSORS, ) File No.0600071  
AGENTS AND ASSIGNS )

ORDER OF PROHIBITION

TO THE RESPONDENT: Residual Income  
18773 East State Highway 33  
Willow Hill, 62480

WHEREAS, the record of the above captioned matter has been reviewed by the Secretary of State or his duly authorized representative;

WHEREAS, the rulings of the Hearing Officer on the admission of evidence and all motions are deemed to be proper and are hereby concurred with by the Secretary of State;

WHEREAS, the proposed Findings of Facts and Conclusions of Law and Recommendation of the Hearing officer, Jon K. Ellis, in the above-captioned matter have been read and examined;

WHEREAS, the following proposed Findings of Fact are correct and are adopted by the Secretary of State as follows:

1. The pleadings and Exhibits have been offered and received from the Department and a proper record of all proceedings has been made and preserved as required by law.
2. The Hearing Officer has ruled on all motions and objections timely made and submitted.
3. The Hearing Officer and the Secretary of State Securities Department have jurisdiction over the parties herein and subject matter dealt with herein, due and proper notice having been previously given as required by statute in this Matter.
4. As no Answer was filed, Respondent, Residual Income, is therefore deemed to be in default.

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5. On or about February 9, 2004, the Respondent Residual Income, by and through its officers, directors, employees, agents, affiliates, successors and assigns, offered and sold to EP, an Illinois resident, an investment plan by which EP purchased 20 "positions" at \$450.00 per position, for a total investment of \$9,000.00 and, in return, the Respondent represented EP would receive \$600.00 per month per position.
6. That Section 2.1 of the Act (815 ILCS 5/2.1) defines the term "Security" as any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit sharing agreement, collateral trust certificate, pre-organization certificate or subscription, transferable share, investment contract, investment fund share, face-amount certificate, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas or other mineral lease, right or royalty, any put, call, straddle, option, or privilege on any security, certificate of deposit or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "Security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing. "Security" does not mean a mineral investment contract or a mineral deferred delivery contract; provided, however, the Department shall have authority to regulate these contracts as hereinafter provided.
7. That Section 2.5 of the Act (815 ILCS 5/2.5) defines the term "Sale or Sell" to include the full meaning of that term as applied by or accepted in the courts of this State, and shall include every contract of sale or disposition of a security or interest in a security of value.
8. That Section 2.5a of the Act (815 ILCS 5/2a) defines the term "Offer" to include every offer to sell or otherwise dispose of, solicitation of an offer to purchase, a

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security or interest in a security for value; provided that the term "Offer" shall not include preliminary negotiations or agreements between an issuer and any underwriter or among underwriters who are or are to be in privity of contract with an issuer, or a the circulation or publication of an identifying statement or circular or preliminary prospectus, as defined by rules or regulations of the Secretary of State.

9. The above referenced investment plan is an investment contract and therefore a security as that term is defined pursuant to Section 2.1 of the Act.
10. Section 5 of the Act provides, inter alia, that all securities except those set forth under Section 2a, or those exempt under Section 3 of the Act, or those offered and sold in transactions exempt under Section 4 of the Act shall be registered with the Secretary of State prior to their offer or sale in the State of Illinois.
11. At all times relevant hereto, the Respondent's investment contract was not registered with the Secretary of State pursuant to Section 5 of the Act prior to its offer or sale in the State of Illinois.
12. Section 12.A of the Act provides, inter alia, that it shall be a violation of the Act for any person to offer or sell any securities except in accordance with the provisions of the Act.
13. At all times relevant hereto, the Respondent failed to file an application for registration of the above referenced securities with the Secretary of State prior to their offer or sale in the State of Illinois.
14. By virtue of the foregoing, the Respondent has violated Section 12A of the Act.
15. Section 11.E(3) of the Act (815 ILCS 5/11.E(2)) provides, inter alia, that if the Secretary of State shall find that any person is engaging or has engaged in the business of selling or offering for sale securities as a dealer or salesperson without prior thereto and at the time thereof having complied with the registration or notice filing requirements of this Act, the Secretary of

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State may by written order prohibit the person from offering or selling any securities in this State.

16. Section 11.E(4) of the Act (815 ILCS 5/11.E(4)) provides that in addition to any other sanction or remedy contained in subsection E, the Secretary of State may, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act, as well as the costs of investigation and reasonable expenses
17. By virtue of the foregoing, the Respondent is subject to a fine of up to \$10,000 per violation, costs of investigation, reasonable expenses, an order of censure, and an order which permanently prohibits the Respondent from offering or selling securities in the State of Illinois.
18. The entry of a Final Order of Prohibition is proper in this case, given the conduct of the Respondent as described in Secretary of State Exhibits No. 1-10, as well as the fact that the Respondent failed to appear at the hearing and properly answer the Notice of Hearing.

WHEREAS, the following proposed Conclusions of Law are correct and are adopted by the Secretary of State as follows:

1. After proper notification, the Department may proceed with a hearing in Respondent's absence. (735 ILCS 5/1-105 and 5/2-1301); Ryan v. Bening, 1978, 22 Ill.Dec. 873, 66 Ill.App.3d 127, 383 N.E.2d 681; Koenig v. Nardullo, 1968, 99 Ill.App.2d 480, 241 N.E.2d 567; In Re the Marriage of Garde, 1983, 73 Ill.Dec.816, 118 Ill.App.3d 303, 454 N.E.2d 1065. Significantly, the Notice of Hearing outlines that a default judgment may be entered against a Respondent who fails to appear or answer the charges.
2. The actions, statements, representations, and/or omissions of the Respondent made in connection with the failure to offer or sell any security in accordance with the provisions of the Act are violations of Section 12.A of the Act.
3. That by virtue of the foregoing, Respondent Residual Income, by and through its officers, directors,

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employees, agents, affiliates, successors and assigns, is subject to an Order of permanent Prohibition in the state of Illinois, a \$10,000.00 fine for each violation of the Act, and/or granting such other relief as may be authorized under the Act.

4. Because of the Findings of Fact, the pleadings and Exhibits, as well as the fact that said Respondent failed to answer the Notice of Hearing or appear at the hearing, the entry of a written Order of Prohibition pursuant to 815 ILCS 5/11.E(2) which permanently prohibits the offer or sale of securities by Respondent Residual Income in the State of Illinois is proper in this Matter.

NOW THEREFORE, IT IS HEREBY ORDERED THAT: pursuant to the recommendation of the Hearing Officer and the authority granted by Section 11.E of the Act, Respondent, Residual Income, by and through its officers, directors, employees, agents, affiliates, successors and assigns, is permanently prohibited from offering or selling securities in the State of Illinois.

ENTERED: This 30<sup>th</sup> day of January, 2007

  
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Jesse White  
Secretary of State  
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of the Section 12.D of the Act. Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of the Order, shall be guilty of a Class 4 felony.

This is a final order subject to administrative review pursuant to the Administrative Review Law, [735 ILCS 5/3-101 et seq.] and the Rules and Regulations of the Illinois Securities Act, [14 Ill. Admin. Code Ch. I, Section 130.1123]. Any action for

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Judicial Review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

Attorney for the Secretary of State:  
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