

1 STATE OF CALIFORNIA
2 BUSINESS, TRANSPORTATION AND HOUSING AGENCY
3 DEPARTMENT OF CORPORATIONS

4 TO: Country Financial, Inc.
5 Donald K. Vaughn
6 1363 Marsh St.
7 San Luis Obispo, California 93401

8 **DESIST AND REFRAIN ORDER**

9 **(For violations of sections 25110 and 25401 of the Corporations Code)**

10 The California Corporations Commissioner finds that:

11 1. Country Financial, Inc. ("CFI") is a California corporation doing business at 1363 Marsh St.,
12 San Luis Obispo, California 93401.

13 2. Donald K. Vaughn ("Vaughn") is the President of CFI.

14 3. In 2007, Vaughn offered and sold CFI securities in the form of fractionalized interests in
15 promissory notes. These securities were offered or sold in this state in an issuer transaction.

16 4. CFI obtained a permit from the Department of Corporations ("Department"), allowing the
17 offer and sale of such securities in California, under the terms described in the offering materials
18 provided to the Department to obtain the permit.

19 5. According to the offering materials supplied to the Department in CFI's application for the
20 permit, the purpose of the offering was to permit CFI to make a loan to a developer for a particular
21 property. CFI would manage the loan and the developer's repayment, as well as the progress on the
22 property development. After the property was developed, CFI would sell the property. Payment by
23 the borrower/developer and from the sale of the property would enable CFI to return the investor's
24 money with interest

25 6. In 2007, Vaughn received three hundred and fifty thousand dollars (\$350,000) from an
26 investor.

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1 7. Vaughn gave the offering materials for which the DOC permit was issued to the investor.
2 Vaughn told the investor that the three hundred and fifty thousand dollars (\$350,000) investment
3 would be used to lend to borrower Caples View, Inc. to develop Lot 5 Kirkwood Meadows Drive,
4 Kirkwood, California (loan B608).

5 8. In fact, Vaughn and CFI used two hundred and twenty-five thousand dollars (\$225,000) of the
6 investor's money to pay off other investors, almost immediately after receiving the investor's money.

7 9. Vaughn did not disclose to the investor that his money would be used to pay off other
8 investors, and Vaughn misstated verbally and in written offering documents that all of the investor's
9 money would be used toward the development of Unit 5 in Kirkwood (loan B608).

10 10. CFI and Vaughn's use of the investor's money failed to conform with material representations
11 made to the Department in CFI's application for qualification of the offer.

12 Based on the foregoing findings, the California Corporations Commissioner is of the opinion
13 that the fractionalized interests in promissory notes offered and sold by Country Financial, Inc. and
14 Donald K. Vaughn are securities subject to qualification under the California Corporate Securities
15 Law of 1968 (California Corporations Code Section 25000 et seq.) ("CSL"), and are being or have
16 been offered or sold in a manner that differs materially from the representations made in the
17 application for qualification with the Department, in violation of Section 25110 of the CSL.

18 The California Corporations Commissioner is of the further opinion that securities were
19 offered in this state by means of written or oral communications that included untrue statements of
20 material facts and/or omitted to state material facts necessary in order to make the statements made,
21 in the light of the circumstances under which they were made, not misleading, in violation of section
22 25401 of the CSL.

23 Pursuant to Section 25532 of the California Corporations Code, Country Financial, Inc. and
24 Donald K. Vaughn are hereby ordered to desist and refrain from offering or selling any security in the
25 State of California, including, but not limited to fractionalized interests in promissory notes, unless
26 pursuant to an exemption or a qualification received under the CSL, and only in a manner that
27 conforms to that qualification or exemption. In addition, Country Financial, Inc. and Donald K.
28 Vaughn are hereby ordered to desist and refrain from offering or selling any security in the State of

1 California, including, but not limited to fractionalized interests in promissory notes, by means of any
2 written or oral communication which includes an untrue statement of a material fact or omits to state
3 a material fact necessary in order to make the statements made, in light of the circumstances under
4 which they were made, not misleading.

5 This Order is necessary, in the public interest, for the protection of investors and consistent
6 with the purposes, policies, and provisions of the California Corporations Code.

7 Dated: October 25, 2011
8 Los Angeles, California

9 PRESTON DuFAUCHARD
10 California Corporations Commissioner

11 By _____
12 ALAN S. WEINGER
13 Deputy Commissioner
14 Enforcement Division
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