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**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**

**HANS WAYNE SCHNAUBER, an  
individual; KATHY CHARLEE, an  
individual; and HORACE T.  
JOHNSON, an individual,**

**Respondents.**

**S-05-0056**

**ORDER TO CEASE AND DESIST  
AND ASSESSING CIVIL PENALTY;  
CONSENT TO ENTRY OF ORDER  
AGAINST KATHY CHARLEE**

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**WHEREAS** the Director of the State of Oregon, Department of Consumer and Business Services ("the Director") has conducted an investigation of certain business activities conducted by Kathy Charlee and has concluded that she has violated provisions of the Oregon Securities Law, ORS 59.005 to 59.451, and 59.991; and

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**WHEREAS** Kathy Charlee wishes to resolve and settle this matter with the Director;

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**NOW THEREFORE**, as evidenced by the authorized signatures subscribed on this Order, Kathy Charlee 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.

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**FINDINGS OF FACT**

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The Director **FINDS** that:

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1. Zipee Corporation ("Zipee" or "Zipee corporation") is a Washington corporation that incorporated on August 29, 1997. The corporation's Washington license expired on August 31, 2000. Zipee was registered in Oregon on December 14, 1999

**PAGE 1 – ORDER TO CEASE AND DESIST AND ASSESSING CIVIL PENALTY; CONSENT TO ENTRY OF ORDER AGAINST KATHY CHARLEE, S-05-0056**





1 and was administratively revoked on February 5, 2001.

2 2. Zipee.com, Inc. was an Oregon corporation incorporated on August 2,  
3 1999 and involuntarily dissolved on August 3, 2000. The corporation had offices located  
4 at 2575 SW 153<sup>rd</sup> Drive, Beaverton, Oregon 97006.

5 3. By information and belief, the International Federation of Butterfly  
6 Enthusiasts, Inc. ("IFBE") was a Washington corporation formed in August 1997. The  
7 name IFBE is believed to be the former name of Zipee Corporation.

8 4. Hans Wayne Schnauber (hereinafter "Schnauber"), age 46, is an  
9 individual residing in Washington and whose current address is 11511 Fellowship Lane  
10 NW, Olympia, Washington 98502.

11 5. Kathy Charlee ("Charlee"), age 51, is an individual residing in Washington  
12 and whose last known mailing address was Post Office Box 780, Packwood  
13 Washington 98361.

14 6. Horace T. Johnson ("Johnson"), age 70, is an individual residing in  
15 Portland, Oregon and whose last known address is 3837 NE Liberty Terrace, Portland,  
16 Oregon 97211.

17 7. In a Business Plan created by Zipee dated November 1999, Schnauber is  
18 described as the "Founder, Chairman [and] Chief Scientist" of Zipee. The Business Plan  
19 also lists Schnauber as the owner of 25,600,000 voting shares of Zipee stock,  
20 approximately two-thirds of all the stock issued.

21 8. On March 30, 1999, attorney Jon R. Summers ("Summers") of the  
22 Portland, Oregon law firm Dunn, Carney, Allen Higgins & Tongue wrote a letter to  
23 Schnauber and IFBE. The letter was intended as "an update regarding our investigation  
24 and assessment of the securities law implications associated with the sale of the  
25 securities and licenses by [IFBE]." Summers concluded that from early 1998 to March  
26 30, 1999, IFBE sold 2,100 licenses to approximately 500 persons, the majority of whom



1 were Oregon or Washington residents. Licenses were sold for \$495 per license. IFBE  
2 sold approximately \$1,047,500 of licenses to approximately 500 persons. IFBE allowed  
3 persons visiting their primary Internet website, zipee.com, to access information about  
4 licenses and to apply to purchase a license. The licenses, which were sold in Series A,  
5 B and C, entitled the purchaser to receive a percentage share of the gross revenue  
6 received by IFBE, usually between three percent (3%) and eighteen percent (18%).

7       A.     Series A Licenses: In his letter, Summers concluded that approximately  
8 214 Series A licenses were sold to 74 individuals, mostly Oregon and Washington  
9 residents, raising approximately \$105,000 for IFBE. For the license fee, the Series A  
10 licensee received the right to open a website using IFBE's advertisers jump-sites (the  
11 "web wheel"), the right to share in three percent (3%) of the gross revenue received  
12 from the Info-Tip Network, and the right to an equal share of the monies collected from  
13 advertising revenue based on the number of "Affiliate Licensees." The Series A license  
14 also stated that a joint venture was created between IFBE and the licensee. IFBE paid  
15 some monies back to licensees based upon the licensee's right to share in revenue,  
16 however because IFBE's records are incomplete and inaccurate, Summers could not  
17 make an accurate estimate of the total amount paid.

18       B.     Series B Licenses: In his letter, Summers concluded that approximately  
19 398 Series B licenses were sold by IFBE to 148 licensees, primarily in Oregon and  
20 Washington, raising approximately \$200,000 for IFBE. Some of these licensees also  
21 purchased Series A licenses. The Series B license was similar to the Series A license,  
22 however, it did not refer to "joint venture" and it allowed the licensee to share in  
23 eighteen percent of the gross revenue from the Info-TV Network. The exact dates of the  
24 sales of the Series B licenses is not known, and Summers did not know the extent to  
25 which revenue sharing monies were paid to licensees.

26       C.     Series C Licenses: In his letter, Summers concluded that approximately



1 1,500 Series C licenses were sold to 310 licensees raising approximately \$742,500 for  
2 IFBE. Some of the Series C licensees also purchased Series A and/or Series B  
3 licenses. Summers was not provided with a detailed list of licensees, however,  
4 Schnauber informed Summers that the majority of licensees were from Oregon and  
5 Washington. The Series C license was similar to the Series B license; however, it  
6 allowed participants to share in .00012 percent of revenue generated from the services  
7 sold over the IFBE network. As with the other licenses, Summers was unable to  
8 generate an exact list of Series C licenses sold and he did not know the extent to which  
9 revenue sharing monies were paid to licensees.

10 9. Summers also concluded that prior to March 30, 1999, IFBE sold  
11 \$695,000 of voting and nonvoting common stock to 29 individuals, 12 of whom paid no  
12 consideration. The majority of the purchasers were from Oregon (15 purchasers), but  
13 sales were also made to purchasers in Washington (11), New Jersey, Florida and  
14 Missouri. Summers did not know the dates of the sales and Schnauber did not provide  
15 him with any stock subscription agreements or disclosure documents.

16 10. In his letter, Summers noted that he was not provided all of the documents  
17 he requested from Schnauber and IFBE, but he concluded "that additional  
18 documentation will not materially change our initial conclusions." Summers opined that  
19 the licenses are a type of investment contract and therefore are considered securities  
20 under Oregon law. Summers noted that the licenses and stock were not registered as  
21 securities for sale in Oregon and that therefore those sales were unlawful. Summers  
22 also noted that Schnauber and IFBE's failure to disclose relevant, material information  
23 regarding the offerings violates the anti-fraud provisions of the securities law. IFBE and  
24 Schnauber were cautioned not to "sell any securities (stock or licenses of any kind) until  
25 the contingent liability of the licensees' rescission rights are addressed and steps are  
26 taken to comply with the securities laws."



1 11. According to its Private Placement Memorandum dated October 19, 1999,  
2 Zipee sold approximately 2,100 "licenses" to approximately 500 persons for the sum of  
3 approximately \$1,050,000 from early 1998 to February 1999. This sum is considerably  
4 less than the \$1,787,500 previously calculated by Summers. The Private Placement  
5 Memorandum went on to note that these licenses "may" constitute securities, and if so,  
6 their sale violated registration requirements. The Memorandum provides that Zipee  
7 "considered" conducting a rescission offer to address any potential law violations. Zipee  
8 never made a rescission offer.

9 12. Schnauber filed for personal bankruptcy protection in late 1997 or early  
10 1998. On February 25, 1998, Schnauber was granted a Chapter 7 bankruptcy  
11 discharge. Schnauber did not disclose his bankruptcy to any investors or prospective  
12 investors. The fact of his bankruptcy discharge is not discussed or disclosed in the  
13 October 19, 1999 Private Placement Memorandum or in the November 1999 Business  
14 Plan. The personal bankruptcy discharge of Zipee's "Founder, Chairman [and] Chief  
15 Scientist" is material to any investor's decision whether to invest in the company and the  
16 failure of Schnauber to disclose it was misleading.

17 13. After receipt of the letter from Summers, IFBE, Zipee and Schnauber sold  
18 additional licenses and shares of Zipee stock to Oregon residents. The exact number of  
19 sales is unknown.

20 14. Schnauber told prospective investors that Zipee was going to make an  
21 initial public offering ("IPO") in late 1999. In early 2000, investors were told that  
22 additional funds were needed to fund the IPO. Zipee never made an IPO. Investor funds  
23 were diverted to pay various claims that Schnauber held against Zipee, a fact that was  
24 never disclosed to investors.

25 15. Schnauber told Investors that Zipee owned over 2000 Internet domain  
26 names and that if the IPO was unsuccessful, the domain names would be sold to return



1 funds to the investors. In fact, Schnauber owned the domain names and investor funds  
2 went toward paying him for the names. In actuality, the majority of the domain names  
3 registered by Schnauber were those of well-known public companies or Internet  
4 addresses altered to use other domain extensions, usually ".org". Schnauber registered  
5 such names as timewarner.org, r.j.reynolds.org, espn.org, newyorkstockexchange.org  
6 and smithbarney.org. This practice is commonly referred to as domain name piracy or  
7 "cybersquatting." Schnauber represented to investors that these names could be sold to  
8 the rightful owners for a profit. These registrations, rather than being assets for Zipee,  
9 invited litigation from the rightful owners of the trademarked name, a fact that  
10 Schnauber knew or should have known.

11 16. In or about July 1999, Charles and Stephanie Allen ("Allens") of Lake  
12 Oswego, Oregon invested \$20,000 in Zipee. They were told that this was a passive  
13 investment with no participation required on their part. They were told the money was to  
14 be used for website development, product development, and the launching of the IPO in  
15 October 1999. The Allens were told that they had invested in licenses at fifty cents  
16 (\$0.50) per share and that those licenses would be converted into certified shares when  
17 the company went public. In August 1999, the Allens were solicited again and invested  
18 another \$10,000. In February 2000, the Allens were asked again to invest another  
19 \$10,000 because Zipee needed additional funds to complete the product and launch the  
20 IPO. The Allens subsequently learned that Zipee had no product and or IPO prepared.  
21 The Allens never received any return on their investment.

22 17. On or about October 21, 1999, Bruce Ament ("Ament") of West Linn, met  
23 with Schnauber who gave Ament a demonstration of the Zipee search engine.  
24 Schnauber also told Ament that Zipee owed over 2000 Internet domain names that would  
25 drive traffic to Zipee sites. He was told that his investment would be used to pay office  
26 rent and other office costs. He was told his investment would be a passive investment



1 and would eliminate the need for future financing until the IPO. Ament invested  
2 \$100,000 in Zipee. He was promised a substantial return on his investment and he was  
3 told that his investment was guaranteed because even if the IPO was unsuccessful the  
4 company could sell the Internet domain names they held to return investors' principal.  
5 Ament later learned that the domain names were not owed by Zipee, but by Schnauber  
6 personally. Ament never received any return on his investment.

7 18. In 1999, Craig Dewey ("Dewey") of Lake Oswego, Oregon invested  
8 \$10,000 in Zipee. He was told that his investment was a passive investment and that his  
9 funds would be used to create a key word Internet search engine and that Schnauber  
10 had secured key words and key names that would generate millions of user hits. Dewey  
11 was told that he would receive a return of ten percent (10%) or more annually on his  
12 investment. Dewey never received any return on his investment.

13 19. In 1999, Richard and Florence Hill ("the Hills") of Beaverton, Oregon  
14 invested \$5,000 in Zipee. They were not provided any disclosure documents but were  
15 told they would receive a high rate of return on their investment. They understood this  
16 was a passive investment. To date, they have received no return on their investment.

17 20. In or about February 2000, Amy C. Hawes and Massoud Mollaghaffari of  
18 Tigard, Oregon invested \$20,000 in Zipee. They understood this was a passive  
19 investment to assist the company in the move to public status. To date, they have not  
20 received any return on their investment.

21 21. In 1999, Carol Louise Rance of Portland, Oregon invested \$45,000 in  
22 Zipee. She believed she was "getting in on the ground floor" of a passive investment  
23 opportunity. She was told that she could expect a ten percent (10%) or higher return on  
24 her investment. To date, she has not received any returns on her investment.

25 22. In or about November 1999, Linda Rance of Portland, Oregon invested  
26 \$50,000 in Zipee. She understood her investment was passive and that her funds were

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1 to be used for operations of an Internet business that held "proprietary knowledge." She  
2 was never provided a prospectus or any disclosure materials. To date, she has not  
3 received any return on her investment.

4 23. In or about February 2000, Craig Allen Schwartz of Portland, Oregon  
5 invested \$10,000 in Zipee. He understood that his investment was passive and that his  
6 funds would be used by the company to fund an IPO. To date, he has not received any  
7 return on his investment.

8 24. In or about August 1998, Tom Souther ("Souther") of St. Helens, Oregon  
9 invested \$495 in IFBE. He understood that his investment was a passive one and that  
10 he owned "licenses" issued by IFBE. Souther understood that at some point the  
11 licenses would be converted to stock in the company. He received approximately \$60 in  
12 returns by the end of 1999. At that point Souther received letters from Schnauber  
13 informing him that IFBE was now called Zipee and that the business was high risk. The  
14 letters also suggested that Souther should sell his licenses back to Zipee. Souther  
15 attended a meeting of license holders at which the licensees were told that their  
16 licenses had "expired" and they would not be converted to shares in the company.  
17 Souther has not received any additional returns on his investment.

18 25. Respondent Kathy Charlee is a vice-president of Zipee and one of the  
19 corporate officers with signatory authority on the corporation's bank account at Stirling  
20 Savings Association. In the November 1999 Business Plan, Charlee is listed as the  
21 owner of 400,000 voting shares of Zipee stock. She was closely involved in the day-to-  
22 day business operations of IFBE and Zipee. She signed Souther's IFBE investment  
23 certificate as Vice-President and she signed correspondence with investors as Vice-  
24 President of IFBE. She prepared the IFBE Executive Summary for the Easy-Search  
25 Global Information Network, an Internet search engine that was placed under the  
26 banner of IFBE. She was the author of an undated letter sent to IFBE affiliates informing

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1 them, *inter alia*, that "as of January 18, 1999 there will be no shared revenue distributed  
2 on affiliate licenses until the new marketing program goes online."

3 26. Respondent Horace T. Johnson was listed in the Oregon corporations  
4 filing as Zipee's secretary and is one of the corporate officers with signatory authority on  
5 the corporation's bank account at Stirling Savings Association. In the November 1999  
6 Business Plan issued by the corporation, Johnson is listed as the owner of 1,200,000  
7 voting shares of Zipee stock. Johnson was aware of, and involved in, the sale of  
8 unregistered stock as evidenced by his signature on at least three stock certificates.

9 27. At least 248 Oregon residents purchased Zipee or IFBE stock or licenses  
10 totaling as much as \$1,442,430 in sales. A list of these purchasers is attached to this  
11 Order as Exhibit A. Charlee aided and abetted in these sales.

12 28. The IFBE and Zipee licenses and stock sold by Schnauber, Charlee and  
13 Johnson were not registered with the Director for sale in Oregon.

14 29. Schnauber, Charlee and Johnson were not licensed by the Director to sell  
15 securities in Oregon.

### 16 CONCLUSIONS OF LAW

17 The Director **CONCLUDES** that:

18 30. The licenses and stock in IFBE and Zipee constitute securities as defined  
19 in ORS 59.015.

20 31. Charlee aided and abetted in the sale of unregistered securities in  
21 violation of ORS 59.055.

22 32. Charlee aided and abetted in the unlicensed sale of securities in violation  
23 of ORS 59.165.

### 24 ORDER

25 The Director, pursuant to ORS 59.245, hereby **ORDERS** that Respondent Kathy  
26 Charlee and any successor business entity owned, operated or under the control of

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1 Respondent Kathy Charlee shall **CEASE and DESIST** from:

2 33. Selling securities without a license in violation of Oregon Securities Laws;

3 34. Selling unregistered securities in the State of Oregon in violation of

4 Oregon Securities Laws; and

5 35. Violating any provision of the Oregon Securities Laws, including ORS

6 Chapter 59 and OAR Chapter 441.

7 The Director, pursuant to ORS 59.995, **HEREBY ORDERS** assessment of the

8 following **CIVIL PENALTY**:

9 36. Respondent Kathy Charlee, and any successor business entity owned,  
10 operated or under the control of Kathy Charlee, shall be denied the use of any securities

11 licensing or registration exemptions contained in the Oregon Securities Laws, including

12 ORS Chapter 59 and OAR Chapter 441.

13 37. Respondent Kathy Charlee shall pay **CIVIL PENALTIES** in the following  
14 amounts:

15 A. \$10,000.00 (ten thousand dollars) for violations of ORS 59.055 (sale of  
16 unregistered securities); and

17 B. \$10,000 (ten thousand dollars) for violations of ORS 59.165 (sale of  
18 securities by unlicensed person), for a total **CIVIL PENALTY ASSESSED** against  
19 Respondent Kathy Charlee in the amount of \$20,000 (twenty thousand dollars).

20 38. The Director assesses a civil penalty of \$2,500 (two thousand five

21 hundred dollars) against Respondent Kathy Charlee, and **SUSPENDS** the remaining  
22 \$17,500 (seventeen thousand five hundred dollars), **PROVIDED HOWEVER** that if in

23 the three-year period from the date of the Order; Respondent Kathy Charlee violates

24 any provision of this Order, the Oregon Securities Law, ORS Chapter 59, OAR Chapter

25 441, or any rule, order, or policy issued by the Division, the suspended portion of the

26 assessed civil penalties will become immediately due and payable. If Respondent Kathy

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1 Charlee does not violate this Order or commit any violations of the aforementioned laws  
2 and rules within three years from the date of the Order, the suspended portion of the  
3 civil penalty is waived.

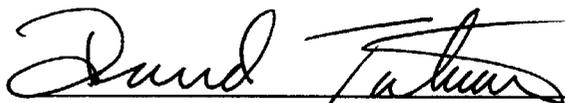
4 39. Respondent Kathy Charlee shall make payments to the Department of  
5 Consumer and Business Services ("Department") of not less than \$100 (one hundred  
6 dollars) per month beginning September 1, 2006. Payments shall be received by the  
7 Department no later than the 10<sup>th</sup> calendar day of each month. All monthly payments  
8 shall be paid to the Department by September 10, 2008. Payments shall be made by  
9 check or money order paid to the order of the Department and mailed to: Fiscal  
10 Services Section, DCBS, PO Box 14610, Salem OR 97309-0445. The case number of  
11 this proceeding shall be noted on the check or money order.

12 40. If Respondent Kathy Charlee fails to comply with the terms of this Order,  
13 the entire assessed civil penalty in the amount of \$20,000 (twenty thousand dollars),  
14 plus interest at the statutory interest rate of nine percent (9%) simple per annum from  
15 the date of default, will become immediately due and payable.

16 41. The entry of this Order in no way limits further remedies that may be  
17 available to the Director under Oregon law for other violations of law or to enforce this  
18 Order.

19 Dated this 1<sup>st</sup> day of November, 2006 at Salem, Oregon.

20 CORY STREISINGER, Director  
21 Department of Consumer and Business Services

22   
23 David C. Tatman, Administrator  
24 Division of Finance and Corporate Securities

25 APPROVED AS TO FORM:

26 \_\_\_\_\_  
Attorney for Respondent

Dated: \_\_\_\_\_

1 **CONSENT TO ENTRY OF ORDER**

2 I, Kathy Charlee, state that I am a resident of the State of Washington, that I  
3 have read the foregoing Order and that I know and fully understand the contents hereof;  
4 that I make no admission of liability with respect to the Findings of Fact in the foregoing  
5 Order; that I execute this consent in settlement of the matter referred to in the Order;  
6 that I have been advised of my right to a hearing, and that I have been represented by  
7 counsel in this matter; that I voluntarily consent to the entry of this Order without any  
8 force or duress, expressly waiving any right to a hearing in this matter; that I understand  
9 that the Director reserves the right to take further actions against me to enforce this  
10 Order or to take appropriate action upon discovery of other violations of the Oregon  
11 Securities Law by me; and that I will fully comply with the terms and conditions stated  
12 herein.

11 I further assure the Director that I will not engage in the activities of a  
12 broker-dealer, broker-dealer salesperson, or investment adviser unless such activities  
13 are in full compliance with Chapter 59 of the Oregon Revised Statutes and Chapter 441  
14 of the Oregon Administrative Rules.

14 I understand that this Order is a public document.

15 Dated this 28 day of August, 2006.

16 [Signature]  
17 Kathy Charlee

18  
19 SUBSCRIBED AND SWORN to before me this 28<sup>th</sup> day of August, 2006.

20 [Signature]  
21 Notary Public

22 Notary Public for the State of Washington

23 My commission expires: July 29, 2007



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