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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**

**In the Matter of**

**S-05-0056**

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

**ORDER TO CEASE AND DESIST,  
ORDER ASSESSING CIVIL PENALTY  
AND CONSENT TO ENTRY OF  
ORDER AGAINST HANS WAYNE  
SCHNAUBER**

**Respondents.**

**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 Hans Wayne Schnauber and has concluded that he has violated provisions of the Oregon Securities Law, ORS 59.005 to 59.451, and 59.991; and

**WHEREAS** Hans Wayne Schnauber wishes to resolve and settle this matter with the Director;

**NOW THEREFORE**, as evidenced by the authorized signatures subscribed on this Order, Hans Wayne Schnauber 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**

The Director **FINDS** that:

1. International Federation of Butterfly Enthusiasts, Inc ("IFBE") is a Washington corporation that incorporated on August 29, 1997. The corporation's business license expired on August 31, 2000.

2. Hans Wayne Schnauber (hereinafter "Schnauber"), age 46, founder of the IFBE,

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CONSENT TO ENTRY OF ORDER AGAINST HANS WAYNE SCHNAUBER, S-05-0056**





1 is an individual residing in the state of Washington.

2 3. Kathy Charlee (“Charlee”), age 51, is an individual residing in Washington State.

3 4. Horace T. Johnson (“Johnson”), age 70, is an individual residing in Portland,  
4 Oregon.

5 5. In or about July 1998, Schnauber retained the Portland Oregon law firm of Dunn,  
6 Carney, Allen Higgins & Tongue to represent the IFBE to insure that it operated in full legal  
7 compliance with all applicable Federal and State law. On March 30, 1999, attorney Jon R.  
8 Summers (“Summers”) of Dunn, Carney, Allen Higgins & Tongue, wrote a letter to Schnauber  
9 and the IFBE through attorney and IFBE legal representative Jay Fountain of Portland, Oregon.  
10 The letter was intended as “an update regarding our investigation and assessment of the possible  
11 securities law implications associated with the sale of the licenses by IFBE.” Summers correctly  
12 concluded that from early 1998 to March 30, 1999, IFBE sold 2112 affiliate licenses at a cost of  
13 \$495/affiliate license to approximately 500 individuals and/or businesses, most of which were  
14 located in Oregon or Washington. Licenses were sold for \$495 per affiliate license and license  
15 sales totaled approximately \$1,045,440.00. IFBE allowed persons visiting the company’s  
16 primary Internet website, IFBE.org, to access information about affiliate licenses and to apply to  
17 purchase an affiliate license. The licenses, which were classified by IFBE as “A”, “B” and “C”,  
18 entitled the purchaser to receive a percentage share of the gross revenue received through IFBE’s  
19 marketing program, usually between three percent (3%) and eighteen percent (18%).

20 A. Series A Affiliate Licenses: In his letter, Summers concluded that approximately  
21 214 Series A affiliate licenses were sold to 74 individuals, mostly Oregon and Washington  
22 residents, earning approximately \$105,930.00 for IFBE. For the license fee, the Series A licensee  
23 received the right to open a website and utilize IFBE’s web portal (the “web wheel”), with the  
24 opportunity to share in three percent (3%) of the gross revenue received from the IFBE affiliate  
25 marketing program, and the right to an equal share of the monies collected from advertising  
26 revenue based on the number of “Affiliates” within the marketing program. Licensees within this



1 group received most of their money back based upon the licensee's right to earn commissions  
2 within the marketing program, however, Summers could not make an accurate estimate of the  
3 total amount paid.

4 B. Series B Affiliate Licenses: In his letter, Summers concluded that approximately  
5 398 Series B affiliate licenses were sold by IFBE to 148 licensees, primarily in Oregon and  
6 Washington, earning approximately \$197,000.00 for IFBE. Some of these licensees also  
7 purchased Series A licenses. The Series B license was similar to the Series A license, however, it  
8 did not refer to "joint venture" and it allowed the licensee to share in eighteen percent of the  
9 gross revenue from the IFBE affiliate marketing program. The exact dates of the sales of the  
10 Series B licenses is not known, and Summers did not know the extent to which revenue sharing  
11 monies were paid to licensees.

12 C. Series C Affiliate Licenses: In his letter, Summers concluded that approximately  
13 1,500 Series C affiliate licenses were sold to 310 licensees earning approximately \$742,500 for  
14 IFBE. Some of the Series C licensees also purchased Series A and/or Series B licenses. Summers  
15 was not provided with a detailed list of licensees, however, Schnauber informed Summers that  
16 the majority of licensees were from Oregon and Washington. The Series C license was similar to  
17 the Series B license; however, it allowed participants to share in .00012 percent of revenue  
18 generated from the services sold over the IFBE network. As with the other licenses, Summers  
19 stated he was unable to generate an exact list of Series C licenses sold and he did not know the  
20 extent to which revenue sharing monies were paid to licensees.

21 6. Summers also concluded that prior to March 30, 1999, IFBE sold \$695,000 of  
22 voting and nonvoting common stock to 29 individuals, 12 of whom paid no monetary  
23 consideration. The majority of the purchasers were from Oregon (15 purchasers), but sales were  
24 also made to purchasers in Washington (11), New Jersey, Florida and Missouri.

25 7. In his letter, Summers noted that he did not receive all of the documents requested  
26 from Schnauber and IFBE, but he concluded "that additional documentation will not materially



1 change our initial conclusions.” Summers opined that the licenses were a type of investment  
2 contract and therefore were considered securities under Oregon law. Summers noted that the  
3 licenses were not registered as securities for sale in Oregon and that therefore those sales may be  
4 unlawful. IFBE and Schnauber were cautioned not to “sell any securities (stock or licenses of  
5 any kind) until the contingent liability of the affiliate licensees’ rescission rights are addressed  
6 and steps are taken to comply with Oregon securities laws”, which was complied with by  
7 Schnauber.

8 8. In or about August 1998, Tom Souther (“Souther”) of St. Helens, Oregon  
9 purchased from Brian Richards of Scappoose, Oregon an IFBE affiliate license in the amount of  
10 \$495. He understood from Brian Richards that his purchase was a passive investment and that he  
11 owned a “license” issued by IFBE. He subsequently received approximately \$60 in sales  
12 commissions (“returns”) by the end of 1999. It has yet to be determined if Souther has received  
13 any additional returns on his purchase of an IFBE affiliate license.

14 9. At least 193 Oregon residents purchased IFBE affiliate licenses totaling as much  
15 as \$417,780 in documented sales. A list of these purchasers is attached to this Order as Exhibit  
16 A. Schnauber directly or indirectly sold stock and licenses to Oregon residents or aided and  
17 abetted in their sale without a broker-dealers license.

18 10. The IFBE stock and affiliate licenses sold by IFBE and Schnauber were not  
19 registered with the Director for sale in Oregon.

20 11. Schnauber was not licensed by the Director to sell securities in Oregon.

## 21 CONCLUSIONS OF LAW

22 The Director **CONCLUDES** that:

23 12. Schnauber directly or indirectly sold or aided and abetted in the sale of  
24 unregistered securities in violation of ORS 59.055.

25 13. Schnauber directly or indirectly sold or aided and abetted in the unlicensed sale of  
26 securities in violation of ORS 59.165.

Division of Finance and Corporate Securities  
Labor and Industries Building  
350 Winter Street NE, Suite 410  
Salem, OR 97301-3881  
Telephone: (503) 378-4387



**ORDER**

The Director, pursuant to ORS 59.245, hereby **ORDERS** that Respondent Hans Wayne Schnauber, and any successor business entity owned, operated or under the control of Respondent Hans Wayne Schnauber, shall **CEASE and DESIST** from:

- 14. Selling securities without a license in violation of Oregon Securities Laws;
- 15. Selling unregistered securities in the State of Oregon in violation of Oregon Securities Laws; and
- 16. Violating any provision of the Oregon Securities Laws, including ORS Chapter 59 and OAR Chapter 441.

The Director, pursuant to ORS 59.995, **HEREBY ORDERS** assessment of the following **CIVIL PENALTIES:**

17. Respondent Hans Wayne Schnauber, and any successor business entity owned, operated or under the control of Respondent Hans Wayne Schnauber, shall be denied the use of any registration exemptions contained in the Oregon Securities Laws, including ORS Chapter 59 and OAR Chapter 441.

18. Respondent Hans Wayne Schnauber shall pay **CIVIL PENALTIES** in the following amounts, due upon execution of this Order:

- A. \$214,100.00 (two hundred fourteen thousand, one hundred dollars) for 2141 violations of ORS 59.055 (sale of unregistered securities), and
- B. \$5,000.00 (five thousand dollars) for violation of ORS 59.165 (sale of securities by unlicensed person), for a **TOTAL CIVIL PENALTY ASSESSED** against Respondent Hans Wayne Schnauber in the amount of \$219,100.00 (two hundred nineteen thousand, one hundred dollars).

19. The Director assesses a civil penalty of \$3,500.00 (three thousand five hundred dollars) against Respondent Hans Wayne Schnauber for violations of ORS 59.165, and **SUSPENDS** the remaining \$215,600.00 (two hundred fifteen thousand, six hundred dollars)

Division of Finance and Corporate Securities  
Labor and Industries Building  
340 Winter Street NE, Suite 410  
Salem, OR 97301-3881  
Telephone: (503) 378-4387



1 **PROVIDED HOWEVER** that if during the three-year period from the date of the Order,  
2 Respondent Hans Wayne Schnauber violates any provision of this Order, the Oregon Securities  
3 Law, ORS Chapter 59, OAR Chapter 441, or any rule, order, or policy issued by the Division,  
4 the suspended portion of the assessed civil penalties will become immediately due and payable.  
5 If Respondent Hans Wayne Schnauber does not violate this Order or commit any violations of  
6 the aforementioned laws and rules within three years from the date of the Order, the suspended  
7 portion of the civil penalty is waived.

8       20. Schnauber shall make payments of a minimum of \$100 (one hundred dollars) per  
9 month until the entire assessed penalty is paid. The first payment is due no later than September  
10 10, 2006. Payments shall be received by the Department of Consumer and Business Services no  
11 later than the tenth calendar day of each month. Payments shall be made by check or money  
12 order paid to the order of the Department of Consumer and Business Services and mailed to:  
13 "Fiscal Services Section, DCBS, PO Box 14610, Salem OR 97309-0445." Each check or money  
14 order shall bear the following identification: "DFCS # S-05-0056—62120/0500." Schnauber  
15 may pay off the balance of the assessed penalty at any time.

16       21. If Respondent Schnauber fails to comply with the terms of this Order, the entire  
17 suspended civil penalty in the amount of \$215,600.00 (two hundred fifteen thousand, six hundred  
18 dollars), plus interest at the statutory interest rate of nine percent (9%) simple per annum from  
19 the date of default, will become immediately due and payable.

20       22. The entry of this Order in no way limits further remedies that may be available to  
21 the Director under Oregon law for future violations of law or to enforce this Order.

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

23 CORY STREISINGER, Director  
24 Department of Consumer and Business Services

25   
26 David C. Tatman, Administrator  
Division of Finance and Corporate Securities

Division of Finance and Corporate Securities  
Levy and Associates Building  
350 W. Washington, Suite 410  
Salem, OR 97301-3888  
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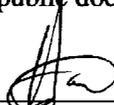


1 **CONSENT TO ENTRY OF ORDER**

2 I, Hans Wayne Schnauber, 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; that I  
4 make no admission of liability with respect to the Findings of Fact in the foregoing Order; that I  
5 execute this consent in settlement of the matter referred to in the Order; that I have been advised  
6 of my right to a hearing, and that I have represented myself in this matter; that I voluntarily  
7 consent to the entry of this Order without any force or duress, expressly waiving any right to a  
8 hearing in this matter; that I understand that the Director reserves the right to take further actions  
9 against me to enforce this Order or to take appropriate action upon discovery of any future  
10 violations of the Oregon Securities Law by me; and that I will fully comply with the terms and  
11 conditions stated herein.

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

16 I understand that this Order is a public document.

17   
18 \_\_\_\_\_  
19 Hans Wayne Schnauber

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

21   
22 \_\_\_\_\_  
23 Notary Public

24 Notary Public for the State of Washington

25 My commission expires: 07/28/2009

