Division of Securities
Utah Department of Commerce
160 East 300 South
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Salt Lake City, UT 84114-6760
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF: **AMERICAN-DAIRY.COM, INC.** **ALAPATI PAUL SCHWENKE** **JAMIS MELWOOD JOHNSON** **Respondents.**	**ORDER TO SHOW CAUSE** **Docket no.** SD-06-0010 **Docket no.** SD-06-0011 **Docket no.** SD-06-0012

It appears to the Director of the Utah Division of Securities (Director) that American-Dairy.com, Inc., Alapati Paul Schwenke and Jamis Melwood Johnson (collectively Respondents) may have engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered in the course of the Utah Division of Securities' (Division) investigation of this matter, the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

STATEMENT OF JURISDICTION

1. Jurisdiction over the Respondents is appropriate in this matter because the Division alleges that the Respondents violated §§ 61-1-1 (Securities Fraud), 61-1-3 (Sale by Unlicensed Agent / Employing an Unlicensed Agent), and 61-1-7 (Sale of Unregistered Securities), of the Act while engaged in the offer and sale of securities in Utah.

STATEMENT OF FACTS

THE PARTIES AND ENTITIES

2. American-Dairy.com, Inc. was registered as a Utah corporation on April 12, 2000, and its status was updated to "expired" on October 1, 2001 for failure to file a renewal. American-Dairy's business address was 220 S. 200 E., Suite 110, Salt Lake City, Utah. American-Dairy listed no principals on the Utah Division of Corporations' Internet website.

3. Alapati Paul Schwenke, formerly of Wasatch County, is now an inmate at the Utah State Prison in Draper, Utah. Schwenke held himself out as the president of American-Dairy.

4. Jamis Melwood Johnson is a resident of Salt Lake County, Utah. Johnson held himself out as the CEO of American-Dairy.

GENERAL ALLEGATIONS

5. Utah residents, J.Y. and R.M., operated the Milk-King Dairy (Milk-King) in Delta, Utah. Milk-King was in need of financial assistance and J.Y. was introduced to Alapati Paul

Schwenke (Schwenke), the president of American-Dairy.com, Inc. (American-Dairy), as someone who might have financial solutions for the dairy operation.

6. J.Y. initially met Schwenke in July 2000, in Fillmore, Utah, along with Jamis Melwood Johnson (Johnson), CEO of American-Dairy, and Victor Lawrence, American-Dairy's attorney. At this meeting, Schwenke told J.Y. that he had people lined up to provide financing in the neighborhood of $10 million dollars for Schwenke's new company, American-Dairy, and that Schwenke could refinance Milk-King's existing loans on more favorable terms and get financing to purchase cattle or equipment. Johnson confirmed Schwenke's representations made to J.Y.

7. Schwenke and Johnson also represented to J.Y. that they were practicing attorneys in the State of Utah.

8. Over the following few weeks, J.Y. discussed the opportunity with his father-in-law and co-owner of Milk-King, R.M., and spoke to Schwenke several times over the phone. Schwenke proposed that ownership of Milk-King's real property and equipment, valued at approximately $200,000, be signed over to American-Dairy, and that American-Dairy assume financial responsibility for Milk-King, including the refinancing of its existing obligations. In exchange for signing over Milk-King's assets, J.Y. and R.M. were to receive stock in American-Dairy.

9. On August 9, 2000, the "Stock Purchase / Trade Agreement" (the Agreement) was finalized and executed at American-Dairy's offices in Salt Lake City, Utah. J.Y. and R.M. were present on behalf of Milk-King, and Schwenke and Johnson were present on behalf of American-Dairy. Schwenke and Johnson again represented that millions were available to finance Milk-King's operations, that they would favorably refinance Milk-King's existing debt obligations, and added that shares of American-Dairy stock would go public within 6-24 months and be worth at least $5.00 per share.

10. The Agreement contained a provision allowing J.Y. and R.M. to sell their American-Dairy stock back to American-Dairy and receive in return all of the property transferred to American-Dairy, subject to amounts of debt no higher than that which existed on the date of the Agreement.

11. On or about August 9, 2000, J.Y. and R.M. transferred ownership of Milk-King's real property and equipment to American-Dairy.

12. In exchange for Milk-King's real property and equipment, J.Y. and R.M. were to receive 150,000 and 50,000 shares of American-Dairy, respectively. J.Y. and R.M. signed proxy agreements in favor of Schwenke, and American-Dairy subsequently provided J.Y. and R.M. with share certificates.

13. On October 4, 2000, approximately two months after the Agreement was signed, Schwenke took out a loan for $50,000 with PDN Investments, c/o Paul B. Nance, that

carried an interest rate of 24%. Schwenke secured the loan with Milk-King's real property. On December 22, 2000, PDN Investments filed a Notice of Default with the Millard County recorder's office, indicating that no payments were made on the loan.

14. Proceeds of the $50,000 loan obtained by Schwenke were not used to pay Milk-King's mortgage or other expenses, and Central Bank subsequently foreclosed on Milk-King's real property.

15. J.Y. and R.M. received no value from the American-Dairy stock, and Schwenke and Johnson did not favorably refinance Milk-King's debts or provide financing to equip and operate Milk-King.

16. During the Division's investigation, Johnson admitted that he suffered major losses from a prior business venture with Schwenke called Utah AgriSource, and that Johnson aspired to recoup his losses by assisting Schwenke in the American-Dairy venture.

17. In 1993, Schwenke was disbarred from the practice of law in Utah for misappropriating client funds.

18. In August 1996, the IRS filed a federal tax lien of $452,555 against Schwenke.

19. In March and September of 1998, and again in September 1999, the IRS filed federal tax liens against Johnson, totaling $1,669,728.

20. In August 1999, Johnson was disbarred from the practice of law in Utah for misappropriation of client funds.

21. In 1999, the State of Utah filed eight tax liens against Johnson, for a total of $290,207.

22. In May 2000, a company by the name of MSNTR Investments, Ltd. obtained two default judgments against Schwenke and his former company, Bonneville Investment Group. Together, the default judgments totaled $618,728.

23. In June 2000, Schwenke's former company, Bonneville Investment Group, filed for bankruptcy.

24. On April 4, 2005, the State of Utah filed a criminal action against Schwenke and Johnson, based on the same allegations contained in this Order to Show Cause, alleging that Schwenke and Johnson committed securities fraud in connection with the offer and sale of a security to J.Y. and R.M. The case is currently in litigation.

CAUSES OF ACTION

COUNT I
Securities Fraud under § 61-1-1(2) of the Act
(American-Dairy.com, Inc., Alapati Paul Schwenke & Jamis Melwood Johnson)

25. The Division incorporates and re-alleges paragraphs 1 through 24.

26. The investment opportunity offered and sold by American-Dairy, Schwenke, and Johnson, to J.Y. and R.M., is a security under § 61-1-13 of the Act.

27. In connection with the offer and sale of a security to J.Y. and R.M., American-Dairy, Schwenke, and Johnson, directly or indirectly, made the following false statements:

    a. That Schwenke was a licensed and practicing attorney in the State of Utah, when in fact, Schwenke had been disbarred in 1993 for misappropriation of client funds;

b. That Johnson was a licensed and practicing attorney in the State of Utah, when in fact, Johnson had been disbarred in August 1999 for misappropriation of client funds, but at the time the investment was offered to the victims, the order of disbarment was stayed and pending an appeal (the Supreme Court of Utah subsequently upheld Johnson's disbarment);

c. That American-Dairy stock would be going public within 6-24 months and would be worth at least $5.00 per share at that time, when in fact, Schwenke and Johnson had no reasonable basis on which to make that representation;

d. That American-Dairy would refinance Milk-King's existing debt and provide financing to equip and operate the dairy, when in fact, Schwenke and Johnson had no reasonable basis on which to make those representations given their own financial difficulties; and

e. That Schwenke had people lined up to provide financing in the neighborhood of $10 million dollars for American-Dairy, which in fact, Schwenke had no reasonable basis on which to make that representation.

28. In connection with the offer and sale of a security to J.Y. and R.M., American-Dairy, Schwenke, and Johnson, directly or indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make representations made not misleading:

a. In 1993, Schwenke was disbarred from the practice of law in Utah for misappropriating client funds;

b. In August 1996, the IRS filed a federal tax lien of $452,555 against Schwenke;

c. In March and September of 1998, and again in September 1999, the IRS filed federal tax liens against Johnson, totaling $1,669,728;

d. In August 1999, Johnson was disbarred from the practice of law in Utah for misappropriation of client funds;

e. In 1999, the State of Utah filed eight tax liens against Johnson, for a total of $290,207;

f. In May 2000, a company by the name of MSNTR Investments, Ltd. obtained two default judgments against Schwenke and his former company, Bonneville Investment Group. Together, the default judgments totaled $618,728;

g. In June 2000, Schwenke's former company, Bonneville Investment Group, filed for bankruptcy;

h. Johnson suffered losses in Utah AgriSource, a prior business venture involving Schwenke;

i. The nature of the competition in the dairy industry in Utah;

j. Information regarding American-Dairy's operating history and financial statements;

k. Information regarding all principals of American-Dairy;

l. Information regarding the principals' experience in the Utah dairy industry;

m. Commissions or other compensation payable to Schwenke or Johnson from the transaction;

n. The current capitalization of American-Dairy;

o. The marketability of the investment, i.e. liquidity; and

p. The risk involved in the investment.

29. Based upon the foregoing, American-Dairy.com, Inc., Alapati Paul Schwenke, and Jamis Melwood Johnson willfully violated § 61-1-1(2) of the Act.

COUNT II
Sale of Unregistered Securities under § 61-1-7 of the Act
(American-Dairy.com, Inc., Alapati Paul Schwenke & Jamis Melwood Johnson)

30. The Division incorporates and re-alleges paragraphs 1 through 29.

31. The investment opportunity offered and sold by American-Dairy, Schwenke, and Johnson, to J.Y. and R.M., is a security under § 61-1-13(1)(x)(i)(B) of the Act.

32. The investment opportunity was offered and sold in this state.

33. The investment opportunity offered and sold by American-Dairy, Schwenke, and Johnson, was not registered under the Act, and Respondents have not filed any claim of exemption relating to the investment opportunity.

34. Based on the above information, American-Dairy.com, Inc., Alapati Paul Schwenke, and Jamis Melwood Johnson, willfully violated § 61-1-7 of the Act.

COUNT III
Sale by Unlicensed Agent under § 61-1-3(1) of the Act
(Alapati Paul Schwenke & Jamis Melwood Johnson)

35. The Division incorporates and re-alleges paragraphs 1 through 34.

36. Schwenke and Johnson offered or sold securities in Utah.

37. When offering and selling these securities on behalf of American-Dairy, Schwenke and Johnson were acting as agents of an issuer.

38. Schwenke and Johnson are not now, nor have they ever been, licensed to sell securities in Utah as agents of this issuer or any other issuer.

39. Based on the above information, Alapati Paul Schwenke and Jamis Melwood Johnson, willfully violated § 61-1-3(1) of the Act.

COUNT IV
Employing Unlicensed Agents under § 61-1-3(2)(a) of the Act
(American-Dairy.com, Inc.)

40. The Division incorporates and re-alleges paragraphs 1 through 39.

41. Schwenke and Johnson offered or sold securities in Utah.

42. When offering and selling these securities on behalf of American-Dairy, Schwenke and Johnson were acting as agents of an issuer.

43. Schwenke and Johnson are not now, nor have they ever been, licensed to sell securities in Utah as agents of this issuer or any other issuer.

44. American-Dairy hired unlicensed agents, Schwenke and Johnson, to offer and sell its securities in Utah.

45. Based on the above information, American-Dairy.com, Inc., willfully violated § 61-1-3(2)(a) of the Act.

ORDER

The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondents to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63-46b-4 and 63-46b-6 through -10, and held before the Utah Division of Securities. The hearing will occur on Thursday, April 13, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah. If Respondents fail to file an answer or appear at the hearing, the Division of Securities may hold Respondents in default, and a fine may be imposed in accordance with Utah Code Ann. § 63-46b-11. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, Respondents may show cause, if any they have:

a. Why American-Dairy.com, Inc., Alapati Paul Schwenke and Jamis Melwood Johnson should not be found to have willfully engaged in the violations alleged by the Division in this Order to Show Cause;

b. Why American-Dairy.com, Inc., Alapati Paul Schwenke and Jamis Melwood Johnson should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. §§ 61-1-1, 61-1-3, and 61-1-7, or any other section of the Act;

c. Why American-Dairy.com, Inc. should not be ordered to pay a fine of twenty-five thousand dollars ($25,000) to the Division of Securities;

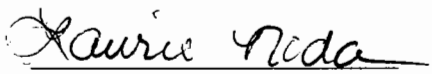
d. Why Alapati Paul Schwenke should not be ordered to pay a fine of ten thousand dollars ($10,000) to the Division of Securities; and

e. Why Jamis Melwood Johnson should not be ordered to pay a fine of ten thousand dollars ($10,000) to the Division of Securities.

DATED this 28th day of February, 2006.

WAYNE KLEIN
Director, Utah Division of Securities

Approved:



LAURIE NODA
Assistant Attorney General

J.K.

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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:	**NOTICE OF AGENCY ACTION**
AMERICAN-DAIRY.COM, INC. **ALAPATI PAUL SCHWENKE** **JAMIS MELWOOD JOHNSON** **Respondents.**	**Docket no.** SD-06-0010 **Docket no.** SD-06-0011 **Docket no.** SD-06-0012

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of the mailing of the Order to Show Cause. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§ 63-46b-3 and 63-46b-6 through 11. The facts on which this action is based are set forth in the foregoing Order to Show Cause.

Within thirty (30) days of the mailing date of this notice, you are required to file a written response with the Division. The response you file may be helpful in clarifying, refining or narrowing the facts and violations alleged in the Order to Show Cause. A hearing date has been set for Thursday, April 13, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah.

If you fail to file a written response, as set forth herein, or fail to appear at the hearing, the Division of Securities may hold you in default, and a fine may be imposed against you in accordance with Utah Code Ann. § 63-46b-11, without the necessity of providing you with any further notice. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, you may appear and be heard and present evidence on your behalf. You may be represented by counsel during these proceedings.

The presiding officer in this case is Wayne Klein, Director, Division of Securities, 160 East 300 South, P.O. Box 146760, Salt Lake City, UT 84114-6760, telephone (801) 530-6600. The Administrative Law Judge will be J. Steven Eklund, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6648.

Your written response should be filed with the Division, attention Pam Radzinski, P.O. Box 146760, Salt Lake City, Utah 84114-6760. A copy also should be mailed to the Division's attorney, Laurie Noda, Assistant Attorney General in the Utah Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City Utah 84114-0872, telephone (801) 366-0310. Questions regarding the Order to Show Cause and Notice of Agency Action should be directed to Laurie Noda.

DATED this 28th day of February, 2006.

Wayne Klein

WAYNE KLEIN
Director, Division of Securities
Utah Department of Commerce

Certificate of Mailing

I certify that on the 1ST day of ~~February~~ MARCH 2006, I mailed, by certified mail, a true and correct copy of the Order to Show Cause and Notice of Agency Action to:

American-Dairy.com, Inc.
220 S. 200 E., Suite 110
Salt Lake City, UT 84111

Certified Mail # 7004 2510 0006 1196 9803

Alapati Paul Schwenke
Inmate # 168672
Utah State Prison
PO Box 250
Draper, UT 84020

Certified Mail # 7004 2510 0006 1196 9810

Jamis Melwood Johnson
1408 Military Way
Salt Lake City, UT 84103

Certified Mail # 7004 2510 0006 1196 9827

PAMELA RADZINSKI
Executive Secretary