

State of Missouri Office of Secretary of State

Case No. AP-10-09

IN THE MATTER OF:

PAUL E. BURKEMPER, CRD #2222925
ILYA VISHNEVETSKY,
I.P. HOLDING, L.L.C., AND
VSR FINANCIAL SERVICES, INC.,
CRD #14503,

Respondents.

CONSENT ORDER AS TO RESPONDENT BURKEMPER

SUMMARY OF ENFORCEMENT SECTION'S ALLEGATIONS

1. The Enforcement Section of the Missouri Securities Division ("Enforcement Section") has alleged that Respondent Paul E. Burkemper ("Burkemper"), sold unregistered securities in violation of Section 409.3-301, RSMo. (Cum. Supp. 2009); omitted to disclose material facts in connection with the offer and sale of securities in violation of Section 409.5-501, RSMo. (Cum. Supp. 2009); and engaged in dishonest or unethical practices in the securities business in violation of Section 409.4-412(d) (13), RSMo. (Cum. Supp. 2009), and that these constitute grounds to discipline Burkemper's registration in Missouri pursuant to Sections 409.4-412(d)(2) and (d) (13), RSMo. (Cum. Supp. 2009) and grounds to issue an order pursuant to Section 409.6-604, RSMo. (Cum. Supp. 2009).
2. Burkemper and the Enforcement Section desire to settle the allegations and the matters raised by the Enforcement Section relating to the Burkemper's alleged violations of the Missouri Securities Act of 2003.

CONSENT TO JURISDICTION

3. Burkemper and the Enforcement Section stipulate and agree that the Commissioner has jurisdiction over Burkemper and these matters pursuant to the Missouri Securities Act of 2003, Chapter 409, *et seq.*
4. Burkemper and the Enforcement Section stipulate and agree that the Commissioner has authority to enter this Order pursuant to Section 409.6-604(h), RSMo. (Cum. Supp. 2009), which provides:

"The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act."

WAIVER AND EXCEPTION

5. Burkemper waives his right to a hearing with respect to this matter.

6. Burkemper waives any right that he may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Burkemper specifically forever releases and holds harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner of Securities, and their respective representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter.
7. Burkemper stipulates and agrees with the Enforcement Section that, should the facts contained herein prove to be false or incomplete, the Enforcement Section reserves the right to pursue any and all legal or administrative remedies at its disposal.

CONSENT TO COMMISSIONER'S ORDER

8. Burkemper and the Enforcement Section stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
9. Burkemper agrees not to take any action or to make or permit to be made any public statement creating the impression that this Order is without factual basis. Nothing in this paragraph affects Burkemper's (a) testimonial obligations; (b) right to take legal or factual position in defense of litigation or in defense of other legal proceedings in which the Commissioner of Securities is not a party; or (c) right to make public statements that are factual.
10. Burkemper agrees that Burkemper is not the prevailing party in this action since the parties have reached a good faith settlement.
11. Burkemper neither admits nor denies the allegations made by the Enforcement Section, but consents to the Commissioner's Findings of Fact, Conclusions of Law, and Order as set forth below solely for the purposes of resolving this proceeding and any proceeding that may be brought to enforce the terms of this Consent Order.

COMMISSIONER'S FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

I. FINDINGS OF FACT

12. Burkemper was a Missouri-registered agent with VSR Financial Services, Inc. ("VSR") from May 2004 to August 2009. Burkemper was a Missouri-registered agent of National Planning Corporation ("NPC") from October 1, 2009, through August 17, 2010. Burkemper was registered in Missouri through the Central Registration Depository System ("CRD") with CRD number 2222925. Burkemper conducted business at 10825 Watson Road Suite 100, St. Louis, Missouri 63127.
13. I.P. Holding, L.L.C. ("IP Holding") is a Missouri Limited Liability Company organized by Burkemper and Ilya Vishnevetsky ("Vishnevetsky") on May 9, 2006, to form "an investment and consulting firm."
14. Vishnevetsky is an individual with a last known address of 411 Westwood Apartment 1, St. Louis, Missouri 63105. Vishnevetsky is not registered through the CRD.
15. VSR is a Missouri-registered broker-dealer with an address of 8620 W 110th Street

200, Overland Park, Kansas 66210-9651. VSR is registered in Missouri through the CRD and has CRD number 14503.

16. From at least April 23, 2008, through approximately July 7, 2008, Burkemper and Vishnevetsky conducted business as Select Auto. Select Auto was not registered as a business entity and is not authorized to transact business in Missouri. Neither Burkemper nor Vishnevetsky has filed a fictitious name registration for Select Auto in Missouri. Burkemper and Vishnevetsky, doing business as Select Auto, purchased automobiles in the United States for resale in Russia.

Investors and Investigation Findings

17. The Enforcement Section investigation revealed that between August 2006 and March 2008, Burkemper, through IP Holding, sold investments in a Russian Vodka Stand Venture (“Vodka Stand Venture”) to at least eleven (11) individuals. These individuals invested a total of one million nine hundred thousand dollars (\$1,900,000) in this venture.
18. In or around October 2006, a resident of California (“CAR1”) and CAR1’s spouse (“CAR2”) invested fifty thousand dollars (\$50,000) with Burkemper in the Vodka Stand Venture.
19. CAR1 and CAR2 told an investigator with the Enforcement Section, among other things, that:
 - a. in or around August 2006, Burkemper talked with CAR1 and CAR2 about an investment in the Vodka Stand Venture. Burkemper told CAR1 and CAR2, among other things, that:
 - i. investors would receive a trip to St. Petersburg, Russia, in late 2006 for investing in the Vodka Stand Venture;
 - ii. they needed to act quickly so they would not miss the opportunity to invest in the Vodka Stand Venture; and
 - iii. “based upon conservative estimates investors will get their money back in 1.3 years and enjoy annualized return on investment of 25%. of coarse these are only projections but i implore you and [CAR1] to get on board. i would hate for you to miss the boat on this one...i really tried to look at this from all angles and I truly believe in this. i wouldn’t advise you to put money into it unless i felt very confident.” (errors in the original);
 - b. prior to this October investment, Burkemper did not provide CAR1 and CAR2, among other things, any of the following written documents relating to the Vodka Stand Venture:
 - i. prospectus;
 - ii. business plan;
 - iii. risk disclosure; or

- iv. statement of financial condition;
- c. prior to this October investment, Burkemper did not disclose, among other things, the following material facts:
 - i. that the securities offered were not registered or exempt;
 - ii. the risks of the investment;
 - iii. the financial condition of the Vodka Stand Venture;
 - iv. that some investor money would be used to purchase automobiles for Select Auto;
 - v. background information on the directors, officers or other persons having similar status or performing similar functions, including, but not limited to, their:
 - 1) principal occupations for the previous five (5) years;
 - 2) remuneration received during the previous twelve months and estimated to be received during the next twelve months; or
 - 3) material contracts or relationships with third parties.
- 20. In August 2007, a resident of Colorado (“COR1”) invested fifty thousand dollars (\$50,000) in the Vodka Stand Venture through Burkemper.
- 21. COR1 told an investigator with the Enforcement Section, among other things, that:
 - a. during multiple occasions prior to COR1’s investment, COR1 spoke with Burkemper regarding the Vodka Stand Venture. Burkemper told COR1, among other things, that:
 - i. there were eight (8) vodka stands in operation;
 - ii. the stands made approximately six hundred dollars (\$600) per day;
 - iii. the Vodka Stand Venture needed additional funds to open twelve (12) additional stores;
 - iv. the Vodka Stand Venture would be able to support itself as well as begin cash flow back to investors with the opening of twenty (20) stores; and
 - v. the existing stands “were such a success and that the retail reception was so great” that IP Holding had received an offer of five million dollars (\$5,000,000) to buy the existing stores and concept;
 - b. prior to COR1’s investment, Burkemper did not provide COR1, among other things, any of the following written documents relating to the Vodka Stand Venture:

- i. prospectus;
 - ii. business plan;
 - iii. risk disclosure; or
 - iv. statement of financial condition.
 - c. prior to COR1's investment, Burkemper did not disclose, among other things, the following:
 - i. that the Vodka Stand Venture was not registered in the State of Missouri;
 - ii. that investors' money would be used to purchase automobiles for Select Auto; or
 - iii. financial information concerning the Vodka Stand Venture.
22. COR1 communicated with Burkemper regarding the Vodka Stand Venture through Burkemper's VSR office telephone and e-mail address.
23. Burkemper provided a copy of the 2006 Vodka Stand Venture business plan to an Enforcement Section investigator. This business plan stated, among other things:
 - a. that the management included Burkemper (36.5% ownership), Vishnevetsky (25.5% ownership), Vladimir Esipovich (10% ownership), and Gleb Vidra (3% ownership);
 - b. that the company was based in St. Louis, Missouri, and would open business locations in Russia;
 - c. that the company would issue thirty million (30,000,000) shares of common stock;
 - d. that capital raised from investors would be held in escrow until the project was totally funded; and
 - e. that "[t]he first 1.40M of distributable cash flow plus 14% of the amount invested will be going to the investors. Should investors not receive the funds by the beginning of the *[sic]* year 4, investors will start to accumulate 8% of interest on the initial investment."
24. An investigator with the Enforcement Section reviewed the bank records of IP Holding, Burkemper, and Vishnevetsky. These records revealed that Burkemper and Vishnevetsky received in excess of three hundred fifty thousand dollars (\$350,000) from the IP Holding bank account. At least some of the funds received by Burkemper were used to pay for Burkemper's personal expenses.
25. These bank records revealed that between April 2008 and June 2008, investors' funds in the Vodka Stand Venture totaling three hundred nineteen thousand dollars (\$319,000) were transferred to bank accounts for Select Auto and used to purchase automobiles for Select Auto.

26. A check of the records maintained by the Missouri Commissioner of Securities confirmed that there was no registration or notice filing indicating status as a federal covered security for the investments offered by Burkemper, Vishnevetsky and/or IP Holding.
27. At least two (2) of the eleven (11) investors in the Vodka Stand Venture were Burkemper's customers at VSR. Burkemper did not accurately disclose this outside business activity ("OBA") to VSR:
 - a. in 2005, Burkemper filed an OBA form with VSR that did not disclose that Burkemper was engaged in the Vodka Stand Venture;
 - b. in 2006, Burkemper submitted a written request to obtain VSR's approval to engage in an OBA with a Russian company. In this request, Burkemper stated, "I have no plans to solicit any money or participation of any sort, from existing clients. If circumstances change I will consult with VSR and obtain VSR approval." VSR's former president approved Burkemper's OBA as outlined in Burkemper's request. The reply also stated, "Once you begin this OBA, please officially notify VSR by filing a revised outside business activity report which shows this new OBA." No new OBA form was filed by Burkemper;
 - c. for the years 2006, 2007, and 2008 Burkemper did not complete an OBA form for VSR; and
 - d. on June 2, 2009, Burkemper submitted an OBA form to VSR that stated, in pertinent part, that Burkemper was involved in a "venture capital entity" called IP Holding. In an addendum to the 2009 form, Burkemper stated that IP Holding was investment-related. Burkemper stated that he was the president of the business and his duties were to monitor the progress of investments.

II. CONCLUSIONS OF LAW

28. The Commissioner finds Respondent Burkemper violated Section 409.3-301, RSMo. (Cum. Supp. 2009) when he offered and sold unregistered securities in and from Missouri to eleven (11) investors without these securities being (1) a federal covered security, (2) exempt from registration or (3) registered under the Missouri Securities Act of 2003.
29. The Commissioner finds Respondent Burkemper violated Section 409.5-501, RSMo. (Cum. Supp. 2009) by making untrue statements and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in connection with the offer, sale or purchase of a security to investors.
30. The Commissioner finds that Respondent Burkemper engaged in dishonest or unethical practices in the securities business when he made false or misleading representations to investors regarding an investment in the Vodka Stand Venture and when he failed to disclose these business activities to VSR, and that this conduct constitutes grounds to discipline Respondent under Section 409.4-412(d)(13), RSMo. (Cum. Supp. 2009).
31. The Commissioner, after consideration of the stipulations set forth above and on the

consent of Respondent Burkemper and the Enforcement Section, finds and concludes that the Commissioner has jurisdiction over Respondent and this matter and that the following Order is in the public interest, necessary for the protection of public investors and consistent with the purposes intended by Chapter 409, RSMo. (Cum. Supp. 2009).

III. ORDER

NOW, THEREFORE, it is hereby Ordered that:

1. Respondent Burkemper is barred from transacting business in the State of Missouri, or applying for registration to transact business, as an agent, investment adviser representative, broker-dealer or investment adviser;
2. Respondent Burkemper is prohibited from violating or materially aiding any violation of the Missouri Securities Act of 2003;
3. Respondent Burkemper shall pay to the Missouri Secretary of State's Investor Education and Protection Fund the sum of one hundred thousand dollars (\$100,000). Fifty thousand dollars (\$50,000) of this payment will be suspended, provided Respondent Burkemper is and remains in compliance with the terms of this Consent Order. The remaining fifty thousand dollars (\$50,000) shall be payable by Respondent Burkemper to the Missouri Secretary of State's Investor Education and Protection Fund and shall be sent to the Securities Division, 600 W. Main Street, Jefferson City, Missouri 65101, in the following manner:
 - a. Respondent Burkemper shall pay four thousand one hundred sixty-three dollars (\$4,163) within ten (10) days following the execution of this consent; and
 - b. Respondent Burkemper shall make eleven (11) equal monthly installments of four thousand one hundred sixty-seven dollars (\$4,167), which payments shall be due and payable on the first day of each month, beginning on August 1, 2011, continuing until this amount is paid in full.

If Respondent misses any payment, the full amount remaining shall be immediately due and payable;

4. Respondent Burkemper shall pay five thousand four hundred and seventy dollars (\$5,470.00) as the cost of this investigation. This amount shall be sent within ten (10) days of the effective date of this Consent Order to the Securities Division at 600 W. Main Street, Jefferson City, Missouri 65101 and shall be payable to the Missouri Secretary of State's Investor Education and Protection Fund; and
5. Respondent Burkemper shall pay his own costs and attorneys' fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 29TH DAY OF JUNE, 2011.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
MATTHEW D. KITZI
COMMISSIONER OF SECURITIES

Consented to by:
MISSOURI SECURITIES DIVISION

Mary S. Hosmer
Assistant Commissioner

Paul E. Burkemper
Respondent

Approved as to Form:

Albert S. Watkins
Attorney for Respondent Burkemper