

State of Missouri
Office of Secretary of State

Case No. AP-06-32

IN THE MATTER OF:

CAOBO COMPANY; and
PAUL HENRY WILLMS;

Respondents.

Serve all at:
2514 Rucker Avenue
Everett, WA 98206-2340

**ORDER TO CEASE AND DESIST AND ORDER TO SHOW CAUSE WHY CIVIL
PENALTIES AND COSTS SHOULD NOT BE IMPOSED**

On the 23rd day of August 2006, the Enforcement Section of the Securities Division (“Division” of “Securities Division”), by and through Mary S. Hosmer, Assistant Commissioner for Enforcement, submitted a Petition for Order to Cease & Desist and other Administrative Remedies. After reviewing the petition, the Commissioner issues the following findings of fact, conclusions of law and order:

I. FINDINGS OF FACT

A. The Respondents

1. Caobo Company, (“Caobo”), is a Delaware corporation located at 2514 Rucker Ave, Everett, WA 98201. Caobo purports to be engaged in real estate investment and development.
2. Paul Henry Willms, (“Willms”) is the Chief Executive Officer of Caobo and has a business address of 2514 Rucker Avenue, Everett, WA 98206-2340.
3. Boris G. Tankhilevich, (“Tankhilevich”) is the President of Caobo and has a mailing address of 2514 Rucker Avenue, Everett, WA 98206-2340.
4. As used in this Cease and Desist Order, the term “Respondents” refers to Caobo and Willms.

B. Solicitation of Missouri Residents

5. On February 28, 2006, the Missouri Securities Division received information that indicated that the Respondents offered to sell unregistered securities in the State of Missouri.
6. In late 2005 or early 2006, Willms sent a letter offering shares of stock to 157 prospective Missouri investors that stated, among other things:
 - a. "The mission of the Caobo Company is to acquire the Mennonite lands of Ukraine through restitution, and to be the corporate owner/steward overseeing their long-term, profitable development."
 - b. "Ukraine needs foreign investment and western expertise to develop its markets that in 1991 were liberated from communism. Caobo Company investments have the power to help build and restore those markets, through the rebuilding and restoration of the Mennonite lands of Ukraine."
 - c. "I am writing to invite you to invest in the private equity group launching the Caobo Company's vision for the Mennonite lands. Caobo is offering shares of its common stock to qualified investors at a price of US\$1.00 per share. A minimum investment of US\$1,000.00 is required to be a part of this historic group." (Emphasis in original.)
 - d. "Enclosed with this letter are three documents: a Business Plan, a Subscription Agreement, and a Prospective Purchaser Questionnaire. If, after review of the enclosed documents, you would like to purchase shares of common stock of the Caobo Company, please complete the Subscription Agreement and Prospective Purchaser Questionnaire, and return them to the Caobo Company in the envelope provided."
 - e. "Once the Caobo Company receives these documents from you, along with your check in the amount of the purchase price of shares you wish to purchase, the Company will review these documents to confirm that you qualify to invest under applicable securities laws."

- f. "In honor of God, Nehemiah and his friends rebuilt Jerusalem. I ask you to join me now in honoring God by helping to restore the Mennonite lands in Ukraine."

This letter was signed by Willms.

7. Enclosed with the Willms letter was the Business Plan for Caobo. The Business Plan stated, among other things:
- a. "Under the Caobo banner, the goal is to transform these lands into high-performing, quality real estate assets in several potential business sectors, including, but not limited to agribusiness, food product development and export, financial and real estate industries, and international shipping and transportation."
 - b. "The Caobo Company team has 50 years combined experience developing and managing commercial and residential real estate projects of size, and has solid, professional relationships with investment bankers actively interested in the Commonwealth of Independent States (CIS), which is a community of countries that include Russia and Ukraine established in 1991."
 - c. "*The Caobo Company is offering one share of common stock for US\$1, with a minimum investment of US\$1,000.*" (Emphasis in original).
 - d. "It is intended that the Caobo Company private equity group will be comprised of one thousand investors, who, with their combined investment of US\$1 million will establish a fund that:
 - furthers negotiations with the Ukrainian Government by demonstrating that Caobo can deliver the foreign investment capital needed to implement its plan;
 - provides start-up funding to enable the thoughtful development of a comprehensive plan for the transformation of the Mennonite lands into high-performing assets;
 - and enables the Caobo Company to work toward the goal of becoming a publicly traded company."

C. Investigation by the Securities Division

8. A check of the records maintained by the Missouri Commissioner of Securities confirmed no registration, granted exemption, or notice filing indicating status as a "federal covered security" for any of the securities offered by the Respondents in the State of Missouri.
9. A check of the records maintained by the Commissioner confirmed no registration for Respondents to sell securities in the State of Missouri.
10. On March 28, 2006, the Securities Division sent a letter of inquiry to Respondents that requested a claim of exemption from registration or exception from definition upon which Respondents relied in offering unregistered securities or any claim that the securities were federal covered securities. This letter also requested additional information about the offers to Missouri residents and advised the Respondents that failure to respond within a reasonable time as set by the Commissioner constituted proper grounds for the entry of an order suspending the right to offer and sell securities in the State of Missouri.
11. On April 14, 2006, the Division received a written response from Tankhilevich indicating the following:
- a. Caobo had terminated its offering of common stock without making any sales of such stock;
 - b. Caobo was no longer distributing any offering materials;
 - c. No residents of Missouri invested in the security;
 - d. Caobo Company was formed to pursue reclamation of lands in the Ukraine that were taken by force from the Mennonites during the Communist Revolution of 1917. The reclaimed lands, if purchased, would be restored and developed;
 - e. Willms was a descendent of the Mennonites who once lived on the land in the Ukraine. After doing some research, Caobo compiled a list of other Mennonite families that had once owned land in the Ukraine. The company sent the offering materials to purchase common stock to those possible descendants as determined by the company's research;
 - f. Caobo did not solicit investors by telephone or in any other manner;
 - g. Caobo provided names and addresses of 157 Missouri residents that were solicited to purchase the security that were provided the offering material by mail; and
 - h. Caobo claimed the offering was exempt under the limited offering exemption pursuant to §409.2-202(14), RSMo Supp. 2005; the exemption for sales to accredited investors pursuant to Missouri 15 CSR 30-54.215; and the federal exemption under Regulation D pursuant to 17 CFR 230.506.

12. This letter failed to provide sufficient information that the solicitation of the 157 Missouri residents was in compliance with the requirements of the claimed exemptions. Specifically, the letter failed to address: a) whether the company had any prior contact or business relationship with the 157 Missouri residents who were solicited; b) why no notice filing had been made; and c) what reasonable basis the company had for believing that the individuals solicited met the accredited investor definition.
13. Respondents were not registered to offer and sell securities in the State of Missouri.
14. Respondents offered unregistered, non-exempt securities to Missouri residents.
15. These securities were not federal covered securities.
16. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents omitted to state the material fact that Willms filed for Chapter 7 bankruptcy in November 1999.
17. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents made the untrue statement of material fact that the securities were exempt from registration, when in fact they were not exempt from registration in Missouri.
18. This Order is in the public interest.

II. STATUTORY PROVISIONS

19. §409.1-102, RSMo Cumulative Supp. 2005 (hereafter “the 2003 Act”) includes “stock” within the definition of a security.
20. §409.3-301 of the 2003 Act provides that it is unlawful for any person to offer or sell any security in this state unless (1) The security is a federal covered security; (2) the security, transaction, or offer is exempted from registration under sections 409.2-201 to 409.2-203; or (3) The security is registered under this act.
21. 17 CFR 230.502(c), provides that neither an issuer nor any person acting on behalf of an issuer shall offer or sell securities through the use of general solicitation. 17 CFR 230.508(a)(2) provides that failure to comply with 17 CFR 230.502(c) precludes an issuer or its agents from availing themselves of the exemption under Regulation D, therefore the security is not a federal covered security.
22. §409.4-401(a) of the 2003 Act provides that it is unlawful for any person to transact business in this state as a broker-dealer unless the person is registered under the act or exempt from registration, as set forth at §409.4-401(b).
23. §409.4-402(a) of the 2003 Act provides that it is unlawful for any person to transact business in this state as a agent unless the person is registered under the act or exempt from registration, as set forth at §409.4-402(b).
24. §409.5-501 of the 2003 Act provides that it is unlawful for a person, in connection with the offer, sale or purchase of any security, directly or indirectly (1) to employ a device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading or (3) to engage in an act, practice or course of business that operates or would operate as a fraud or deceit upon another person.
25. §409.5-503 of the 2003 Act provides that the person claiming an exemption, exception, preemption or exclusion has the burden of proving its applicability.
26. §409.6-602(b) of the 2003 Act provides that, for the purpose of an investigation under the act, the Commissioner or its designated officer may administer oaths and affirmations, subpoena witnesses, seek compulsion of attendance, take evidence, require the filing of statements and require the production of any records that the commissioner considers relevant or material to the investigation.
27. §409.6-604(a) of the 2003 Act provides:

If the commissioner determines that a person has engaged, is engaging, or is about to engage in an act, practice or course of business constituting a violation of this act or a rule adopted or order issued under this act or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act, the commissioner may:

- (1) Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary and appropriate to comply with this act;
- (2) Issue an order denying, suspending, revoking, or conditioning the exemptions for a broker-dealer under section 409.4-401(b)(1)(D) or (F) or an investment advisor under section 409.4-403(b)(1)(C); or
- (3) Issue an order under section 409.2-204

28. §409.6-604(d) of the 2003 Act provides: .

In a final order...the commissioner may impose a civil penalty up to one thousand dollars for a single violation or up to ten thousand dollars for more than one violation.

29. §409.6-604(e) of the 2003 Act provides:

In a final order, the commissioner may charge the actual cost of an investigation or proceeding for a violation of this act or a rule adopted or order issued under this act. These funds may be paid into the investor education and protection fund.

30. The Missouri Commissioner of Securities is empowered to issue such orders as he may deem just. Section 409.6-604(a), RSMo.

III. CONCLUSIONS OF LAW

Multiple Violations of Offering or Selling Nonexempt, Unregistered Securities

31. The Commissioner incorporates by reference paragraphs 1 through 30 as though fully set forth herein.

32. Respondents' shares of stock described above qualify as "securities" under § 409.1-102(28), RSMo.

33. At all times relevant to this Order, the records maintained by the Missouri Commissioner of Securities contained no registration, granted exemption, or notice filing indicating status as a "federal covered security" for any of the securities allegedly issued, offered or sold by Respondent in Missouri.

34. Respondents repeatedly violated Â§ 409.3-301, RSMo, when they offered securities in Missouri without those securities being: (1) federal-covered securities; (2) exempt from registration under Â§Â§ 409.2-201 or 409.2-202, RSMo; or (3) registered under the Missouri Securities Act of 2003.

Multiple Violations of Omitting to State or Misrepresenting Material Facts in Connection with the Offer of a Security

35. The Commissioner incorporates by reference paragraphs 1 through 30 as though fully set forth herein.

36. Respondents repeatedly violated Â§ 409.5-501(2), RSMo, when, in connection with the offer of securities, they omitted or misrepresented to Missouri residents the following material facts necessary in order to make certain statements that were made, in light of the circumstances under which they were made, not misleading, including, but not limited to:

- a. That Willms filed for Chapter 7 bankruptcy in November 1999; and
- b. That the securities were exempt, when, in fact, they were not exempt from registration in Missouri.

ORDER

NOW, THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order are prohibited from:

- A. Offering or selling investments in Caobo Company;
- B. Violating or materially aiding in the violation of Â§409.5-501 of the 2003 Act by omitting to state or making an untrue statement of material fact, in connection with the offer, sale or purchase of these securities to Missouri residents, that:
 1. Willms filed for Chapter 7 bankruptcy in November 1999; or
 2. The securities are exempt, when, in fact, they are not exempt from registration in Missouri.
- C. Violating or materially aiding in the violation of Â§409.4-402(a) of the 2003 Act by transacting business as an agent without an effective registration.
- D. Violating or materially aiding in the violation of Â§409.3-301 of the 2003 Act by offering or selling any security that is not registered, unless the security is a federal covered security or has an effective exemption from registration;
- E. Violating or materially aiding in the violation of Â§409.4-402(a) of the 2003 Act by transacting business as an agent without an effective registration.

IT IS FURTHER ORDERED that, pursuant to §409.6-604(d), RSMo., the Commissioner will determine whether to grant the Enforcement Section's petition for an imposition of civil penalties of up to ten thousand dollars (\$10,000) against each Respondent

individually for multiple violations of §409.3-301, RSMo., in a final order, unless Respondents request a hearing and show cause why the penalty should not be imposed.

IT IS FURTHER ORDERED that, pursuant to §409.6-604(d), RSMo., the Commissioner will determine whether to grant the Enforcement Section's petition for an imposition of civil penalties of up to ten thousand dollars (\$10,000) against each Respondent individually for multiple violations of §409.5-501(2), RSMo., in a final order, unless Respondents request a hearing and show cause why the penalty should not be imposed.

IT IS FURTHER ORDERED that as the Enforcement Section has petitioned for an award for costs of the investigation against each Respondent in this proceeding, the Commissioner will issue a final order awarding an amount to be determined after review of evidence submitted by the Enforcement Section, unless Respondents request a hearing and show cause why an award should not be made.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 29TH DAY OF AUGUST, 2006.

State of Missouri
Office of Secretary of State

ROBIN CARNAHAN
SECRETARY OF STATE

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

Case No. AP-06-32

IN THE MATTER OF:

CAOBO COMPANY; and;
PAUL HENRY WILLMS;

Respondents.

Serve all at:
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Everett, WA 98206-2340

NOTICE

TO: Respondents and any unnamed representatives aggrieved by this Order:

You may request a hearing in this matter within thirty (30) days of the receipt of this Order pursuant to § 409.6-604(b), RSMo Supp. 2005, and 15 CSR 30-55.020.

A request for a hearing must be mailed or delivered, in writing, to:

**Matthew Kitzi
Commissioner of Securities
Office of the Secretary of State
Missouri State Information Center, Room 229
600 West Main Street
Jefferson City, Missouri, 65102**

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of August, 2006, a copy of the foregoing Notice, Order and Petition filed the above styled case was mailed by certified U.S. Mail, postage prepaid to Respondents at the above listed addresses.

Beth Perkins
Administrative Aide