

STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION

IN THE MATTER OF DETERMINING  
whether there has been a violation of the  
Securities Act of the State of Washington by:

VIKTOR VASILYEVICH KLIMENKO, d/b/a  
INTERNATIONAL SUPPLIER AR,

Respondent.

Order No. S-04-206-05-TO01

SUMMARY ORDER TO CEASE AND DESIST,  
REVOKING EXEMPTIONS, AND NOTICE OF  
INTENT TO ORDER RESTITUTION, IMPOSE  
FINES, AND CHARGE COSTS

THE STATE OF WASHINGTON TO:

Viktor V. Klimenko  
d/b/a International Supplier AR  
10617 NE 124<sup>th</sup> St  
Kirkland, Washington 98034

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Viktor V. Klimenko, doing business as International Supplier AR, has violated the Securities Act of Washington and that his violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against him to cease and desist from such violations, and under RCW 21.20.325 revoking the availability of exemptions provided in RCW 21.20.320. The Securities Administrator finds that delay in ordering Respondent to cease and desist from such violations would be hazardous to the investors and to the public, and that a Summary Order to Cease and Desist should be entered immediately.

The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

***I. RESPONDENT***

1. Viktor Vasilyevich Klimenko (“Klimenko”) is a Russian citizen of the Ukraine who is a permanent resident of the United States. He lives in Kirkland, Washington. In June 1999, Klimenko registered with the Washington State Department of Revenue to do business as International Supplier A R (“International”).

***II. NATURE OF THE VIOLATIONS***

SUMMARY ORDER TO CEASE AND DESIST, REVOKING  
EXEMPTIONS, AND NOTICE OF INTENT TO ORDER  
RESTITUTION, IMPOSE FINES, AND CHARGE COSTS

1

Department of Financial Institutions  
Securities Division - Compliance Unit  
PO Box 9033 Olympia, WA 98507-9033  
360-902-8700

1 2. Klimenko, doing business as International, trades with Russia. From 1999 through 2001, International  
2 was primarily involved in importing iron products from Russia. Beginning in 2002, Klimenko became  
3 increasingly involved in exporting American goods to Russia. From 1999 through November 2002,  
4 Klimenko financed his business through his own capital and through loans from his immediate family  
5 members, particularly his sister and brother-in-law, Valentina and Garry Estrada.

6 A. Offer and Sales of Promissory Notes in 2002

7 3. In December 2002, Klimenko learned that he could buy three injection-molding machines and related  
8 equipment at auction from the James G. Murphy Co., in Portland, Oregon. The equipment was being  
9 offered at a substantial discount from cost. Klimenko had a buyer for the equipment in Russia. However,  
10 Klimenko did not have sufficient capital to make the purchase.

11 4. Klimenko solicited his family and friends to loan him money for the purchase. Klimenko described the  
12 investment as being "risk free." Three people, all distantly related to Klimenko, eventually agreed to invest:

13 a. Klimenko's brother-in-law's brother-in-law, RK of Portland, Oregon, invested  
14 \$40,000 on December 18, 2002. Klimenko gave RK a promissory note promising to  
repay \$42,000 by January 8, 2003.

15 b. Klimenko's son-in-law's cousin, VS of Everett, Washington, invested \$10,000 on  
16 December 18, 2002. Klimenko gave VS a promissory note promising to repay \$10,600  
by January 10, 2003.

17 c. Klimenko's son-in-law's father, FM of Everett, Washington, invested \$10,000 on or  
18 about December 18, 2002. Klimenko did not provide FM with a promissory note, but  
19 promised to repay the loan shortly. FM subsequently agreed to extend the loan until  
April 2003.

20 5. Klimenko used the proceeds of the loans to purchase the three injection-molding machines and shipped  
21 them to Russia. Klimenko used the proceeds from other trading to pay off the notes, paying RK \$22,000 on  
22 December 31, 2002 and \$20,000 on January 8, 2003; VS \$10,600 on January 8, 2002; and FM \$10,800 on  
23 April 7, 2003.

1 B. Offer and Sale of Investment Contracts in 2003

2 6. In September 2003, Klimenko borrowed approximately \$45,000 from Valentina and Garry Estrada and  
3 used the money to purchase goods from two local auctions for resale in Russia. Klimenko shipped the  
4 goods to Russia where they were resold at a profit. Klimenko split the proceeds, less his expenses, with the  
5 Estradas.

6 7. In November 2003, Klimenko arranged to make purchases at the U.S. Customs Auction in Edison, New  
7 Jersey. Goods at such auctions are sold at deep discounts but cannot be resold in the United States. The  
8 Estradas did not have sufficient funds to finance the purchase. Klimenko asked if Garry Estrada (“Estrada”)  
9 would help him raise the funds. Estrada, a registered investment adviser representative and owner of a  
10 registered investment adviser company, had approximately 45 clients who collectively had more than \$3.5  
11 million in total assets. Estrada agreed to help Klimenko solicit Estrada’s investment advisory clients.  
12 Estrada requested that Klimenko prepare a written document describing the investment.

13 8. Klimenko created a fourteen-page document by adapting a limited partnership agreement he found on  
14 the Internet. Klimenko, with help from Estrada, edited the document, which they titled Agreement of a  
15 Private Placement Offering (the “Agreement”).

16 9. According to the Agreement, the purpose of the offering is to raise funds for “the business of buying  
17 from various auctions, at deep discount, any items or products deemed worthy for resale on a wholesale or  
18 retail basis...” The offering was to commence on November 1, 2003 and continue until December 31, 2004,  
19 unless extended by International for an additional 12 months. While an investment in the offering could  
20 extend for two years, the Agreement provides that it was the intent of International that the investment  
21 would be limited to six months.

22 10. The minimum investment in the offering was \$5,000, while the maximum amount of money to be  
23 raised under the Agreement was limited to \$100,000. Any income generated from the offering was to be  
24 distributed first to International to recover its costs in the purchase and sale of the goods, then investors

1 were to receive 100% of any profits up to the amount of their original investment. The balance of profits  
2 was then to be distributed so that investors received a 24% annual return. International retained any profits  
3 remaining after that distribution. The Agreement called for investors to bear 100% of all losses up to 100%  
4 of their individual investment.

5 11. Klimenko, as acting agent of International, retained complete control over the investment. The  
6 individual investors had no control over the investment. Klimenko and International assumed a fiduciary  
7 duty for the “safekeeping and use” of all funds raised in the offering, and were to be paid a management fee  
8 of no more than 5%. Estrada was to be paid a commission of 8% of the profits for obtaining investors.  
9 Investors were not informed that Estrada would be receiving this commission.

10 12. Estrada called 17 of his clients and solicited investments in the International Private Placement  
11 Offering. Estrada told his clients that he had previously invested with International and that International  
12 had never missed returning investors’ principal in nine years of doing business. Estrada stated that  
13 Klimenko and International intended the investment to last six months. Based on these representations,  
14 thirteen of Estrada’s investment adviser clients invested \$65,719.97 in International. Eleven of the investors  
15 are Washington residents.

16 13. Klimenko used the funds received from the investors to purchase toys, clothes, and equipment from  
17 various auctions, and shipped the items to Russia. Due to delays by the shipping company, some seasonal  
18 items missed the Christmas market. Due to delays and legal problems with customs in Russia, some  
19 products never made it through customs. Due to increased foreign competition, some products that did  
20 make it to market did not sell. Many of the items purchased with investor funds remain in warehouses in  
21 Russia, and none of the investors have been repaid. Klimenko and International are planning to liquidate  
22 the items to raise funds to repay investors.

1 C. Offer and Sale of Promissory Note in 2004

2 14. In January 2004, while in Edison, New Jersey to attend the U.S. Customs Auction, Klimenko met a  
3 fellow Ukrainian living in New Jersey. NS, a bricklayer, was seeking an investment opportunity to  
4 supplement his income. Klimenko told him about his success with International, and solicited an  
5 investment. At Klimenko's instructions, NS wired \$50,000 to Klimenko and International on January 28,  
6 2004. The next day, Klimenko wrote NS a promissory note detailing the terms of the investment.

7 15. The note provides that Klimenko and International would use the proceeds to purchase winter jackets  
8 and boy's shirts at the auction. Klimenko promised to split any profits 50/50, and estimated that the clothes  
9 would be delivered to Russia and through customs by the end of March 2004. Though the clothes were  
10 purchased and delivered, they did not sell due to delays in shipping and at Russia customs, which reduced  
11 the market for winter clothes.

12 16. On or about January 12, 2005, Klimenko and International paid NS \$8,000 towards his principal.

13 D. Misrepresentations and Omissions

14 17. With all three offerings, Klimenko represented to investors that International was a successful  
15 business. Klimenko failed to disclose that International was operating on successive capital infusions from  
16 family members and had no secure source of capital for operations.

17 18. In 2002, Klimenko represented to investors that the investment was risk-free. Klimenko failed to  
18 disclose any risks concerning the investment, including but not limited to the precarious financial condition of  
19 International, the likelihood that debtors who owed International funds would not pay, and that prior debtors,  
20 including HomeBase, had gone out of business, filed bankruptcy, and defaulted on payments.

21 19. In 2003, Klimenko failed to make any risk disclosures concerning the investment, including but not  
22 limited to the risk of shipping delays, customs delay, changes in Russian customs laws and regulations, and  
23 foreign competition.

1 20. In 2004, Klimenko failed to disclose that one of International's 2003 shipments to Russia had been  
2 plagued by delays, and that investors in that offering had not received any return. In addition, Klimenko  
3 failed to make any risk disclosures concerning the investment, including but not limited to the risk of  
4 shipping delays, customs delay, changes in Russian customs laws and regulations, and foreign competition.

5 **III. REGISTRATION STATUS**

6 21. The promissory notes and investment contracts offered by Respondent Klimenko are not currently  
7 registered in Washington, have not previously been so registered, and no claim of exemption for said  
8 securities is on file.

9  
10 Based on the foregoing Tentative Findings of Fact, the following Conclusions of Law are made.

11 **CONCLUSIONS OF LAW**

- 12 1. The offer and sale of the promissory notes and investment contracts described above constitutes the  
13 offer and sale of a security as defined in RCW 21.20.005 (10) and (12).
- 14 2. Respondent Viktor V. Klimenko, doing business as International Supplier AR, has willfully violated  
15 RCW 21.20.010, the anti-fraud provision of the Securities Act of Washington, by making, in connection  
16 with the offer or sale of said securities, untrue statements of material fact and by omitting to state material  
17 facts necessary in order to make the statements made, in light of the circumstances under which they were  
18 made, not misleading.
- 19 3. Respondent Viktor V. Klimenko, doing business as International Supplier AR, has willfully violated  
20 RCW 21.20.140, the securities registration provision of the Securities Act of Washington, by offering or  
21 selling said securities while no registration for such offer or sale was on file with the Division.
- 22  
23  
24

1 **EMERGENCY**

2 Based upon the foregoing, the Securities Administrator finds that an emergency exists, that  
3 Respondent’s continued violations of RCW 21.20.010 and RCW 21.20.140, and the continued availability  
4 of exemptions under RCW 21.20.320, constitutes a threat to the investing public. The Securities  
5 Administrator finds that a Summary Order to Cease and Desist from those violations, and the summary  
6 withdrawal of the availability of exemptions available under RCW 21.20.320, is in the public interest and  
7 necessary for the protection of the investing public.

8  
9 **SUMMARY ORDER**

10 Based upon the foregoing,

11 IT IS THEREFORE HEREBY SUMMARILY ORDERED that Respondent, Viktor V. Klimenko, doing  
12 business as International Supplier AR, his agents and employees shall each cease and desist from violating  
13 RCW 21.20.010, the anti-fraud provision of the Securities Act of Washington.

14  
15 It is further SUMMARILY ORDERED that Respondent, Viktor V. Klimenko, doing business as  
16 International Supplier AR, his agents and employees shall each cease and desist from violating RCW  
17 21.20.140, the securities registration provision of the Securities Act of Washington.

18  
19 It is further SUMMARILY ORDERED that based upon the foregoing, the exemptions available to  
20 Respondent, Viktor V. Klimenko, doing business as International Supplier AR, his agents and employees  
21 under RCW 21.20.320(1), (9), (11), and (17) are hereby revoked.

1 **NOTICE OF INTENT TO ORDER RESTITUTION**

2 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions of  
3 Law, the Securities Administrator intends to order that Respondent, Viktor V. Klimenko, doing business as  
4 International Supplier AR, shall be liable for and shall pay full restitution to investors, as described above, in  
5 the amount of \$107,719.07.

6  
7 **NOTICE OF INTENT TO IMPOSE FINES**

8 Pursuant to RCW 21.20.395, and based upon the above Tentative Findings of Fact and Conclusions of Law,  
9 the Securities Administrator intends to order that Respondent, Viktor V. Klimenko, doing business as  
10 International Supplier AR, shall pay a fine of \$50,000.

11  
12 **NOTICE OF INTENT TO CHARGE COSTS**

13 Pursuant to RCW 21.20.390, and based upon the above Tentative Findings of Fact and Conclusions  
14 of Law, the Securities Administrator intends to order that Respondent, Viktor V. Klimenko, doing business  
15 as International Supplier AR, shall be liable for and shall pay the costs, fees, and other expenses incurred  
16 in the conduct of the administrative investigation, hearing or court proceeding relating to this matter. As  
17 of March 31, 2005, these costs total approximately \$7,000.

18  
19 **AUTHORITY AND PROCEDURE**

20 This Statement of Charges and Summary Order is entered pursuant to the provisions of RCW  
21 21.20.390, RCW 21.20.395, and RCW 21.20.325, and is subject to the provisions of Chapter 34.05 RCW.  
22 The Respondent may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY  
23 TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If Respondent does not  
24 request a hearing, the Securities Administrator intends to adopt the above Tentative Findings of Fact,



1 Conclusions of Law, and Summary Order as final, and enter a final order against Respondent enjoining  
2 future violations of the Securities Act, ordering restitution in the amount of \$107,719.07, imposing fines of  
3 \$50,000, charging costs of \$7,000 as described above, and permanently revoking exemptions available  
4 under RCW 21.20.320(1), (9), (11), and (17).

5  
6 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

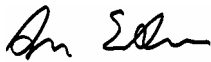
7  
8 DATED and ENTERED this 29th day of April 2005.

9 Entered by:

10 

11 Michael E. Stevenson  
12 Securities Administrator

13 Approved for entry by:

14 

15 SUZANNE E. SARASON  
16 Program Manager  
17 Compliance & Examinations

18 Presented by:

19 

20 ANTHONY W. CARTER  
21 Financial Legal Examiner  
22 Compliance & Examinations