

A LITTLE HOUSE OF SECRETS ON THE GREAT PLAINS

One home in Wyoming plays host to 2,000 companies. It's part of an industry that sells the very secrecy Washington urges others to stamp out.



REUTERS/KELLY CARR

BY KELLY CARR AND BRIAN GROW
CHEYENNE/ATLANTA, JUNE 28

THE SECRETIVE BUSINESS havens of Cyprus and the Cayman Islands face a potent rival: Cheyenne, Wyoming.

At a single address in this sleepy city of 60,000 people, more than 2,000 companies are registered. The building, 2710 Thomes Avenue, isn't a shimmering skyscraper filled

SHELL GAMES: *A Reuters Investigation*

Articles in this series are exploring the extent and impact of corporate secrecy in the U.S.

with A-list corporations. It's a 1,700-square-foot brick house with a manicured lawn, a few blocks from the State Capitol.

Neighbors say they see little activity there besides regular mail deliveries and a woman who steps outside for smoke breaks.

Inside, however, the walls of the main room are covered floor to ceiling with numbered mailboxes labeled as corporate "suites." A bulky copy machine sits in the kitchen. In the living room, a woman in a headset answers calls and sorts bushels of mail.

A Reuters investigation has found the house at 2710 Thomes Avenue serves as a little Cayman Island on the Great Plains. It is the headquarters for Wyoming Corporate

Services, a business-incorporation specialist that establishes firms which can be used as “shell” companies, paper entities able to hide assets.

Wyoming Corporate Services will help clients create a company, and more: set up a bank account for it; add a lawyer as a corporate director to invoke attorney-client privilege; even appoint stand-in directors and officers as high as CEO. Among its offerings is a variety of shell known as a “shelf” company, which comes with years of regulatory filings behind it, lending a greater feeling of solidity.

“A corporation is a legal person created by state statute that can be used as a fall guy, a servant, a good friend or a decoy,” the company’s website boasts. “A person you control... yet cannot be held accountable for its actions. Imagine the possibilities!”

Among the entities registered at 2710 Thomes, Reuters found, is a shelf company sheltering real-estate assets controlled by a jailed former prime minister of Ukraine, according to allegations made by a political rival in a federal court in California.

The owner of another shelf company at the address was indicted in April for allegedly helping online-poker operators evade a U.S. ban on Internet gambling. The owner of two other firms there was banned from government contracting in January for selling counterfeit truck parts to the Pentagon.

CASTING THE FIRST STONE

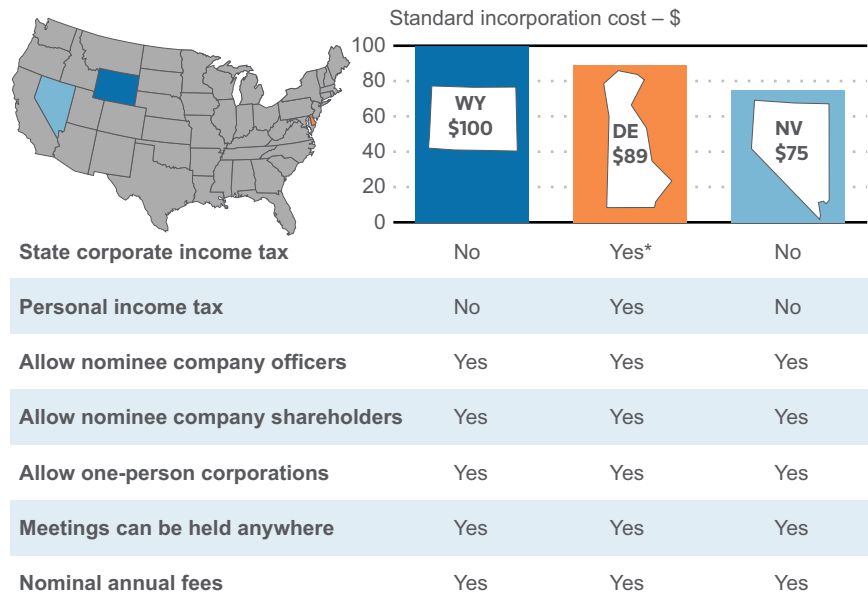
ALL THE ACTIVITY at 2710 Thomes is part of a little-noticed industry in the U.S.: the mass production of paper businesses. Scores of mass incorporators like Wyoming Corporate Services have set up shop. The hotbeds of the industry are three states with a light regulatory touch—Delaware, Wyoming and Nevada.

The pervasiveness of corporate secrecy on America’s shores stands in stark contrast to Washington’s message to the rest of the world. Since the Sept. 11 attacks in 2001, the U.S. has been calling forcefully for greater transparency in global transactions, to lift the veil on shadowy money flows. During a debate in 2008, presidential candidate Barack Obama singled out Uglad House in the Cayman Islands, reportedly home to some 12,000 offshore corporations, as “either the biggest building or the biggest tax scam on record.”

Yet on U.S. soil, similar activity is perfectly legal. The incorporation industry, overseen by officials in the 50 states, has few rules. Convicted felons can operate firms which create companies, and buy them with no

America’s Havens of Anonymity

How U.S. incorporation services sell low taxes, minimal fees, and ownership anonymity in three key states.



* If the company has operations in the state
Source: Delaware Division of Corporations, Nevada Secretary of State Office, Wyoming Secretary of State's website, Wyoming Statute

Reuters graphic/Stephen Culp



background checks.

No states license mass incorporators, and only a few require them to formally register with state authorities. None collect the names and addresses of “beneficial owners,” the individuals with a controlling interest in corporations, according to a 2009 report by the National Association of Secretaries of State, a group for state officials overseeing incorporation. Wyoming and Nevada allow the real owners of corporations to hide behind “nominee” officers and directors with no direct role in the business, often executives of the mass incorporator.

“In the U.S., (business incorporation) is completely unregulated,” says Jason Sharman, a professor at Griffith University in Nathan, Australia, who is preparing a study for the World Bank on corporate formation worldwide. “Somalia has slightly higher standards than Wyoming and Nevada.”

An estimated 2 million corporations and limited liability companies are created each year in the U.S., according to Senate investigators. The Treasury Department has singled out LLCs as particularly vulnerable to being used as shell companies, as they can be owned by anyone and managed

anonymously. Delaware, Nevada and Wyoming had 688,000 LLCs on file in 2009, up from 624,000 in 2007.

Treasury and state banking regulators say banks have flagged billions of dollars in suspicious transactions involving U.S. shell companies in recent years. On June 10, a federal judge in Oregon ordered a company registered there to pay \$60 million for defrauding a Ukrainian government agency through sham transactions involving shell companies. The civil lawsuit described a network of U.S.-registered shells connected to fraud in Eastern Europe and Afghanistan.

A growing niche in the shell business is shelf corporations. Like paper-only shells, which enable the secrecy-minded to hide real ownership of assets, shelf companies are set up by firms like Wyoming Corporate Services, then left “on the shelf” to season for years. They’re then sold later to owners looking for a quick way to secure bank loans, bid on contracts, and project financial stability. To speed up business activity, shelf corporations can often be purchased with established bank accounts, credit histories and tax returns filed with the Internal Revenue Service.

“They just slot in your names, and you walk

15/06/11

BLOG

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<http://link.reuters.com/heq72q>

away with the company. Presto!" says Daniel E. Karson, executive managing director at investigative firm Kroll Inc. "The purpose is to conceal ownership."

On its website, Wyoming Corporate Services currently lists more than 700 shelf companies for sale in 37 states. The older they are, the more expensive, like Scotch whisky. Brookside Management Inc., formed in December 2004, sells for \$5,995, while Knotty Management LLC, formed in May, costs just \$645. In Delaware, incorporator Harvard Business Services markets First Family LLC, created in May 1997, for \$10,000.

"If they're signing a large contract, they may not want it to look like they've just formed a company," said Brett Melson, director of U.S. sales at Harvard Business Services. But he added: "Unsavory characters can do a lot of bad things with the companies."

Shell and shelf companies do serve legitimate purposes. They provide a quick and cheap way for entrepreneurs to jump into business and create jobs. Businesses can use them to protect trade secrets. Politicians or other public figures may use a shell company to hold their home so that people with ill intent have a harder time locating them.

The state of Wyoming says it cracked down on incorporation services in 2009 after discovering that nearly 5,700 companies were registered to post-office boxes. New laws require companies to have a physical presence in the state through an owner or a registered agent, and make it a felony to submit false filings.

"What we want to have is good, quality legitimate businesses," said Patricia O'Brien, Wyoming's Deputy Secretary of State. "We don't regulate what the business itself does, but we are not recruiting businesses here that are questionable or illegal."

Wyoming Corporate Services is run by Gerald Pitts, its 54-year-old founder and president. On paper, he is a prolific businessman. Incorporation data provided by Westlaw, a unit of Thomson Reuters, show that Pitts is listed as a director, president or principal for at least 41 companies registered at 2710 Thomes Avenue.

Another 248 firms name Edge Financial

REUTERS INSIDER

HUB OF SECRETS: WYOMING



Click here for video from Cheyenne, Wyoming:
<http://link.reuters.com/saf42s>

Inc., another incorporation service, as their "manager." Gerald Pitts is the president of Edge Financial, according to records on file with the Wyoming secretary of state's office.

Companies registered at 2710 Thomes Avenue have been named in a dozen civil lawsuits alleging unpaid taxes, securities fraud and trademark infringement since 2007, a review of Westlaw data shows. State and federal tax authorities have filed liens against companies registered at the address seeking to collect more than \$300,000 in unpaid taxes, according to Westlaw.

Pitts says Wyoming Corporate Services fully complies with the law and doesn't have any knowledge of how clients use the companies he registers. "However, we recognize that business entities (whether aged, shell or traditional) may be used for both good and ill," Pitts wrote in an email to Reuters. "WCS will always cooperate with law enforcement agencies who request information or assistance. WCS does not provide any product or service with the intent that it be used to violate the law."

THE UKRAINE CONNECTION

GERALD PITTS AND his own incorporation firms have never been sued or sanctioned, according to federal and state court records. Wyoming officials said Wyoming Corporate Services operates legally. "If they do it by cubby holes and they are really representing each person, they meet the law," said O'Brien, the deputy secretary of state.

But clients of his have run into trouble.

Among those registered at the little house

in Cheyenne are two small companies formed through Wyoming Corporate Services that sold knock-off truck parts to the U.S. Department of Defense, according to a Reuters review of two federal contracting databases and findings from an investigation by the Pentagon's Defense Logistics Agency. The owner of those firms, Atilla Kan, awaits sentencing on a 2007 conviction for wire fraud in a related matter. (For more details, see accompanying article).

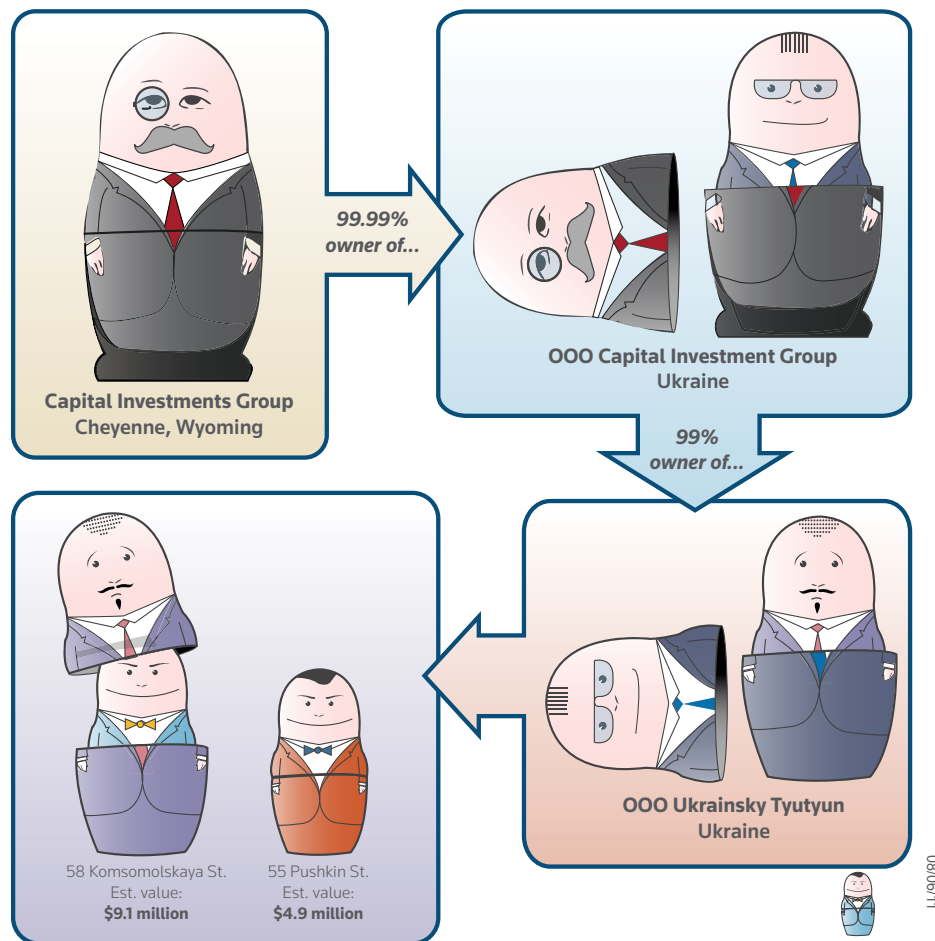
Also linked to 2710 Thomes is former Ukrainian Prime Minister Pavlo Lazarenko, who was once ranked the eighth-most corrupt official in the world by watchdog group Transparency International. He is now serving an eight-year jail term in California for a 2004 conviction on money-laundering and extortion charges. According to court records, that scheme used shell companies and offshore bank accounts to hide stolen Ukrainian government funds.

Court records submitted in Lazarenko's criminal case and documents from a separate civil lawsuit, as well as interviews with lawyers familiar with the matter, indicate Lazarenko controls a shelf company incorporated in Cheyenne that owns an estimated \$72 million in real estate in Ukraine through other companies.

The U.S. government continues to seek more than \$250 million from bank accounts in Antigua, Barbuda, Guernsey and other countries that it says were controlled by Lazarenko and his associates, according to a forfeiture action filed by the Department of Justice.

A nested network?

How Pavlo Lazarenko's alleged network of shell companies concealed valuable real estate.



Source: Court records in *U.S. v. Pavel Lazarenko and Capital Investments Group Inc. v. Victoria Korban, Gennady Korban et al*

Reuters graphic/Stephen Culp



The paper trail linking Lazarenko to the real estate in Ukraine is labyrinthine. At the heart of it is a shelf company called Capital Investments Group, registered at 2710 Thomes Avenue.

U.S. lawyers for a Ukrainian businessman named Gennady Korban submitted documents claiming that Lazarenko is the true owner of Capital Investments Group and other U.S. companies.

Lazarenko and Korban are rivals in Ukraine, and for years have traded allegations of corruption and assassination. An organization chart accompanying Korban's submission alleges Capital Investments Group owns 99.99 percent of a Ukrainian firm called OOO Capital Investments Group. That company, the chart claims, is the owner of another company, OOO Ukrainsky Tyutyun, where Pavlo Lazarenko is a director. Each of the firms and several others are used

as corporate fronts to control properties in Dnepropetrovsk, Ukraine, the filing alleges.

Seven properties are named in the 2009 filing by Korban, including 55 Pushkin Street and 58 Komsomolskaya Street. The dossier on Capital Investments Group claims that other directors of the alleged front companies include Lazarenko's wife, son and mother-in-law.

Federal prosecutors successfully urged the court in late 2009 to disregard Korban's submissions, arguing that it would take too much time to vet his account and thus delay his resentencing after a lengthy appeal.

A few months later, in February 2010, Capital Investments Group sued Korban and others in federal court in Delaware. That lawsuit claims two properties in the Ukraine controlled by Capital Investments Group -- 55 Pushkin Street and 58 Komsomolskaya Street -- were stolen from it using forged



BUSTED: Former Ukrainian Prime Minister Pavlo Lazarenko arrives for his trial at the federal courthouse in San Francisco, March 17, 2004. **REUTERS/LOU DEMATTEIS LD**

documents.

The lawsuit says Capital Investments was formed in September 2005. It is registered at 2710 Thomes Avenue, and Gerald Pitts, the court documents say, is "President, Secretary, Chairman and director."

But Capital Investments Group doesn't disclose the name of its owners. Daniel Horowitz and Martin Garbus, attorneys for the company, have represented Pavlo Lazarenko in other U.S. and Ukrainian litigation. They declined to provide the owners' names, citing client confidentiality, and wouldn't comment on Lazarenko's links to CIG.

The U.S. Attorney's office in San Francisco declined to comment. Asked about his association with Lazarenko and Capital Investments Group, Gerald Pitts declined to provide information on specific clients. Pitts

said he is aware of the Delaware lawsuit and "is cooperating fully with authorities in the matter."

POKER EMPIRE

ANOTHER MAN LINKED to 2710 Thomes is Ira N. Rubin. Prosecutors allege he created a Rube Goldberg-style network of shell and shelf corporations to further his scams.

In December 2006, the Federal Trade Commission sued Rubin for fraud in federal court in Tampa. Documents in the civil lawsuit allege Rubin used at least 18 different front companies to obscure his role as a credit-card processor for telemarketing scams.

These operations, the FTC alleged, offered subprime credit cards that charged an upfront fee debited from customers' bank accounts, but the cards were never delivered. The complaint also alleged Rubin processed payments for online gambling rings and pharmacy websites selling controlled substances.

One company in that network was Elite Funding Group Inc. It was registered at 2710 Thomes Avenue in August 2004 and offered for sale by Wyoming Corporate Services for \$1,095. Gerald Pitts was listed in public documents as the original director, wrote an investigator hired by the FTC in a January 2007 report filed in federal court in Tampa. Pitts had resigned six months earlier as director and was replaced by Rubin, according to court records.

Rubin's maze-like network served as the back office for alleged consumer scams operating from Canada, the Philippines, Cyprus and the U.S., with names like Freedom Pharmacy and Fun Time Bingo. His companies took consumer bank account information obtained by the clients, charged the accounts via an electronic transactions network that enables direct debits, kept a portion of the proceeds, and forwarded the rest to the alleged fraudsters, according to documents in the FTC's civil lawsuit.

To minimize scrutiny, Rubin used at least 18 different firms to handle his operations. A firm called Global Marketing Group processed payments for telemarketers offering bogus credit cards, the FTC alleged. Elite Funding, the Wyoming shelf corporation, was a subsidiary of Global Marketing. Rubin used Elite to open bank accounts with Wells Fargo Bank which held more than \$300,000 in proceeds from the payment processing, according to court records.

Just hours after Rubin was visited by a court-appointed receiver in the case in

December 2006, \$249,000 vanished from the Wells Fargo account. Rubin refused to say if he transferred the money, citing his 5th Amendment right against self-incrimination. At least \$125,000 then made its way to a bank account in Chennai, India, and has never been recovered, according to documents in the civil lawsuit.

Why use a shelf company? "To hide who they are and what they are doing. In the case of Ira Rubin, he had a payment processing empire that worked on behalf of many different industries, all of which were engaged in illegal conduct," said James Davis, an attorney with the Federal Trade Commission. "It was to his benefit to make it as difficult as possible for law enforcement to connect these companies back to him."

In 2008, Rubin fled to Costa Rica to avoid arrest for contempt in the civil case. Authorities allege he went on to run another payment-processing operation from abroad: This March 10, he and 10 others were indicted in New York for allegedly running a massive scheme to hide payments made by U.S. customers to the three largest online-poker websites, in violation of a ban passed by Congress in 2006. He was extradited from Guatemala the same month. On June 8, a New York judge denied bail for Rubin.

(<http://link.reuters.com/jud42s>)

Stuart Meissner, an attorney for Rubin, said his client was not available for comment. Pitts declined to comment.

AMERICAN LOOPHOLES

THE LOOPHOLES IN U.S. disclosure of bank-account and shell-company ownership have drawn fire.

The U.S. was declared "non-compliant" in four out of 40 categories monitored by the Financial Action Task Force, an international group fighting money laundering and terrorism finance, in a 2006 evaluation report, its most recent. Two of those ratings relate to scant information collected on the owners of corporations. The task force named Wyoming, Nevada and Delaware as secrecy havens. Only three states -- Alaska, Arizona and Montana -- require regular disclosure of corporate shareholders in some form, according to the 2009 report by the National Association of Secretaries of State.

Somelawmakerswanttighterrules.Senator Carl Levin (D-Mich.), chairman of the Senate Homeland Security Committee's Permanent Subcommittee for Investigations, has introduced the Incorporation Transparency and Law Enforcement Assistance Act each



WILD WEST: Cowboy boots painted by local artists are scattered throughout Cheyenne, a city of 60,000 residents that's become a hotbed for the business incorporation industry on April 22, 2011. **REUTERS/KELLY CARR**

year since 2008. The bill would require states to obtain and update information about the real owners of companies, and impose civil and criminal sanctions for filing false information.

"Criminals use U.S. shell companies to commit financial fraud, drug trafficking, even terrorist financing, in part because our states don't require anyone to name the owners of the companies they form," Levin said in an email to Reuters.

The bill has been beaten back by a coalition of state officials and business groups, citing concerns about the cost of implementing the new law and federal government infringement on state incorporation rights.

A leading opponent is the National Association of Secretaries of State. Kay Stimson, a spokeswoman, said in an email that the Levin bill "would have placed new burdens upon states and legitimate, law-abiding businesses—many of which are struggling to stay afloat during these difficult financial times—while continuing to provide lawbreakers with the means to evade the law."

An aide for Levin said the bill is expected to be re-introduced soon. The new bill will



FIGHTING BACK: Senator Carl Levin (right) listens at a hearing on Capitol Hill on Washington, December 3, 2010. Levin, chairman of the Senate Homeland Security Committee's Permanent Subcommittee for Investigations, has introduced a bill each year since 2008 that would require states to obtain and update information about the real owners of companies, and impose civil and criminal sanctions for filing false information. **REUTERS/HYUNGWON KANG**

add provisions requiring incorporation agents who sell shelf companies to provide beneficial owner data, said a Senate aide familiar with it.

CAT AND MOUSE

SHELL COMPANIES remain a headache for law-enforcement authorities. Officials say court-ordered subpoenas served on incorporators of shell and shelf corporations generally do deliver the names of the real owners hiding behind nominees. But if the owners are not U.S. citizens or companies, the investigation often hits a dead-end, they say.

There are additional hurdles. Wyoming Corporate Services charges \$2,500 per year to supply an attorney who can provide an extra shield. Cheyenne attorney Graham Norris Jr. tells prospective clients sent to him by WCS that he will create a company on their behalf. That way, he says, he can invoke attorney-client privilege—adding a layer of privacy anytime there is an inquiry about their identities.

“When you do need to contact Wyoming Corporate Services, you may do so through me,” advises a June 13 “Dear Client” letter supplied by Norris to Reuters. “If you contact them directly, there is a greater risk they may disclose that information in response to a subpoena; remember there is no privilege with Wyoming Corporate Services, only with your attorney.”

For a fee, clients can request that Norris file a motion to quash any subpoena, the letter says. It warns that in cases where fraud or criminal conduct is alleged, a court might order Norris to name the owners. Still, after any inquiry about identity, the letter says, Norris must inform the client—and “I must also decline to answer the inquiry.”

Investigators say they are sometimes loath to use subpoenas for the very reason highlighted in Norris’ letter—fear of tipping off targets. “In the initial stages of investigation, when we encounter a domestic shell corporation, we know we can’t subpoena the company that sold the corporation to the end users, because we don’t want the target

to find out they are being investigated,” says FTC attorney James Davis.

Other U.S. agencies raise similar complaints about shells. The 2006 U.S. Money Laundering Threat Assessment, prepared by 16 federal agencies, devotes a chapter to the ways U.S. shell companies can be attractive vehicles to hide ill-gotten funds. It includes a chart to show why money launderers might like to create shells in Wyoming, Nevada or Delaware, which offer the highest levels of corporate anonymity.

The information in the chart is credited to the Web site of a firm called Corporations Today—an incorporation service run by Gerald Pitts in Cheyenne, Wyoming.

(Reporting by Kelly Carr in Cheyenne and Brian Grow in Atlanta; additional reporting by Dan Levine in San Francisco, Jen Rogers and Jaime Hellman in Cheyenne; research by Mary Kivimaki of Westlaw; editing by Claudia Parsons and Michael Williams)

HOW TWO SHELL COMPANIES DUPED THE PENTAGON

BY BRIAN GROW AND KELLY CARR
CHEYENNE/ATLANTA, JUNE 28

TWO COMPANIES INCORPORATED at a little house in Cheyenne, Wyoming, won Pentagon contracts after their owner took advantage of the state's liberal incorporation laws to create the firms using an alias, and then represented them as minority-owned to win favorable treatment as a military supplier. The firms and their owner were later banned from doing business with the Pentagon for providing knock-off parts.

A Reuters investigation has found that more than 2,000 companies are registered at 2710 Thomes Avenue in Cheyenne, the headquarters for Wyoming Corporate Services, a business incorporation company that specializes in corporate anonymity.

Among the firms incorporated there is a small subset that make their money from government contracts.

A Reuters review of federal contracting databases found nine firms registered at 2710 Thomes Avenue have been awarded 93 contracts worth more than \$1.6 million by a half dozen government agencies, including the U.S. Department of Defense, the U.S. Treasury's Internal Revenue Service, the Centers for Disease Control, and the Department of Veterans Affairs.

More than 90 percent of the contracts were awarded by the Department of Defense.

There is no evidence that the majority of the defense-related contracts awarded to firms registered at 2710 Thomes Avenue were in any way suspicious. But two firms show the potential for the system to be abused.

In January, the Defense Logistics Agency (DLA) banned Eagle Logistic Solutions and Eagle Logistics Aerospace from selling components to the Pentagon for three years. The ban came after investigators found the



firms – and their owners – had knowingly supplied air and fluid-filtering kits for military tractor-trailers between 2001 and 2005 that were reverse-engineered in Turkey to look like they were made by Parker Hannifin, the required manufacturer.

Both firms listed their address as 2710 Thomes Avenue in Cheyenne, the DLA records show. The parts were considered “critical application items,” which the Pentagon defines as “essential to operating personnel.”

The companies were created by Atilla C. Kan, an employee of another Pentagon supplier called New York Machinery. DLA records, Wyoming incorporation data, and documents submitted by an attorney for New York Machinery in a settlement agreement in a separate federal criminal lawsuit show Kan formed the companies in Wyoming under the name John Ryan. He later used the alias, and a description of the companies as “minority-owned,” “woman-owned” and “Hispanic-owned,” when applying to supply military parts, the documents show.

A Pentagon memo detailing the proposed ban on Eagle Logistics Solutions and a sister company, Eagle Logistics Aerospace,

says the company won four contracts worth \$53,923 in which it supplied knock-off parts. But the Reuters review of the Federal Procurement Data System, a federal contracts database, shows the companies got even more business, netting orders for 44 parts contracts worth more than \$715,000.

Latonya M. Johnson, a spokeswoman for DLA, said in an email that the agency “is not currently reviewing other delivery orders filled by Eagle Logistics.”

It isn't clear whether the Pentagon screens for shell companies in the procurement process. Asked if the agency examines whether a contracting company has been registered through a third-party incorporation service and may use nominee directors and officers, Johnson said the agency “cannot speculate” on the subject.

“As long as the company has not been debarred or currently suspended from bidding on government contracts, then that company is eligible to bid on government contracts and can be awarded” them, she said.

Gerald Pitts, the president of Wyoming Corporate Services, declined to comment on specific clients.

In January 2007, Kan pleaded guilty to one count of wire fraud in New Jersey federal court as part of two criminal cases related to the scheme to supply fake parts, which included his former employer New York Machinery. The company pleaded guilty to one count of wire fraud last December.

Kan is scheduled to be sentenced in June. Kan and his lawyer, Eric Breslin, did not respond to requests for comment.

In recent years, the Department of Defense has been hit by a flood of counterfeit and non-conforming parts infiltrating its supply chain. The infiltration of fake parts stemmed largely from the Pentagon's effort since the 1990s to save money by purchasing components off the shelf.

COVER PHOTO: More than 2,000 companies are registered to this single-family home at 2710 Thomes Ave in Cheyenne, which also serves as the headquarters for an incorporation service selling aged companies on April 22, 2011. **REUTERS/KELLY CARR**

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