

NEVADA'S BIG BET ON SECRECY

Consultants—including some with criminal pasts—are selling the gambling center as a haven from taxes and legal liability.



REUTERS/VIJAY MATHUR

BY BRIAN GROW AND KELLY CARR
CARSON CITY, NEV., SEPT 26

ARON S. YOUNG, Wayne Andre McMiniment and Richard C. Neiswonger share two things in common.

Each man built a thriving business that helps people set up shell companies, firms with few real operations, in the state of Nevada.

And each had done time in federal prison for a financial felony.

Young served 14 months in prison for

SHELL GAMES: A Reuters Investigation

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

employing Nevada shell companies to help clients dodge taxes. McMiniment spent three years in jail for wire fraud in a theft and tax-evasion operation that also involved Nevada shells. Neiswonger did 14 months for committing wire fraud and money-laundering in a get-rich-quick scheme.

The presence of former felons in the business of creating businesses is an

extreme example of vulnerability in corporate America. Nevada has spawned a thriving industry of consultants who aid companies seeking to avoid liability and disclosure, at a time when Washington is calling on other nations to enforce greater transparency of financial flows.

Ten years ago, Nevada enacted some of America's loosest disclosure and liability laws for corporations, in a bid to spur the state economy. It protected corporate officers and directors from liability for breaches of duty, bad faith and self-dealing

NEVADA IS ATTRACTING AN OUTSIZE NUMBER OF COMPANIES WITH SHAKY FINANCIAL REPORTING, ONE STUDY FOUND.

— acts that can be the basis of lawsuits in other states.

Today, the business of registering companies in Nevada, many of them shells, is booming.

Nevada has emerged as the state with the second-largest number of corporate entities registered per capita, after longtime leader Delaware. The state's business-filings unit generated revenue of \$108 million in fiscal 2010, up from \$43 million in 2002.

At the same time, Nevada is attracting an outside number of companies with shaky financial reporting, according to a study published in March by Michal Barzuza and David C. Smith of the University of Virginia.

On average, in each year between 2000 and 2008, 14.5 percent of public Nevada companies restated their accounting; 12.6 percent lowered reported net income; and 1.3 percent were the subject of fraud allegations or investigations by regulators, the study found. Nationally, 8.5 percent of companies restated their accounts, 7.3 percent reduced their reported net income and 0.9 percent were subject to fraud allegations or probes.

Nevada also emerged as a hotbed for a key subset of shell companies, those that are listed on stock exchanges. Financial consulting firm PrivateRaise says that 588 of the 1,215 publicly-traded U.S. shell companies it monitors, or nearly half, are registered in Nevada. Public shells have drawn scrutiny from regulators as a backdoor way for foreigners to list on U.S. markets, because buyers can get a listing without the scrutiny of an initial public offering.

In effect, says University of Virginia's Barzuza, the Silver State is marketing itself as a low-liability zone, attracting a niche of owners more prone to reporting problems.

"Nevada has all but hung up a 'no law' for-sale sign," she says.

MOST NEVADA COMPANIES are above-board. And so are most shell companies: They are used by corporations to set up side businesses under different brands, for instance. Corporations can use shells for legitimate secrecy, such as storing intellectual property that they don't want nosy competitors to know they possess.

But Nevada boosters are going a step further, touting the state as an oasis of anonymity and even impunity for business owners.

Wayne McMiniment's website claims — in a stretch of the truth, state officials say — that Nevada companies protect any individual "from personal liability for acts committed on behalf of the Corporation, by the Corporation." Aaron Young's firm pitches the state as a place to avoid the taxman's gaze: "It is very hard to pierce the veil of a Nevada corporation," its site says. Richard Neiswonger's promotional literature marketed Nevada as the alternative to an offshore tax haven: "This provides your clients with the highest level of privacy and asset protection available without leaving the country."

Nevada officials don't go so far, but they pitch the secrecy angle. "Piercing the corporate veil in Nevada requires the presence of 'fraud' or 'manifest injustice,'" says the site of the secretary of state, Ross Miller, who oversees business registrations. "This is the highest standard for personal indemnification available."

State leaders say their incorporation laws have been an economic boon, and add that the state began tightening enforcement against financial fraud as early as 2007.

"We're proud to be the home to hundreds of thousands of companies that participate in legitimate commerce and keep the nation's economy moving," Secretary of State Miller

said in an interview. "With the volume of filings we have, you have to realize that we're going to have some bad apples, and therein lies the cost." He added that some incorporation firms are falsely promoting Nevada "as a safe haven for criminal activity" and that he planned to crack down on them.

The three firms run by Young, McMiniment and Neiswonger have created or represented a total of more than 14,000 companies in Nevada. More than 3,000 of these companies have been hit with state and federal tax liens and civil judgments, or named in federal civil and criminal cases. Federal investigators alleged that these companies have been vehicles used for financial fraud, stock fraud, money laundering and tax evasion, according to court records.

Reuters detailed its discovery of former felons in the mass-incorporation industry to Nevada state officials. In response, Miller said he plans to introduce a bill barring felons from running incorporation firms. In early September, he announced the creation of a Corporate Ownership Fraud Task Force to fight abuses of Nevada incorporation rules.

"Our office is always responsive to actionable leads related to violations of our criminal statutes," said his deputy, Robert E. Walsh, in an email, "and specific information from Reuters regarding felons,



DICEY: Consultants are pitching the gambling state as a secrecy haven. REUTERS/LAS VEGAS SUN/STEVE MARCUS

mass incorporators, shells, tax evasion and fraud in Nevada certainly played a role in our realization that a more formalized multi-jurisdictional Task Force may be needed at this point."

Best known as home to the anything-goes gambling capital of Las Vegas, Nevada sought a decade ago to make it more attractive for firms to incorporate here. The bill passed because legislators saw it as a way to attract real new businesses and generate fees from people setting up companies.

Some opposed the move. "We are holding up a sign that says, 'Sleaze balls and rip-off artists welcome here,'" said Dina Titus, then a Democratic state senator, in a debate on the bill at the time. Today, she says, "a lot more harm than good has been done, to individuals as well as Nevada's reputation."

The changes bucked a trend that intensified in the U.S. early last decade, when Washington began pressing the rest of the world to clean up shady financial flows and improve corporate transparency in order to combat terrorist funding and tax evasion.

But in America itself, states with liberal incorporation laws - such as Delaware, Wyoming and Nevada - are magnets for businesses seeking secrecy.

All three states allow "nominees" to stand in for real corporate directors and officers, keeping their names out of public records and making it more difficult for law-enforcement officials, regulators and investors to identify them.

Law-enforcement officials say loose

disclosure makes it tough to investigate fraud. The U.S. Money Laundering Threat Assessment, a federal report released in 2006, named Nevada, Wyoming and Delaware as "the most accommodating jurisdictions in the United States" for the creation of shell companies, rivaling offshore secrecy havens such as the Cayman Islands and Panama. But little has been done to address those gaps.

Not everyone sees a problem in Nevada. Corporate formation is supervised by individual states in the U.S. and is largely unregulated - for the good reason that making it easy to start a business is essential to a strong economy. Nevada's incorporation regime is a welcome low-cost alternative for companies with limited capital, some scholars say.

"I don't think that the law has changed the business climate that dramatically. The laws don't blatantly allow fraud," says Larry E. Ribstein, associate dean for research at the University of Illinois College of Law.

RICHARD C. NEISWONGER HAS been sued by the Federal Trade Commission twice and sanctioned by four states a half-dozen times since the mid-1980s for falsely marketing business ventures and get-rich-quick schemes.

In 1998, he was indicted by federal prosecutors in Missouri on charges of deceptively enticing entrepreneurs to pay more than \$10,000 to become financial consultants. He pleaded guilty to wire fraud

and money laundering, was sentenced to 18 months in a Las Vegas prison and ordered to refund \$2.75 million to clients. As a condition for his release, he agreed with the Justice Department to stop using deceptive tactics to market business opportunities and potential profits.

But from 1998 to 2007, including while he was in prison, Neiswonger and two associates were able to run an operation that mass-produced shell companies, prosecutors alleged this summer.

The trio operated a company called APG Marketing and a related firm called APG Inc.; the initials stand for Asset Protection Group. The businesses were at the heart of "an asset and income concealment scheme," according to a criminal indictment filed July 5 in U.S. District Court in Nevada. They formed more than 2,800 shell companies in Nevada to help more than 1,000 clients evade U.S. taxes. Neiswonger was charged with 30 counts of mail fraud, wire fraud and money laundering.

The operation made elaborate use of shells, prosecutors alleged. One type helped clients conceal ownership of assets via Nevada shell companies. Another helped shift income to Nevada, which has no state corporate or personal income tax, to evade other state and federal taxes. A third moved clients' cash offshore through a pooled account. To hide clients' income, they opened at least 900 bank accounts with disguised corporate owners. To create false debts that could be deducted by clients from IRS tax filings, they set up 416 fake liens, the indictment alleged.

At least 69 of Neiswonger's customers evaded a total of more than \$30 million in federal taxes, the IRS alleged. One client was Nashville resident Charles Phillip Maxwell, according to documents filed by the IRS in the FTC's civil lawsuit.

Maxwell has a history of tussles with the IRS, court records show. In one of his five lawsuits against the tax agency, he claimed to be a citizen of the "Sovereign Republic Tennessee" and therefore exempt from federal taxes. He lost.

Maxwell allegedly used a Nevada shell company called Southland Investments Inc., set up by APG, to hide assets at a time when he owed \$8,394.62 in taxes. The IRS sought to collect that amount from a Bank of Nevada account held in the name of Southland. The IRS said internal records from APG showed Maxwell to be the "true account holder."

Maxwell, 60, denies any ownership in Southland. The federal judge who authorized

Commercial Recordings	Capital Markets	Business Courts	Low Tax Climate	New Business Portal	Secretary of State
<ul style="list-style-type: none"> Entrepreneurial Advantages Legal Advantages: Corporations Legal Advantages: LLC Legal Advantages: Limited Partnerships 	<ul style="list-style-type: none"> Registration by Coordination Registration by Qualification Coordinated Equity Review Program (CER) Examination Fees 	<ul style="list-style-type: none"> Types of Cases Case Management Enhancements Further Benefits of Nevada's Business Court Nevada's Business Court Nevada's Business Court 	<ul style="list-style-type: none"> No Business Income Tax Income Tax is Prohibited No Estate Tax No Franchise Tax No Gift Tax 	<ul style="list-style-type: none"> New Business Checklist Economic Development Agencies Target Industries Registered Agents Information 	<ul style="list-style-type: none"> Information Center Election Center Business Center Licensing Center Securities Center

Secretary of State Ross Miller says Nevada is tightening oversight of "bad apples" abusing the state's incorporation laws. His website, whynevada.com, pitches the state's 'low tax climate.'

Consultants with troubled pasts

NAME	PRIOR CONVICTION/ CURRENT CHARGE	SENTENCE/FINE/ SUPERVISED RELEASE	ROLE OF SHELL COMPANIES	CURRENT/FORMER COMPANY
Aaron S. Young	Aiding and assisting filing of a false tax return	18-months/\$10,000/1-year	Enabling U.S. tax evasion	Laughlin Associates, Carson City, Nevada
Lee E. Morgan	Preparing a false tax return	18-months/\$10,000/1-year	Enabling U.S. tax evasion	Laughlin Associates, Carson City, Nevada
Richard C. Neiswonger	Wire fraud, money laundering/wire fraud, tax evasion, money laundering	18-months/\$2.75 million/3-years	Enabling U.S. tax evasion	APG Marketing/APG Inc., Las Vegas, Nevada
Wayne Andre McMiniment	Wire fraud	4-years, 4-months/\$1.9 million/3-years	Theft of client funds/ Enabling U.S. tax evasion	Nevada First Holdings, Las Vegas, Nevada

SOURCE: U.S. FEDERAL COURT RECORDS IN USA V. NEAL, USA V. NEISWONGER, USA V. REED, USA V. MCMINIMENT

the IRS to seize funds from the Southland bank account was a "common thief," Maxwell said in an interview. "There is no such thing as individual liability for income tax," he said. The IRS declined to comment.

The FTC got wind of Neiswonger's new operation and filed a civil complaint in April 2006 seeking a fine and a contempt order for violating his previous ban on deceptive marketing.

Neiswonger kept operating the APG scheme until 2007, when the state of Nevada learned of the FTC complaint and revoked the licenses of APG Marketing and APG Inc.

In July 2008, the U.S. District Court in Missouri found Neiswonger in contempt and fined him \$3.2 million. A related criminal case was filed this summer; Neiswonger pleaded not guilty. David Chesnoff, an attorney for Neiswonger, said his client was not available to comment.

The case points to a challenge authorities face in policing shell company abuses.

Publicly available court records document Neiswonger's criminal history. But no states require business-incorporation specialists to be licensed. No state bars convicted felons from forming, selling or representing companies, including people found guilty of tax evasion and other white-collar crimes. In the U.S., white-collar felons are usually deemed to have paid their debt to society and are free to remake their careers after serving their time.

WHEN AUTHORITIES TRY TO curb the business activities of people with a felony record, they sometimes face roadblocks.

In December 1998, Wayne Andre McMiniment pleaded guilty to wire fraud



Video: The business of creating businesses is booming in the Silver State
<http://link.reuters.com/geb93s>

and was sentenced to 52 months in prison and three years of supervised release, and ordered to refund \$1.9 million to clients. In addition to stealing from clients, he helped them evade taxes by creating Nevada shell companies with offshore bank accounts, according to an indictment filed in U.S. District Court in Nevada. McMiniment served three years in a Las Vegas prison.

As part of his probation, the court prohibited McMiniment from "engaging in employment, consulting or any association with any business which acts as an officer, an agent, or nominee director of any corporate entity or business during the period of supervision."

But prosecutors assert that shortly after his release, McMiniment returned to oversee operations at Nevada First Holdings, an

incorporation service headquartered a mile from the Las Vegas Strip.

In October 2003, prosecutors alleged that McMiniment may be using Nevada First Holdings "to engage in the same criminal activities for which he was convicted," and asked that the court bar him from involvement in the company, according to court records in the case. Judge Philip M. Pro of U.S. District Court in Nevada denied the request. The judge's order is sealed; it couldn't be determined why the request was turned down.

Nevada First Holding's license was revoked last year for failure to file an annual list of officers, according to the Nevada Secretary of State's office. But the company remains in business.

McMiniment confirmed in an email that



WAY OUT WEST: Laughlin Associates, an incorporation specialist in Carson City, says it has formed more than 77,000 firms since 1972. CEO Aaron Young, below, served time in prison for aiding the filing of a false tax return. His firm, he says, is 'clean as a whistle.' **REUTERS/KELLY CARR**

Nevada First still provides incorporation and mail-forwarding services. The company is promoting the sale of Nevada corporations and a sophisticated variety of shell company, known as shelf corporations, which can have years of tax filings and other records behind them.

His company has formed or represented 1,170 corporations in Nevada. Of those, 103 are still active, Nevada records show.

A number of clients have run into tax trouble. Nevada First Holdings keeps an address at 1117 Desert Lane in Las Vegas. A review of tax liens and judgments filed against companies registered there found that more than 40 have been subject to demands for payment of more than \$1.5 million from state and federal tax collectors and creditors in the past six years. The IRS filed a tax lien for \$15,835 against McMiniment last year, and four worth more than \$48,000 against Nevada First Holdings since 2008.

The IRS declined to comment.

McMiniment says he runs a legitimate consultancy. "NFH is one of the smallest incorporation companies in Nevada and it has proven to never have violated any laws in the state or its clients," he said in an email. "My personal pleading of wire fraud had nothing to do with NFH or its clients as later ruled by Judge Pro, who gave me authorization to continue to represent NFH."

The Secretary of State's office said that if Nevada First Holdings is proven to be still doing business after having its license revoked, the state may pursue civil penalties.

UNTIL ASKED ABOUT THE company's past, the Secretary of State's office was unaware of the criminal records of Aaron Young and Lee Morgan, two top executives of incorporation specialist Laughlin Associates.

According to a June 2003 indictment filed in U.S. District Court for the District of



Oregon, Young and Morgan helped dozens of people evade U.S. taxes in a scheme led by their mentor, Terry L. Neal, author of a tax-minimization handbook called "The Offshore Advantage." The trio set up domestic and offshore shell companies to hide income, and then helped clients who controlled the firms file false tax returns, the indictment alleged.

Neal, Young and Morgan provided a smorgasbord of tax-evasion services. These included "income stripping," the indictment said, in which clients billed fake companies for consulting services that later were falsely deducted as business expenses on tax returns. There were false mortgage loans and fake insurance policies, used to reduce reportable income on tax filings. Clients could park tax-evaded funds in offshore brokerage accounts or group bank accounts, and withdraw money with credit cards tied to offshore banks, the indictment alleged.

Young was indicted on seven counts of tax fraud and conspiracy for allegedly helping clients evade U.S. taxes by hiding assets behind hundreds of shell companies in Nevada and the Caribbean, according to federal court records in Oregon. Morgan was indicted on 12 counts.

"The corporations had no employees, no business premises, and conducted no business," prosecutors wrote in the indictment.

A year later, Young and Morgan each pleaded guilty to assisting or filing a false tax return. Both served 14 months in prison. Neal, the ringleader, was sentenced to six years.

Neal and Morgan did not respond to requests for comment. Young says he was a bit player in the fraud, and attributes his conviction to "naïveté."

Today, Young says, Laughlin Associates is "clean as a whistle." A number of his clients, however, have run into trouble.

Laughlin's headquarters is located at 2533 North Carson Street in Carson City. A review of tax liens and civil judgments issued in the past 10 years against companies registered at the address found that more than 230 have been the subject of demands from government agencies and other creditors for payment of more than \$13.3 million in allegedly outstanding taxes and debts. Some 120 of the liens and judgments have been issued since Young's release from prison.

Young says the companies hit with tax liens and civil judgments represent only about 2 percent of the 10,000 firms Laughlin has represented in the last 10 years.

REUTERS INSIDER



Interview: Sec. of State Ross Miller: Nevada is no "safe haven"

<http://link.reuters.com/feb93s>

The review also identified a publicly traded shell company represented by Laughlin Associates whose shares were targeted in an alleged stock-manipulation scheme.

Laughlin is the registered agent for a New Jersey-based company listed on the over-the-counter market called Euro Solar Parks, according to Nevada state records. Euro Solar describes itself as a builder and operator of solar-energy plants in Europe.

Euro Solar has the hallmarks of a shell company, with few apparent real operations. In its most recent filing with the Securities and Exchange Commission, it reported generating no revenue in the past two years and having assets of just \$16,618 as of June. A call to a phone number listed for Euro Solar's headquarters was answered by a man who said he had no affiliation with the company. The chief executive couldn't be reached.

In March, federal prosecutors in the Eastern District of New York indicted two stock promoters for attempting to illegally manipulate Euro Solar's share price. Between February and March of this year, stock promoters Joseph Catapano and Michael Piervinanzi offered an undercover government agent a 30 percent commission to buy, along with other brokers, 3 million shares of Euro Solar and hold the stock at least six months.

Catapano and Piervinanzi, without admitting or denying the allegations, were permanently barred from penny-stock transactions in July and fined an amount to be determined. The Justice Department withdrew criminal charges in September, with the right to refile them later.

Attorneys for Piervinanzi and Catapano said their clients were not available for comment.

Young said authorities hadn't contacted his firm about the case. "I have no idea what clients do with the corporations they have us form for them," he said.

The tax-evasion operation of Aaron Young and his associates drew the attention of Senate investigators back in 2006. The Senate's Permanent Subcommittee for Investigations documented their operation in detail in a report called "Tax Haven Abuses: The Enablers, The Tools and Secrecy".

Asked if Senate investigators knew Young was back in the incorporation business, a senior staff member involved in preparing the report replied in an email: "Nope ... Unbelievable."

(Additional reporting by Nanette Byrnes in Chapel Hill, North Carolina, Thomas Brown in Miami, Alexander Huebner in Frankfurt, and Jen Rogers and Ruben Ramirez in Reno and Carson City; research assistance by Mary Kivimaki of Westlaw; editing by Michael Williams and Claudia Parsons.)

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A CAUTIOUS CRACKDOWN

BY NANETTE BYRNES AND
CYNTHIA JOHNSTON
LAS VEGAS, SEPT 8

EARLY THIS MONTH, Nevada Secretary of State Ross Miller's office shut down a Las Vegas registered agent called Power Point Management and revoked the corporate status of its 427 active clients.

It was an example of how his office will "aggressively enforce our statutes and regulations," Miller said, warning that his state's 'business friendly' ethos "should not be interpreted to mean 'haven for bad actors.'"

Power Point is part of Nevada's booming industry of business incorporators and registered agents, more than 700 firms in all, whose key service is to receive on behalf of the companies they've registered any notices of litigation, tax documents and other records required by the state. Like most, it's a small operation. It has offices at the end of a winding interior hallway in a faded, stucco, two-story office park on Las Vegas' Flamingo Road. The building's rental manager, Laba Singh, says the firm sends in its "\$200-something" rent check by mail each month, but he has never seen the tenant.

The issue that got Power Point in trouble seems minor: It claimed that it, and every one of its clients, was a home-based business making under \$27,000 a year. Such businesses don't have to pay Nevada's \$200 annual licensing fee. If all 427 of Power Point's clients falsely claimed the \$200 exemption, then Nevada lost out annually on \$85,400 in total.

An analysis by Miller's office, however, points to a bigger problem. The number of such business exemptions claimed each quarter has nearly tripled since 2009. Miller has sent letters to 60,000 businesses claiming the exemption, one in five state registrants, asking for proof they fit the

home office exemption. Any that fail to comply will lose their corporate status, he says. In the office's investigation of a limited number of these businesses, there was not one instance of a proper claim.

An audit by the Nevada Executive Branch predicted the state will lose nearly \$11 million due to a sharp increase in companies falsely claiming to be exempt from licensing fees.

"We realized either we had a lot of businesses ripping the state off, or we had out-of-state companies not doing legitimate business in Nevada," Miller told Reuters in a telephone interview from his office in Carson City.

Miller's office discovered that few of Power Point's clients have any clear connection to Nevada. Most seem to be based in Taiwan, some with mainland Chinese operations.

Power Point executives reached in Taipei declined comment. The firm's website

highlights Nevada as one of several offshore locations offering "tax benefits, limited liability, profit deferral without deadline and the possibility of an IPO." But people with knowledge of the situation said Power Point's clients had been interested in setting up Nevada businesses as a stepping stone to building their brands in the U.S.. That proved difficult, these people said. Attempts by Reuters to contact many clients directly were unsuccessful.

Miller says the state is getting tough, but PowerPoint is just one of 700-plus registered agents operating in the state, and he wants to act before federal legislation proposed in August by Senator Carl Levin of Michigan, or other "burdensome" federal attempts to weed out bad actors, gets momentum. "It's clear that we have to clean up our own house before Congress tries to do it for us," Miller says.

(Nanette Byrnes reported from Chapel Hill; additional reporting by Cynthia Johnston in Las Vegas; editing by Claudia Parsons and Michael Williams)



MAKING A POINT: Nevada is home to 700-plus incorporators and agents. The state closed a small firm in Las Vegas (above) after finding clients dodged registration fees. **REUTERS/LAS VEGAS SUN/STEVE MARCUS**

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