

(FROM Bermuda's Royal Gazette 1st July)

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

Neighbours 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.

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 September 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 Uglund 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 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 US, (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 two 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 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 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.”

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 Defence, according to a Reuters review of two federal contracting databases and findings from an investigation by the Pentagon’s Defence Logistics Agency. The owner of those firms, Atilla Kan, awaits sentencing on a 2007 conviction for wire fraud in a related matter.

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 US 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.

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.

US 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 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 US 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."

Another man linked to 2710 Thomes is Ira 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 US, 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 Fifth 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 US 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.