

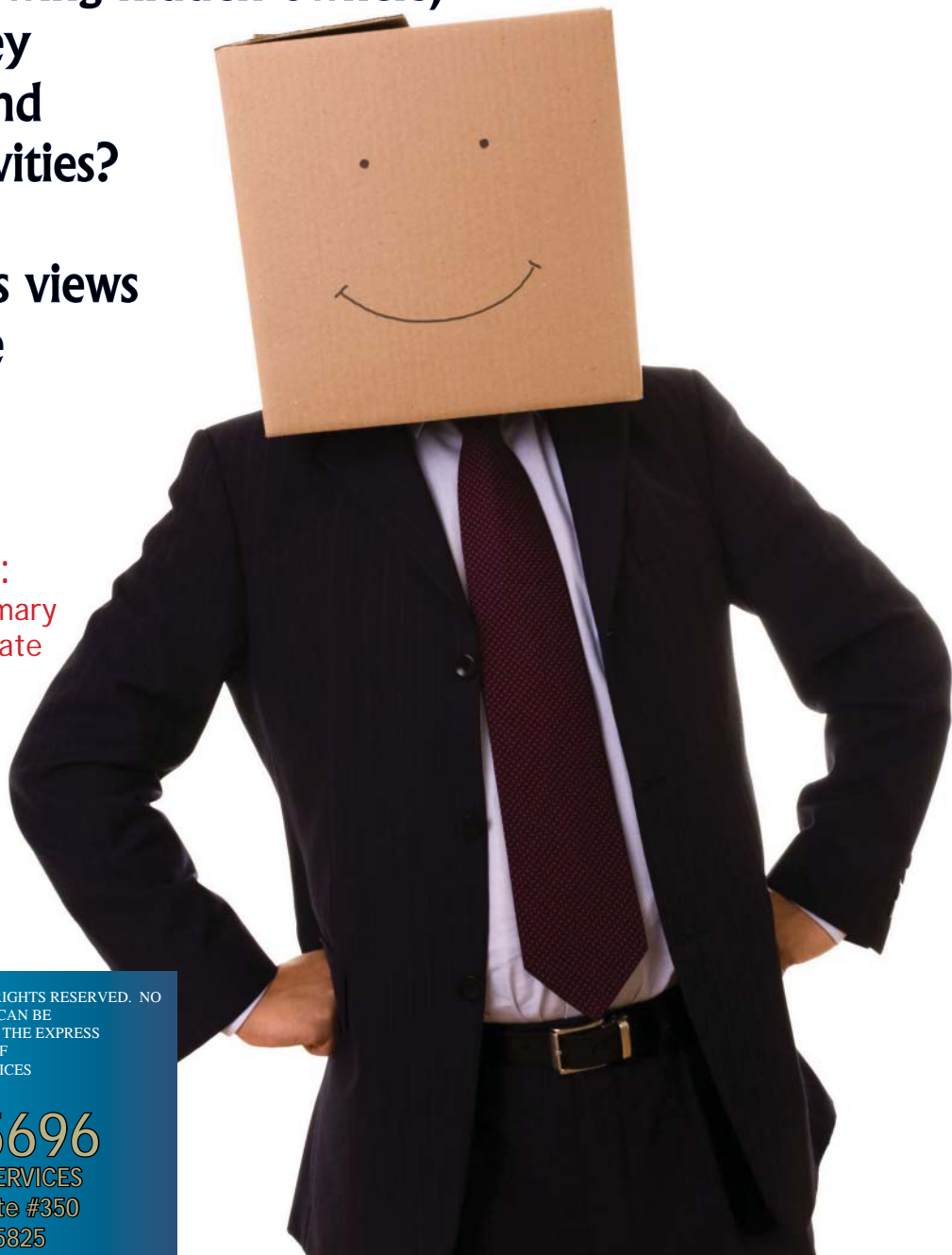
THE MISUSE OF U.S. CORPORATIONS

Are current incorporation practices allowing hidden owners, fueling money laundering and terrorist activities?

Washington's views on corporate formations

Also in this Issue:

- End of Year Law Summary
- Crackdown on Corporate 'Minutes' Providers
- Meet a CLAS Mate
- and more!



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December 2009
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Judith Kahler
President

CLAS
Worldwide
Information
Services



December 15, 2009

Dear Friends,

2009 has been a difficult year for most of us. We have seen friends and associates lose their homes, jobs and businesses. We see our legislators locked in combat to determine who is right rather than determining how we come together as a nation and solve these problems. Our young people are going off to war and some are not returning. Americans have always demonstrated resilience, and a "can do" attitude. We have always risen above problems and sought solutions to move forward. As the year draws to a close, it is time to reflect on the happier times of the past year. For me, there were many. We had to make adjustments and cuts, but we came through the worst of it and kept everyone working. My staff did what they always do. They jumped in, worked hard, stayed cheerful and upbeat, supported each other and we all got through the worst of it together. I am blessed to work with the most amazing group of people.

I look forward to 2010 with optimism. It is time for us all to feel the burdens lifting and a sprinkle of warmth and sunlight peppering our daily lives. We need to feel hope again. Some of this must come from within. We can only move forward if we strive to do so. As an employer, I must help my staff stay focused and centered and feeling as secure as possible. As a business, we must provide our clients with positive experiences, friendly faces and general excellence. As a mother I must constantly remind my children that life comes in cycles and that from each downward turn, we learn more about our own resourcefulness and what is most important in life. It truly is about the people we connect with in all aspects of our lives and not about all of the things we can buy.

We have always valued our clients, however this year we consider ourselves additionally blessed by your loyalty. Everyone at CLAS Information Services thanks you for business this past year and for the last thirty years. We wish each of you and your families a joyous holiday season.

With warmest regards,

Judy Kahler

President
CLAS Information Services

THE MISUSE OF U.S. CORPORATIONS

SEN. CARL LEVIN, ISSUES STATEMENT ON BUSINESS FORMATION & FINANCIAL CRIME: FINDING, LEGISLATIVE SOLUTION

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WASHINGTON, Nov. 5 -- The office of Sen. Carl Levin, D-Mich., issued the following news release:

The following is a statement by Sen. Carl Levin, D-Mich., as prepared for delivery at a hearing by the Senate Committee on Homeland Security & Governmental Affairs.

This is the Committee's second hearing on how current incorporation practices, which allow the formation of U.S. corporations with hidden owners, are fueling the misuse of U.S. corporations to the detriment of our nation. Here's an example of the problem.

Viktor Bout, a Russian, is one of the most notorious arms traffickers in the world, and is featured in a book called *Merchant of Death*. Last year, the United States indicted him for conspiracy to kill United States nationals, the acquisition and use of anti-aircraft missiles, and providing material support to terrorists. To carry out his activities, he is known to use a network of shell companies around the world, including companies formed in countries like Liberia, Moldova, and the United States.

Ten Texas and Florida companies have been used by Viktor Bout over the years. Two Delaware companies that were alleged in a 2002 Interpol notice, based on information from Belgium, have also been used by Viktor Bout to transfer \$325 million to carry out his activities.

Another Delaware company, Garland Global Corporation, is believed by Romania to be related to Viktor Bout, but whose beneficial owners are unknown. In July 2009, Romania filed a formal request with the United States for the names of the



Viktor Bout

Note from the Editor:

In prior issues of CLAS Notes we have attempted to educate readers about the issue of OFAC (Office of Foreign Asset Control), FATF (Financial Action Task Force and SB 569 sponsored by Carl Levin.

At our popular international seminars in 2008 CLAS Information Services spoke of the developing issues of 'Beneficial Owner'.

This issue should concern anyone that prepares, files or assists in any way with the formation of business entities. SB 569 in its current form would have significant impact on the ability to quickly form business entities.

Documentation required to form business entities would increase significantly and persons associated with business entities would have far less privacy. In the future you would be required to collect information regarding the owners of a company, and disclose this information to the service company who files the documents.

Law firms whose clients were not US citizens would be required to provide copies of passports and other sensitive information on anyone associated with a company.

The process of establishing a business entity could not be filed until all of the required information was obtained. Many have dismissed such proposals as unrealistic, or believe that such intrusion into business affairs would infringe on the corporate veil protections.

Many countries have such requirements in place. The following statement by Carl Levin, offers a glimpse into the future of corporate formations if SB 569 is enacted into law.

Continued Next Page

Continued From Page 3

company's owners and other information. But it is unlikely that the United States can supply the names since, as this Committee has heard before, our 50 states are forming nearly 2 million companies each year and, in virtually all cases, doing so without obtaining the names of the people who will control or benefit from those companies.

The end result is that a U.S. company may be associated with an alleged arms trafficker and supporter of terrorism, but we are stymied in finding out, in part because our States allow corporations with hidden owners.

Here's another aspect of the problem. Last

“we (the US) were told about a New York corporation that was secretly owned by members of the Iranian military... another country had the beneficial ownership information that we didn't.”

month, my staff went on the Internet and typed in “shell company” as a search term. The first entry that came up was for “Aged Shell Companies” and provided a link to the web site of a company called Go Risk Free which offers corporations for sale in all 50 states. Go Risk Free promises: “if you need a company that is ... in a certain state or age, CONTACT US, and [we] will help you find it!”

On the date we checked, Go Risk Free had over 200 companies available for sale. The prices start at \$3,500. The first was a Nevada company incorporated on October 22, 1928, over 80 years ago. Think about that. A secret buyer of this company could pretend to have had a U.S. business in operation for decades. He could use that shell company to convince a bank to open an account or issue a credit card, and go on from there. These sales seemingly have no purpose other than to create a misleading impression. The potential for criminals to

buy these types of U.S. companies without ever divulging their names or interests is a disaster waiting to happen and a threat to our security and well being.

At the Committee's hearing in June, we were told about a New York corporation that was secretly owned by members of the Iranian military. Our government learned of that ownership interest, not from New York state records, but because another country had the beneficial ownership information that we didn't.

We also heard about a network of 800 U.S. companies across the country that had attracted law enforcement attention because they were transferring suspect funds to each other and in and out of high-risk jurisdictions. When the Department of Homeland

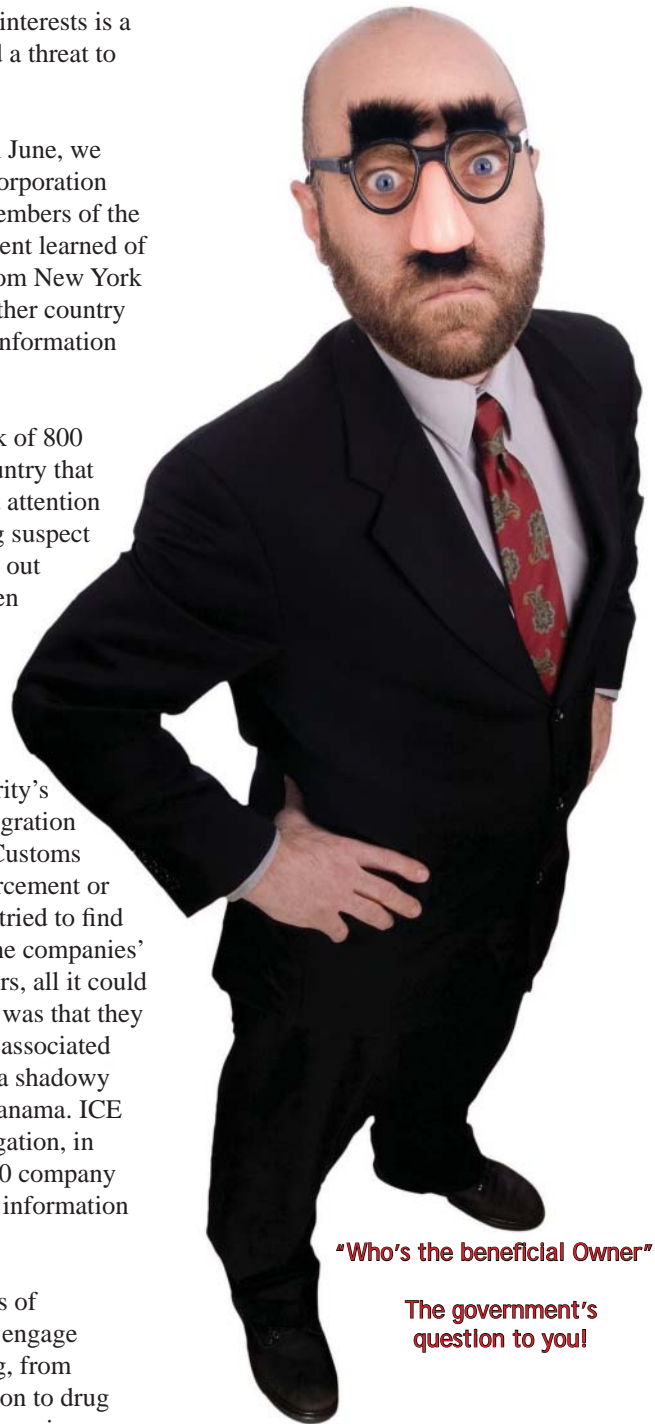
Security's Immigration and Customs Enforcement or ICE, tried to find out the companies' owners, all it could learn was that they were associated with a shadowy

group of shell companies in Panama. ICE eventually dropped its investigation, in part because not one of the 800 company formation documents had any information on the true owners.

These are only a few examples of U.S. companies being used to engage in a wide range of wrongdoing, from money laundering to tax evasion to drug trafficking, and worse. This abuse is possible in part because our states routinely create corporations with hidden owners.

Right now, we require people to provide more information to obtain a drivers license or a bank account, than to acquire a U.S. corporation. Most of our States allow hidden owners to buy companies online within 24 hours of a request. In two States, for an extra \$1,000, hidden owners can form a U.S. company within a single hour.

Despite the significant evidence of misuse



“Who's the beneficial Owner”

The government's question to you!

of U.S. corporations by hidden owners, and despite years of law enforcement complaints, many of our States are reluctant to admit there is a problem. Too many of our States are eager to explain how quick and easy it is to set up corporations within their borders, without acknowledging that those same quick and easy procedures enable wrongdoers to acquire and abuse U.S. corporations both here and abroad.

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In 2006, the leading international anti-money laundering body in the world, the Financial Action Task Force on Money Laundering - known as FATF - issued a report criticizing the United States for failing to comply with the FATF standard requiring countries to obtain the true owners the beneficial owners of the corporations formed in their countries. FATF set a goal of two years, until July 2008, for the United States to strengthen its compliance with the FATF standard. We are now more than a year past due with no progress to speak of.

That's why my colleagues and I have introduced SB. 569, the Levin-Grassley-McCaskill bill that is the subject of today's hearing. Our bill would require states to add a question to their existing incorporation forms asking for the names and addresses of the beneficial owners of the proposed company. That means an applicant would have to disclose the real individuals who would own or control the company, without using nominee directors, shell companies, or other phony fronts. Penalties would apply to persons who submit false information, and foreign owners would have to supply a passport photograph to a corporate formation agent within the State. Those corporate formation agents would be required to know their customers and refrain from doing business with suspect clients.

Beneficial ownership information would be made available to law enforcement presenting a subpoena or summons. That information would be available to the public only if State law so provided. The minimal cost of adding a question to State incorporation forms could be paid for with funds already provided to States on an annual basis by the Department of Homeland Security.

Our bill provides a common sense, modest, indeed minimalist approach to solving the law enforcement and homeland security problem created by U.S. corporations with hidden owners. One question, added to existing State incorporation forms, would enable law enforcement to gain access to vital information needed to protect the United States from money laundering, tax

evasion, and even terrorist threats. A host of law enforcement groups have endorsed the bill including the Federal Law Enforcement Officers Association which we will hear from today. It has also been endorsed by groups combating financial crime, corruption and tax evasion, including the Tax Justice Network USA, Global Financial Integrity, Citizens for Tax Justice, Public Citizen, and more. An identical version of the bill was cosponsored by President Obama last year when he was a Senator.

Introducing this legislation wasn't our first choice, as I said at the last hearing. At the request of the States, we waited a year to provide the States with an opportunity to craft their own solution. But the States were unable to devise an effective proposal, in part because they are competing against each other to attract the incorporation fees associated with forming U.S. companies. It's a classic case of competition causing a race to the bottom - creating pressure on States to allow quick and easy incorporations, and making it difficult for any one State to do the right thing and request the names of beneficial owners.

Only federal legislation can level the playing field among the States, set minimum standards for obtaining beneficial ownership information, stop the creation of U.S. companies with hidden owners, and bring the United States into compliance with its international commitments.

One last point. Many of you know that, for years, I have been fighting offshore secrecy laws that enable wrongdoers to secretly control offshore corporations. We've made some progress on that front, and more is hopefully coming. But one of the impediments we run into in combating offshore secrecy is the claim by some offshore jurisdictions that the United States itself promotes corporate secrecy. A report released by Tax Justice Network earlier this week asserting that Delaware provides more corporate secrecy than Switzerland demonstrates that we need to get our own house in order and comply with FATF's international standards on beneficial ownership.

Corporations are intended to shield owners from personal liability for corporate acts, not hide ownership. But today, the corporate form is being corrupted into serving those

who use the corporate veil to hide their identities while committing crimes or dodging taxes and robbing our treasury and taxpayers of billions of dollars each year. It is past time to stop this misuse of the corporate form. But if we want to end inappropriate corporate secrecy offshore, we need to stop it here at home, and start helping instead of impeding law enforcement efforts to combat terrorism, money laundering, tax evasion, and other wrongdoing. ●

*For more information please contact:
Sarabjit Jagirdar,
Email:- htsyndication@hindustantimes.com.*

Meet Your CLAS Mate Dixie Johnson



If you have called CLAS Information Services for a copy of an invoice or to determine if an invoice has been paid then you have spoken to Dixie Lee Johnson.

Dixie Lee is the go-to person for any of your accounting questions here at CLAS.

Dixie was a native of Southern California (San Fernando Valley) and moved to Sacramento in 1979. She lives with her two dogs Dudley and Bessy, and husband of 24 years. Dixie recently celebrated her 65th birthday.

Dixie enjoys spending time with her Grandchildren in Nevada and Oregon, playing online poker and traveling- especially to Santa Cruz and Mexico!

Dixie will celebrate her 10th year with CLAS on January 18th.

ATTORNEY GENERAL PURSUES COMPANIES THAT SEEK FEES FROM BUSINESSES TO FILE THEIR 'MINUTES'

For many years business owners have been sent official looking documents with a seal intended to resemble the seal of the state of California.

The official looking document, often deceptively similar to Secretary of State forms informs the recipient that they must file their 'minutes' or face penalty. Often a code section is referenced to imply a threat of penalty if the filing is not made.

Usually on these



bogus notices in very small print either on the front near the bottom of the page or the back of the document is a statement indicating that the company soliciting a fee to file a document states that the company is not a state office. However with names that imply an official office such as *Department of Business Minutes* or *Division of Corporate Compliance, Department of Minutes and Compliance* business owners are often duped into paying a fee ranging from \$125 - \$250.

However even more dangerous that being duped out of a one time fee is that these companies often change the registered agent to themselves so that they can continue to bill a yearly fee to the corporation. What makes this especially dangerous for the business owner is that official documents such as service of process may never be forwarded from companies that operate these scams.

To trick the business owner into

believing that the company has provided a legitimate service an annual report is often filed and some form of minutes are prepared for the corporate minute book.

The attorney general's office investigating these companies has reported that these documents are so poorly prepared as to be worthless to the corporation.

On October 8, 2009, in a move to stop the deceptive practice, the Attorney General's office filed suit against 6 businesses and eight individuals operating in California. The suit seeks damages and to end such deceptive practices.

Attorney General Edmund Brown was quoted as saying ,
"These cases will send

a powerful signal that small business owners must be on the alert. These rip-off artists sent official-looking documents through the mail for the sole purpose of duping small business owners into paying them money for no value in return."

Business owners who believe they have received similar bogus bills or letters requesting payments can call the public inquiry unit of the state attorney general's office at (916) 322-3360.

Copies of the complaint and the official press notice can be found on the Attorney General's web site. ●

CLAS A FAMILY AFFAIR

Have you noticed a new voice on the phone when you call CLAS? CLAS added three new employees, well, two new employees technically. Let me explain, one of our 'employees' literally started her career when she was just a few weeks old.

Samantha Hartley is the daughter of Kathy Culver a longtime employee of CLAS Information Services. When Samantha was just a baby she was a regular fixture in the office. In fact many of the staff have told stories of changing her when mom was on the phone or



Samantha Hartley & Kathy Culver

picking her up when she was crying.

As Samantha got older she helped put together marketing packets or entering information into spreadsheets. Although we lost Samatha to school and college, eventually she found her way back to us after a 15-year hiatus, so although she may be a new voice on the phone she has a long history with her CLAS family. Working for CLAS can literally be a family affair! ●

ARKANSAS

UCC Farm Filings Law Change Effective January 1, 2010

Act 942, passed in the 87th Arkansas General Assembly Regular Session of 2009, will change the filing location for most farm filings from county offices to the Secretary of State effective January 1, 2010.

All UCC Financing Statements, UCC Continuances and UCC Terminations for equipment used in farming operations, products, or accounts arising from the sale of farm products will be filed at the Secretary of State.

Financing statements currently on file at a county will remain effective until they are terminated or they lapse. The only EXCEPTION will be for farm-stored commodities financed by a loan through the Commodity Credit Corporation of the United States Department of Agriculture. All UCC filings, including continuances and terminations, for Commodity Credit Corporation loans will be filed in the Circuit Clerk's office in the county where the debtor is 'located' until December 31, 2012.

To ensure a diligent search UCC searches should be conducted at the County Circuit Clerk's office and the Secretary of State until December 31, 2017.

CALIFORNIA

San Francisco County Fictitious Name Filings

A fictitious name statement in San Francisco requires that you must also register with the tax department. If the registrant is an entity that is already registered with the tax department, complete an 'update to business account information' form to show the FBN name for the entity. Call us at 800.952.5696 if you need a copy of this form or have additional questions.

CONNECTICUT

Fee Increase

Almost all fees for filings and retrievals in the state of Connecticut have doubled effective 10/1/2009.

DELAWARE

NEW 30 Minute Filing Service

A new 30 minute service for corporate filings is available in Delaware. This service is available until 9:00 Eastern Time (6 PM PST). Although it is possible to order the service until 9PM documents must be received in our office by (4PM PST) to allow for processing and review. Although the state of Delaware is promoting this service as a 30 minute service, it is not guaranteed to be returned within 30 minutes. The Division will guarantee that the requests will be processed ahead of ALL other requests in queue. For multi-part filings, the time frame is 30 minutes per filing. If the 30-minute time frame is met, the rush fee will be \$1,500. If it is not met, the rush fee will be \$1,000. Companies must be in good standing (except for renewal filings), with tax filings made and paid in advance. The filing should not exceed 50 pages. Preclearance is highly recommended prior to submitting a 30-minute filing request.

Fee Increase

Effective September 1, 2009 the statutory fee for electronic UCC Filings with the State of Delaware was increased to \$30.

HAWAII

The Supreme Court of Hawaii has announced a 2-day per month furlough for all court employees (with the exception of juvenile detention facilities). A calendar of the closed days from November through June 2010 is posted on the web at www.courts.state.hi.us/.

KANSAS

Supreme Court Chief Justice Robert Davis warned all court employees in a November letter that Kansas state courts may have to close for as long as 6 weeks from February through June if the legislature fails to restore \$8 million in budget cuts. Staff would be placed on unpaid leave. Earlier it had been speculated that the courts would have to close for 12 days (2 days per month) to make up for the budget shortfall. As many as 18 counties have already reduced public hours. See www.kscourts.org for more information on this developing issue.

KENTUCKY

Changes to Document Retrievals

All documents must be requested as certified copies as the state will no longer provide plain copies of documents.

The following certificates will no longer be available:

- Certificate of Bad Standing
- Certificate of Formation
- Certificate of Revocation
- Certificate of Administrative Dissolution
- Certificate of Withdrawal
- Certificate of Registered Agent / Registered Office
- Certificate of Business Trust
- Certificate of Merger
- All Long Form Certificates
- Certificates of Existence with Assumed Name

No Certificates for Partnerships and Trusts?

The Secretary of State cannot issue certificates of existence or certificates of authorization for Partnerships and Trusts. Only certified copies of documents authorized under statute may be requested.

New Date Filed Stamp to Appear

Previously the state of Kentucky has placed a confirmation stamp in the right hand corner on a label with the date and time a document was filed. An electronic label file stamp will now be visible on the document.

The state requests that persons using documents issued by them to accept both versions of the file stamp as true copies.

If you have questions as to the authenticity of a document you may confirm it by visiting the KY Secretary of State web site at www.sos.ky.gov/online.htm and click on

MASSACHUSETTS

Changes to Corporate Law

Effective October 30, 2009, the following changes have taken effect:

- Mergers/consolidations between two domestic entities only require one form.
- Limited Partnership Filings no longer require 2 original forms.
- The state will now issue good standing certificates for Limited Partnerships entities that list who the general partners are.
- Long Form Certificates will no longer be issued for Limited Partnerships.
- Foreign entities serving as a manager of an LLC are no longer required to register in Massachusetts prior to forming if they meet certain requirements.
- New conversion options now available for LLCs.
- Annual reports are now required for Limited Partnerships. The filings are due by anniversary date of the LP registration each year.
- Secretary of State now has the authority to administratively dissolve/revoke LLCs and LPs for failure to file annual reports.
- Changes to Massachusetts law added provisions for the reinstatement of LLCs and LPs.

NEVADA

Nevada Law Provides for Re Domestication

Non-Nevada entities desiring to domesticate under Nevada Law may do so using the provisions of NRS 92A.270. Previously these provisions only applied to non-U.S. entities. These provisions may now be used for the domestication of non-Nevada entities both in and out of the United States. Updated forms will be available on the Nevada Secretary of State Web site or by calling us at 800.952.5696.

Conducting Business in Nevada Without Registration Will Result in Fines

Effective October 1, 2009 conducting business in Nevada without being properly registered will result in a fine and possible legal action.

Senate Bill 350 requires that any foreign, domestic or other business entity purporting to do business in the state must be properly registered with the Secretary of State or risk fines. Fines range from \$1,000 - \$10,000, however the Secretary of State will refer these actions to the district attorney or the Attorney General.

NEW YORK

New Forms for Dissolution / Withdrawal Now Available

The Power of Attorney form for dissolutions and withdrawals has been updated as of September 9, 2009. If you require a copy of the revised form please contact us at 800.952.5696.

PENNSYLVANIA

Fee Increases

House Bill 1607 mandates an additional \$13.50 fee be collected by all recorders of deeds. This will affect all documents recorded as deeds including:

- Mortgages
- Mortgage Satisfactions
- Assignments
- Releases
- Easements

This fee goes into effect on December 8, 2009.

UPI Number Now Required

A \$10 fee per UPI Number will be collected at the time of recording. UPI numbers are required on all recordings except UCC's and some power of attorneys. The UPI should be typed on the first page of the document per PRIA document standards.

TEXAS

Changes in Texas Law Governing Business Entities to Take Effect

On January 1st, many existing Texas business laws will be repealed. Business entities operating in Texas need not take any action as the automatic application of the changes will be applied to all entities.

If you require additional information about how this change will effect you visit: <http://www.sos.state.tx.us/corp/bocfaqs.shtml> or call us at 800.952.5696.

CLAS Bulletin is our e-mail of breaking news to keep you informed!

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Holiday Closures

The following states are **CLOSED** on December 24th:

- Illinois
- Kentucky
- Michigan
- North Carolina
- South Carolina
- Tennessee
- Texas
- Virginia

All Secretary of State Offices:

December 25th - **CLOSED**

January 1st - **CLOSED**

The following state is **CLOSED** on December 28th:

- South Carolina

CALIFORNIA:

December 24th - Open

December 31st - Open

DELAWARE:

December 18th -

Department of Corporations Luncheon. State Corporate Department personnel will be unavailable from 11:30 - 1:30 PM.

On this date the following special deadlines apply:

30-Minute and One-Hour Filings must be received by 6 PM EST (3PM PST). Two-Hour Filings must be received by 5 PM EST (2PM PST). All other cut-off times will remain unchanged.

December 24th - Department of Corporations open until 4:30 PM (1:30 PM PST). On this date the following special deadlines apply: 30-Minute and One Hour requests must be received by 2:30 PM EST (11:30 AM PST). Two-hour requests by 2PM (11:00 AM PST) Same Day by 1PM (10:00 AM PST).

December 31st - Department of Corporations will have reduced hours. On this date the following special deadlines apply: 30-Minute and One-Hour Filings must be received by 6 PM EST (3PM PST). Two-Hour Filings must be received by 5 PM EST (2PM PST). All other cut-off times will remain unchanged.

The following states will be **CLOSED** or have limited hours on

December 31st:

- Kentucky - **CLOSED**
- Michigan - **CLOSED**
- Tennessee **CLOSED**
- Texas - (Comptroller of Public Accounts - closes at noon central (10:00 AM PST))
- West Virginia - closes at noon eastern time (9:00 AM PST)
- Wisconsin - **CLOSED**



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- Ownership Chain of Title (50/100 year)
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- Ownership Verification / Open Mortgage
- Open Mortgage
- Ownership Verification
- Real Property Descriptions
- APN Search
- Real Property Tax Search
- Fixture Filing Lien Search
- Many More Services

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