

# Memo from Greg Wertsch

Global Trade Investigator

✉ Gregory.Wertsch@hsi.dhs.gov  
📍 Greenwood Village, CO

January 4, 2023

To:  
Colorado Fraudulent Business Filing Working Group  
Colorado Department of State  
1700 Broadway STE 1500  
Denver, CO 80290

This morning CNN published an article entitled, “CNN Exclusive: A single Iranian attack drone found to contain parts from more than a dozen US companies.”

The article reports that the years of tough export control restrictions are being thwarted by illicit shell companies, such as the ones formed daily right here at the Colorado Secretary of State’s Office.

The article states, *“One major issue is that it is far easier for Russian and Iranian officials to set up shell companies to use to purchase the equipment and evade sanctions than it is for Western governments to uncover those front companies, which can sometimes take years, experts said.”*

The assessment found that nearly two dozen parts found in the drone were manufactured in the United States. They included parts made by Texas Instruments, Hemisphere GNSS, NXP USA Inc, Analog Devices, and Onsemi. The US parts included voltage regulators, GPS modules, digital signal controllers, microprocessors, and circuit boards.

Illicit shells, like the ones being formed in Colorado, are exactly what our enemies need to wage war against the United States and our allies.

## How a Foreign Adversary Could Use an Illicit Shell to Procure Military Components:

1. An Iranian government official located in Iran uses a VPN to login to the Colorado Secretary of State’s Business Registration website to form a new Colorado LLC (or reinstates a dormant one) in under a minute by using fake names, fake registered agent information, and inputs unrelated addresses so it appears to be operating in Colorado.
2. He then uses a VPN to visit the Internal Revenue Service website to obtain a Federal Employee Identification Number (FEIN) by providing the Colorado entity formation information.
3. He then uses the CDOS “Certificate of Good Standing” to open one or more US financial accounts. If he reinstated a dormant business, he may even be able to obtain fraudulent bank loans to help finance the cost of the components.
4. He then registers his new, or reinstated, entity with several business associations, perhaps creates a website, gets a mailbox address in Colorado, and creates a footprint to make it seem as though they are a US based company doing legitimate business.
5. He then orders components he needs for the Iranian military either directly from manufacturers or from third party resellers by providing them with the CDOS “Certificate of Good Standing,” EIN, and banking information. While doing due diligence, the manufacturer and reseller will see that the entity is in Good Standing, has addresses in Colorado, has a website with the Rockies in the background, and possibly even reviews (all fake).
6. The products are then shipped to the business entity which is located at a mailbox company (such as UPS Store).
7. He then instructs the UPS store to ship the packages, using the name of his “other business” which he also incorporated using fake information within the Colorado Secretary of State’s business database, to a country that does not enforce export controls against Iran.

8. He then instructs people in the other country to ship the packages they receive to Iran.

As this example illustrates, the problem starts with the ability for bad actors to easily use of false information to incorporate (or reinstate) an entity – even from another country on foreign soil. The problem is further compounded by the fact that the use of illicit shells makes it nearly impossible for the US Government to enforce export control laws.

Even if a case could be built against the one illicit shell company that was used to buy the components, the Iranian official can simply discard that troubled company, and open a new entity within Colorado in under a minute.

Put another way, the one minute of work that a bad actor spends forming a single business within the Colorado Secretary of State business database can consume years of government investigative time, court time, and millions of dollars, which ultimately will never go to prosecution. Meanwhile, the bad actors and foreign adversaries are wreaking havoc, killing our allies, threatening world peace, and defrauding countless victims.

The question should not be, “Is SB22-034 enough?” It clearly isn’t. SB22-034 only helps victims who know they are victims of a Colorado Illicit Shell. Unfortunately, most victims will never know that a Colorado Illicit Shell was responsible for the losses they suffered.

**The question should be, “What’s the best way to stop bad actors cold from using CDOS to hurt our allies and victimize our people, with as little cost and inconvenience as possible for the good guys?”**

Increasing business security will require the shared sacrifice of nominal costs in time and money. We see these costs in other ways today when we pay for TSA security fees when we buy airline tickets and when we input Captchas on websites. These costs are the result of people deciding that security is important for our society and understanding that security isn’t cost free.

I believe our challenge is to find the right balance between cost, efficiency, and security.

*If a \$5 security surcharge and ID verification made it 100 times more expensive for our foreign adversaries to kill our allies and troops, would we think that worth the cost in time and money?*

*If a security surcharge and a few extra minutes of time prevented the importation of counterfeit children’s bike helmets which were slated to be sold online to unknowing parents, would that be worth it?*

The decisions we make here, within our small working group, are of great consequence to many people we will never know both here and abroad.

The next drone attack on Ukraine will likely be chock full of US components from US based illicit shells. SB22-034 does not address this nor many of the other problems that Illicit Shells are directly involved in.

Illicit shells are like pipe bombs. In of themselves they hurt no one. Also, like illicit shells, the seller of the pipe bombs may never know who gets hurt by them when they are used.

However, no one creates illicit shells or buys pipe bombs without the intention of harming others – perhaps countless others.

If we were tasked with deciding what to do about pipe bomb sales in Colorado, would cost and/or customer inconvenience be our first and primary concern?

Or would we jointly agree that pipe bomb sales are bad, must be immediately stopped, and then figure out the best way to make that happen with as little cost and inconvenience as possible?

Do we have a moral obligation to do everything we can possibly do to stop bad actors from creating illicit shells in Colorado?

I know I do. Do you?