

The Story Behind the O.C.-to-Iran Export Case : Probe: How U.S. agents tracked the purchase of a large computer, arresting the buyer and an aide before it could be shipped.

January 10, 1993 | MICHAEL FLAGG | TIMES STAFF WRITER

COSTA MESA — There's something odd going on here, the IBM security man thought.

Here's a customer who just spent \$102,000 to have a special computer room built in his offices. But the big IBM mainframe computer he had bought wouldn't even fit through the door.

The computer, one of the most powerful IBM makes, now sat in the outer office, still in its packing crates.

In fact, federal agents--using cameras hidden in the hall outside the office--had already watched it being delivered.

Now they were waiting to see where it went.

In the last few years, as the Soviet Union splintered into 15 separate republics, it has become easier to export high-tech products, such as computers, to former enemies like Russia and the former Eastern Bloc countries.

But there are still proscribed countries--nations unfriendly to the United States--that could use U.S. technology to make weapons of mass destruction such as poison gas and even nuclear weapons.

One of them is Iran.

Until two years ago, the high-tech cops who work out of a sleek Irvine office building for the Commerce Department's Office of Export Enforcement had never run across a criminal case involving exports to Iran.

Then they arrested two men in Newport Beach in 1991 for trying to sell sophisticated electronic equipment to Iran.

Now, with the big IBM computer still wrapped in packing material like a big Christmas present, this appeared to be the second such case.

This account is taken from an application for a search warrant, filed in federal court last week by a Commerce Department agent, Kirk L. Flashner, and from interviews.

Last August, Charles Reger showed up at the Export Enforcement offices and told Flashner and Special Agent in Charge Brooks Ohlson that he had applied to the Commerce Department for permission to export two computers to Iran.

Reger, 57, of Huntington Beach, managed a Costa Mesa company called Iran Business Machines for the owner, a wealthy, 41-year-old Iranian businessman named Reza Zandian, who lives in Tehran and Paris.

Through their lawyers, the two men--who have since been arrested--deny any wrongdoing. Reger's lawyer says it's a misunderstanding that's been "blown out of proportion" in a gust of publicity generated by federal agents.

The two men had already had a brush with the local export cops in 1991, according to the search warrant affidavit: They had shipped a smaller computer to Iran that year--illegally, the affidavit alleges. They told Flashner later that they didn't think they had needed an export license.

That \$20,000 computer's size was "just on the threshold" of being illegal, said Ohlson. So nothing came of it. But that was when the agents began keeping an eye on Iran Business Machines.

This time, though, the big computer that Zandian's company was buying--an ES 9000--was sophisticated enough for advanced military uses. With all its accompanying equipment, it was large enough to fill a good-size conference room. "The disk drives are the size of a fridge. And there are four of them," Ohlson said.

The buyer, according to the export license Zandian's company had applied for, was the Iranian Ministry of Agriculture.

That news got Ohlson's attention: According to an informant quoted in court records, the agriculture ministry "has been a supplier of technology to the Iranian military . . . and other Iranian entities involved in (nuclear) proliferation programs."

Reger, in fact, had a letter from the Commerce Department saying that it was likely to turn down his application for a license.

It's perfectly legal to sell such a computer to a friendly country. But not to Iran.

According to a letter of credit that Reger showed Agent Flashner, the agriculture ministry was to pay \$2 million for the big computer, for which Zandian was paying International Business Machines \$1.5 million.

"They had a big profit margin in this deal," said Ohlson.

Agent Flashner, meanwhile, went to IBM. According to court documents, IBM told him that, even though Reger's request to export the machines to Iran was expected to be turned down, the computers were still on order. In fact, IBM said, Reger had told the computer company that the machines were for use only in the United States.

W. Thomas Hale, IBM's western area security manager based in San Francisco, told Flashner that there was something else curious about the order: Zandian's company had ordered the computers adapted for a 240-volt power supply--the kind used in Europe, and also Iran. (U.S. machines run on 110 volts.)

In early November, Zandian's company asked IBM to build it a data center for the big computer in its plush offices on the 12th floor of a gleaming new office building on Anton Boulevard near South Coast Plaza mall. IBM has a big regional sales and service office on seven floors of this building, which it also partly owns.

Federal agents contend that the data center project was a ruse to convince a suspicious IBM that the computers were for domestic use.

On Dec. 30, the big computer and another one Zandian had ordered were delivered to Iran Business Machines' office, and IBM found that the big one wouldn't fit in the door to the data center.

From then on, federal agents would watch the office through the hidden cameras to make sure that the computer didn't start on a trip to Iran.

A few days later, on Monday, the big computer was finally moved. It went to Kamden International Shipping, an air-freight company near Los Angeles International Airport. Kamden--unknown to Zandian and Reger--had also become nervous about dealing with them and called federal agents.

The shipper was told by the men that the computer was going to France, which is permissible under U.S. export law. But federal agents said in court documents that they believed that the computer would only stop in France briefly before going on to Iran.

About the same time, agents learned Zandian had an airline ticket to France for the next day. They followed him to the air freight company Monday afternoon, where he made arrangements to have the computer shipped on the next plane, and then followed him back again to Orange County on the San Diego Freeway and off a freeway ramp in Costa Mesa.

Shortly after dark, six federal agents in four cars surrounded the sleek white Jaguar that Zandian was driving as it halted for a stop sign next to an open field on Anton Boulevard near the IBM building.

Without drawing their pistols, the agents ordered Zandian and Reger out of the car and arrested them for allegedly violating the federal Export Administration Act. Each violation of this law carries a maximum 10-year jail sentence and a maximum \$250,000 fine. Later that night, agents searched the offices of Iran Business Machines.

Whether the 25 boxes of documents agents took yielded conclusive proof that the machines were bound for Iran--or that the Iranian government had anything to do with the alleged illegal export--the agents aren't saying.

At their arraignment the next afternoon, Zandian and Reger were led into a federal courtroom in Los Angeles wearing jail-issue blue shirts, jeans and sandals.

Reger is a round-featured, bespectacled man of medium height. Zandian is a slightly taller man with sharp features who sat erect through the hearing.

Now, for the second time in two years in Southern California, a couple of businessmen had been hauled before a federal court and accused of illegally exporting technology to Iran.

Last year, a U.S. citizen of Iranian descent living in Mission Viejo pleaded guilty to exporting high-tech electronic equipment to Iran and received a year in jail.

An Iranian national who pleaded guilty in the same case and was to be sentenced last fall returned to Iran and never came back.

Federal agents asked that Zandian be denied bail since, they said, he was wealthy enough to be a flight risk. His bail was set by a federal magistrate at \$600,000, and he is to be under house arrest in Irvine. Reger's bail was set at \$50,000.

"They're alleging a lot of things that sound worse than they actually are," said Francis James, the deputy federal public defender representing Reger. "Mr. Reger is not at all the big fish, and in fact he's not culpable."

Zandian's lawyer says the Iranian businessman is "confident he'll be fully exonerated."

Zandian, said attorney Richard A. Brown Jr. of Newport Beach, disputes the government's contention that the computer is one of IBM's most sophisticated machines.

"Mr. Zandian," said Brown, "says it's an entry-level mainframe computer."

Iran has been unfriendly to the United States since the late 1970s, when the Ayatollah Ruhollah Khomeini overthrew the U.S.-supported regime and took American diplomats and employees hostage.

With the passing of most of the world's communist regimes, Iran finds itself one of a shrinking group of nations forbidden to purchase many American high-tech products.

In October, in fact--while Zandian was awaiting delivery of his computer--Congress made it even tougher to export there.

And so federal officials are likely to see more of these cases, if for no other reason than they are spending more time investigating exports to the Middle East.

The Office of Export Enforcement says it is investigating 121 instances of suspected illegal exports to Iran, at least several of them in California. That's far more than in the past, says Director Frank Deliberti in Washington.

"There's a larger effort on the part of Iran to obtain Western technology," said Deliberti.

"And that's why we're focusing more often on them now."

Times staff writer George White contributed to this report.

Los Angeles Times

Copyright 2016 Los Angeles Times
