

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI

UNITED STATES OF AMERICA,)	
)	Case No.
Plaintiff,)	
)	
v.)	
)	
WILLIAM S. REED, individually and)	
dba as Asset Protection Group, Inc.,)	
)	
Defendant.)	

Plaintiff, the United States of America, for its Complaint against defendant William S. Reed, individually and dba as Asset Protection Group, Inc., states as follows:

Jurisdiction and Venue

1. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and 26 (IRC) U.S.C. §§ 7401, 7402 and 7408.
2. This suit is brought under IRC § 7402, and 7408 to enjoin Reed from:
 - a. engaging in activity subject to penalty under IRC § 6700, including organizing or selling a plan or arrangement and making a statement regarding the benefit of participating in a plan that he knows or has reason to know is false or fraudulent as to any matter;
 - b. assisting in the creation and administration of corporations or other state-law entities;
 - c. assisting in the filing of fraudulent liens;
 - d. assisting in the creation of hidden bank accounts, nominally maintained in the name of corporations or other state-law entities; and
 - e. engaging in conduct that substantially interferes with the proper administration of enforcement of internal revenue laws.
3. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a

delegate of the Attorney General of the United States, pursuant to the provisions of IRC. §§7402 and 7408.

4. Venue is proper in this district under 28 USC § 1391 (b)-(c).

Background

A. William S. Reed

5. Reed, who resides in Las Vegas, Nevada, promotes a tax-fraud scheme to help customers evade the assessment and collection of federal tax liabilities.

6. Reed is a former attorney whose license to practice was suspended by the Supreme Court of Colorado in 1997 for engaging in misrepresentations and dishonesty.

7. Reed wrote a book entitled *Bulletproof Asset Protection* that describes methods of hiding assets from creditors, government agencies, receivers, and courts.

8. Reed conducts business as Asset Protection Group, Inc. (“APGI”) with an office in Las Vegas, Nevada. Reed and APGI have transacted business in this district.

B. Asset Protection Group, Inc.

9. APGI is a Nevada corporation with its principal place of business at 4601 West Sahara Avenue, Las Vegas, Nevada 89102. Reed and Richard S. Neiswonger created APGI in 1998. From 1999 to mid-2006, APGI offered and sold a purported training and business opportunity program (“APGI Program”).

10. Reed and Neiswonger marketed the APGI Program as a so-called asset-protection program in which customers became APGI asset-protection consultants.

11. These consultants would then sell APGI’s asset-protection services to other customers desiring to conceal assets.

12. Through APGI Reed has established thousands of Nevada corporations for customers to use as nominees to hide their income and assets. Through these hidden-ownership corporations, Reed has helped APGI customers use sham entities to record phony

encumbrances on the customers' assets in order to deceive the customers' creditors (including the IRS) into believing that the assets are not available for collecting debts.

13. Through these hidden-ownership corporations, Reed has helped APGI customers fund and maintain hidden bank accounts to conceal customers' income and assets from creditors (including the IRS).

14. Reed promoted APGI through a video called "The Litigation Explosion," featuring the actor Robert Wagner. In the video Reed falsely states that customers can legally file "friendly liens" to protect their equity in their property.

Related FTC Case

15. In 1997, the FTC obtained an injunction prohibiting Neiswonger from making false representations in connection with the promotion of business opportunity programs in *Federal Trade Commission v. Neiswonger*, 96-CV-02225 (E.D. Mo. 2007).

16. Thereafter, the FTC believed that Neiswonger and Reed, his new business partner, had violated the injunction in connection with the operations of APGI. Neiswonger and Reed, through APGI, offered to train customers to become asset-protection consultants, for a fee of \$9,800.

17. In a July 17, 2006 *Ex Parte* Restraining Order with Ancillary Equitable Relief (Docket No. 29-1), the Court in the *FTC* case appointed a temporary receiver to take full control of all of APGI's assets and operations.

18. On taking control of APGI's operations the receiver found that besides training consultants, APGI provided substantial "asset protection" services to numerous customers.

19. The Receiver determined that some of these services were improper or unlawful.

20. The Receiver determined that APGI could no longer be operated profitably and ceased operations effective January 4, 2007.

21. On January 26, 2007, the Receiver filed an Application for Order to Show Cause why William S. Reed should not be held in contempt of Court.

22. The Receiver's papers asserted that Reed "repeatedly violated the Temporary Restraining Order and Restricted Operations Order with impunity."

Defendants' Tax-Fraud Schemes

23. Reed's scheme is grounded in his assertion that Nevada law does not require disclosure of the true owners of a corporation.

24. Reed wrote in his book:

Camouflaging your assets is the first step in implementing any asset protection plan. Remember, if a federal judge can find an asset, he can seize it. Conversely what he can't find, or doesn't know about, he can't touch. Although I enjoy advertising bulletproof asset protection, the prescription for making an asset bulletproof is first to make it invisible.

25. Under his scheme, Reed forms Nevada corporations for customers that list Reed as the only officer or director.

26. The shares of the corporation are not issued to named persons, but rather to the bearer of the stock certificate. Reed falsely informs customers that the owner of the corporation can then truthfully deny ownership of the corporation, unless the owner happens to be holding the bearer stock certificates at the time a question about ownership is put to him.

27. In this way, Reed tells his customers, one can own and control a Nevada corporation (and its assets) without that ownership and control ever having to be acknowledged or ever being discovered.

28. Reed informs his customers that "as a nominee for hundreds of Nevada corporations, I've been asked this question many times under oath, and my answer is always the same. 'I don't know who the owners of the company are and I can prove it.' When we form a corporation and issue bearer shares, I specifically ask my client in writing not to tell me what he intends to do with the share certificates. What I don't know I can't tell anyone."

29. Reed promotes two schemes relying on the theory that true owners of Nevada Corporations can be totally hidden: 1) filing fraudulent liens, which APGI calls “friendly liens”; and 2) hidden bank accounts.

A. Fraudulent Liens

30. Under APGI’s so-called “friendly lien” program, a customer has APGI form a Nevada corporation, of which the customer is the sole, but secret owner. The customer then gives the corporation a note secured by a deed of trust, and the deed of trust is recorded in the county where the customer’s property is located, so as to encumber that property.

31. The conveyance of a “friendly lien” is simply a fraudulent conveyance of an interest in property for no consideration. The object of the fraudulent lien is to defraud creditors.

32. Such fraudulent liens enable APGI’s customers to falsely protect equity in their real estate by discouraging *bona fide* creditors from executing on the real estate based on the false impression that the customer has little or no equity in the property.

33. Reed generally keeps a release or subordination agreement, which Reed can then record if the customer ever needs to clear title to convey the property or use the property as collateral for a loan. APGI advised customers that it could take two to three days to release the fraudulent liens.

34. In some cases, APGI customers have used Reed’s scheme to create fraudulent liens exceeding \$1 million. APGI charged customers \$250 for preparing fraudulent liens. APGI charged an additional \$125 for a pre-signed release of the fraudulent liens.

35. Reed falsely advised his customers that these fraudulent liens were legal.

36. APGI’s customers with “friendly liens” have falsely represented the nature of these liens to bankruptcy courts and one APGI customer is a defendant in a fraudulent conveyance lawsuit in California. *See Shurance v. Wilshire Development*, Case No. 454905 (Riverside Sup. Ct.).

Specific Example of Fraudulent Lien

37. On February 24, 2004, APCI sent a letter to a customer regarding the creation of a “friendly lien.” The letter provided detailed instructions for filing the “friendly lien” and enclosed all of the necessary documents to create the “friendly lien,” in this case a “friendly mortgage.” On March 11, 2004, APCI’s customer filed the “friendly mortgage” for the customer’s property in Gwinnett, Georgia.

38. The “friendly mortgage” was between APCI’s customer and the customer’s nominee corporation in the amount of \$100,000. The customer’s nominee corporation, however, did not provide any consideration for the \$100,000 mortgage. In addition, the customer requested that APCI send a Discharge of the Mortgage, so that he could release the “friendly lien” whenever he needed to do so.

39. This customer has an outstanding federal income tax liability of \$24,149.13. The friendly lien was intended to deceive the IRS and hinder or forestall collection of the customer’s federal tax debt.

40. The following chart shows more examples of Reed’s and APCI’s preparation of fraudulent liens for customers with federal tax debts:

Date Fraudulent Lien was Filed	Property Location	Amount of Fraudulent Lien	Federal Tax liability Against APCI’s Customer
April 11, 2004	Castro Valley, CA	\$440,000	\$6,451.22
April 11, 2004	Fremont, CA	\$400,000	\$6,451.22
July 6, 2004	Hunt County, AL	\$175,000	\$450,447.59
March 17, 2005	Madera County, CA	\$580,000	\$390,402.53
November 17, 2005	Cook County, IL	\$50,000	\$7,615.40

May 6, 2005	San Diego County, CA	\$600,000	N/A
	Total:	\$2,245,000	\$854,916.74

B. Hidden Bank Accounts

41. Under the hidden bank account program, Reed and APGI open bank accounts in the name of a Nevada corporation formed for the customer. Typically Reed is the sole signatory on the account.

42. The customer, through various devices, transfers money to the account.

43. Reed issues checks at the customer's request or provides the customer with signed, blank checks that can be made payable as the customer desires.

44. The IRS has discovered at least 75 APGI customers that have used these hidden bank accounts to evade the assessment and collection of federal income taxes.

45. Many of APGI's customers have federal tax debts or have failed to file federal income tax returns.

Reed's false statements to the IRS

46. The IRS interviewed Reed in June 2006, before the appointment of the Receiver in *Federal Trade Commission v. Neiswonger*, 96-CV-02225.

47. The IRS asked Reed for information regarding the true owners of the Nevada corporations he had formed. Reed falsely responded that he did not have the individual names of those forming the corporations.

48. The IRS then asked Reed to identify the shareholders of the Nevada corporations he had established. Reed again falsely responded that he had no idea who the shareholders are and that he was doing only that which has been done by other registered agents.

49. The true scope of Reed's operation came to light when the Receiver took over APGI's operations. Contrary to Reed's statements about his knowledge of the Nevada corporations' true owners, APGI had detailed files and computer records for each owner. These files contained billing statements and correspondence between the true owners and APGI.

50. Reed is likely to continue to promote schemes that help customers unlawfully hide their income and assets from the IRS to evade the assessment and collection of federal taxes unless the Court enjoins him. Reed's conduct substantially interferes with the proper administration of enforcement of internal revenue laws.

Need for a Permanent injunction

51. After the Receiver took over APGI's operations, Reed's employees violated the temporary restraining order against them and continued to prepare fraudulent liens. APGI employee Kim Toy prepared four fraudulent liens worth over \$731,816. In addition, the Receiver discovered an additional ten "APG Friendly Lien Preparation Worksheets" totaling over \$4.9 million in documents confiscated from Kim Toy as she was attempting to leave APGI's offices in October 2006. The Receiver prevented the filing of these additional fraudulent liens.

52. On information and belief, Reed continues to provide fraudulent asset protection programs through Corporate Executive Services, which is promoted online at: <http://nv-services.com/aboutus.aspx>.

53. Reed has established thousands of Nevada corporations with the intent of hiding the identity of the true owner. Nearly 2000 individuals purchased the APGI Program and the State of Nevada corporate records show that APGI has provided resident agent services for nearly 3200 Nevada corporations since 1998.

Count I

(Injunction under IRC § 7408 for violation of IRC § 6700)

54. The United States incorporates by reference the allegations in paragraphs 1 through 53.

55. IRC § 7408 authorizes a court to enjoin persons who have engaged in any conduct subject to penalty under 26 U.S.C. (IRC) § 6700 if the court finds that injunctive relief is appropriate to prevent the recurrence of such conduct.

56. IRC § 6700 penalizes any person who organizes or sells a plan or arrangement and, in connection with the organization or sale, makes a statement regarding any tax benefit which the person knows or has reason to know is false or fraudulent as to any material matter.

57. Reed sells a fraudulent tax scheme that helps his customers hide income and assets to frustrate IRS attempts to determine and collect their federal tax liabilities. While selling this fraudulent tax scheme, Reed falsely advises his customers that the actions he assists them with are legal, and thus engages in conduct subject to the IRC § 6700 penalty.

58. If Reed is not enjoined, Reed is likely to continue to engage in conduct subject to penalty under IRC § 6700 and continue aiding his customers in hiding their income and assets from the IRS.

Count II

(Unlawful interference with enforcement of the internal revenue laws)

59. The United States incorporates by reference the allegations of paragraphs 1 through 58.

60. Through the conduct described above, Reed has engaged in conduct that substantially interferes with the administration and enforcement of the internal revenue laws. Unless enjoined by this Court, Reed is likely to continue to engage in such conduct. Reed's

conduct is causing irreparable injury to the United States, and the United States has no adequate remedy at law:

- a. Reed's conduct, unless enjoined, is likely to cause substantial loss of revenue to the United States Treasury. Unless they are enjoined, the IRS will have to expend substantial time and resources to determine the income, assets, and expenditures of APGI's customers who have incurred substantial federal tax liabilities, and to collect those liabilities.
- b. The identification of and determination of the income, assets, and expenditures of APGI's customers with substantial federal tax liabilities will place a serious burden on the IRS's resources. Even if all of APGI's customers are identified and fraudulent liens uncovered, and their income, assets, and expenditures determined, the IRS may not be able to collect all taxes and penalties due.
- c. If Reed is not enjoined, he likely will continue to engage in conduct that substantially interferes with the enforcement of the internal revenue laws.

WHEREFORE, the United States prays for the following:

A. That the Court find that William S. Reed has engaged in conduct subject to a penalty under IRC § 6700, and that injunctive relief under IRC § 7408 is appropriate to prevent a recurrence of that conduct;

B. That the Court find that Williams S. Reed has engaged in conduct that interferes with the enforcement of the internal revenue laws, and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers and IRC § 7402;

C. That the Court, under IRC §§ 7402 and 7408, enter a permanent injunction prohibiting Reed, individually and doing business as APGI, or through any other name or entity, and his representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with him, from directly or indirectly:

- a. engaging in activity subject to penalty under IRC § 6700, including organizing or selling a plan or arrangement and making a statement regarding the benefit of participating in a plan that he knows or has reason to know is false or fraudulent as to any matter;
- b. assisting in the creation and administration of corporations or other state-law entities for others;
- c. assisting others in the filing of fraudulent liens;

- d. assisting in the creation of hidden bank accounts, nominally maintained in the name of corporations or other state-law entities; and
- e. engaging in any other conduct that substantially interferes with the proper administration of enforcement of internal revenue laws.

D. That the Court, pursuant to IRC §§ 7402 and 7408, enter an injunction requiring Reed to contact by mail (and also by e-mail, if an address is known) all customers who have participated in Reed's schemes or any of APGI's programs and to inform them of the Court's findings concerning the falsity of Reed's prior representations and enclose a copy of the permanent injunction against him;

E. That the Court, pursuant to IRC §§ 7402 and 7408, enter an injunction requiring Reed to produce to counsel for the United States all records in his possession or to which they have access, that identify the persons who have participated in Reed's schemes or any of APGI's programs;

F. That the Court, pursuant to IRC §§ 7402 and 7408, enter an injunction requiring Reed to identify every lien and bank account they have established or assisted in establishing for customers;

G. That the Court, pursuant to IRC §§ 7402 and 7408, enter an injunction requiring Reed to release every fraudulent lien they have established or assisted in establishing for customers;

H. That the Court, pursuant to IRC §§ 7402 and 7408, enter an injunction requiring Reed to identify every consultant that has promoted the APGI Program or any of Reed's schemes;

I. That the Court order that the United States is permitted to engage in post-judgment discovery to ensure compliance with the permanent injunction;

J. That the Court retain jurisdiction over this action to enforce any permanent injunction entered against Reed; and

K. That the Court grant the United States such other and further relief, including costs, as is just and equitable.

DATED: August 20, 2007

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