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2001 MAY -5 A 11:01
U.S. DISTRICT COURT
DISTRICT OF NEVADA

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IN THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF NEVADA

UNITED STATES,)
)
 Plaintiff,)
)
 v.) Civil No. CV-S-04-0455-LDG-LRL
)
 NATIONAL AUDIT DEFENSE NETWORK,)
 et al.,)
)
 Defendants.)

**PLAINTIFF'S REPLY TO NADN'S OPPOSITION TO PLAINTIFF'S MOTION FOR
TEMPORARY RESTRAINING ORDER AND PRELIMINARY INJUNCTION**

NADN, joined by all remaining TRO-targeted defendants except Mary Ori¹ and G&J
Eagle Enterprises, Inc., suggests that it is a victim of a reckless Government lawsuit, which it

¹ Ori filed a non-responsive document captioned as a motion to dismiss the Government's TRO motion. She raises no arguments in that filing that require a response.

claims is supported merely by a handful of “disgruntled”² former employees and dissatisfied customers. The brief attacks some declarants and their declarations’ minor flaws, some real and some imagined, and leaves most major allegations unchallenged and unrebutted by opposing declarations.

Defendants also state that the proposed TRO—which would bar defendants from making false tax-related statements while selling products and services and from preparing tax returns—will force NADN into a Chapter 7 bankruptcy and throw its 400 employees out of work.³ In essence, Defendants claim that they are not engaged in any fraud, yet also claim that temporarily barring them from fraudulent activities will sink the company. Defendants make these mutually exclusive statements a central theme of their brief, apparently without recognizing the inherent conflict or irony.

Defendants also suggest that the Shopn2000 program is a legitimate product, was truthfully marketed, and that they had no reason to believe the program was anything other than a business that happened to have some good tax benefits. In support, Defendants primarily try to muddy the waters by suggesting that application of the ADA to websites is an issue of first impression and that this area of the law is subject to confusion and varying interpretations. Even complex laws are clear on some issues, and this is one such issue. Defendants don’t even try to defend the sham promissory notes that are central to the Shopn2000 scam, and don’t contradict

² Response Brief (hereinafter “Resp.”) at 50. Defendants offer no support for their conclusion that the employees and/or the customers are disgruntled or that the employees left on anything other than good terms with NADN.

³ Al Rodrigues Decl. at ¶ 48.

anything in Dr. Niccum's or Andrew Orgell's declarations. Those two witnesses together describe, for different reasons, why the Shopn2000 program was a sham from start to finish. NADN also trumpets the fact that it has stopped selling the program, but doesn't mention the reason: Oryan stopped distributing the Shopn2000 program to NADN because the Oryan defendants have agreed to be enjoined in this lawsuit. NADN hardly deserves credit for ceasing its fraudulent sales of the Shopn2000 "websites."⁴

And instead of ceasing its activities, NADN has continued to defraud customers even after this suit was filed on April 13. We attach two new post-lawsuit declarations showing that NADN is now making *new* fraudulent statements to customers in connection with selling a *new* worthless product—a so-called hit generator or optimizer. The "hit generator," for which NADN charges \$2,000⁵ or more,⁶ simply provides meaningless clicks on the customers' PIN number/"websites" so as to create the false appearance that the PINs are being used for something. NADN does not guarantee that the hits will generate commissions, instead

⁴ See, e.g., *Dunlop v. Davis*, 524 F.2d 1278, 1281 (5th Cir. 1975) (current compliance no bar to injunction, especially where "compliance is achieved only by the direct scrutiny of enforcement authorities."). NADN also suggests that there is no more urgency in this case because they stopped selling this tax scam after 17,000 sales. This argument ignores that their history alone demonstrates the urgency, plus Thomas Niccum's declaration shows that anyone, including NADN, could start a similar website scheme for under \$20,000. Niccum Decl. at ¶ 35.

⁵ Declaration of Eileen Gelzhiser at ¶ 10.

⁶ Declaration of Gary Lahti at ¶ 11 (NADN offered Lahti a product that would "legitimize" his Shopn2000 "website," which presumably was a hit generator, for \$2,200, \$3,200, or \$4,200).

suggesting that the PIN owner will make money but without promising any commissions.⁷

Presumably the “money” is simply paying off the sham promissory note. Worse yet, NADN is now essentially attempting to extort money from its existing Shopn2000 customers by falsely telling them that paying NADN for the hit generator will somehow show that the customers are engaged in a legitimate business, and thereby protect the customers from IRS audit or from having to pay back previous Shopn2000-related tax refunds.⁸

This is brazen fraud. That NADN would do this even after this suit was filed confirms—if confirmation was needed—that NADN’s fraudulent sales practices are not isolated occurrences but rather are the very essence of NADN.

Customer Eileen Gelzheizer’s declaration details, at ¶¶ 8, 10, and 18, how NADN salespersons told her, after this suit was filed, that she needed to buy a “search engine hit generator” to “stay out of trouble for having purchased two Mallforall web pages,” and to avoid getting audited by the IRS. This is extortion, and entirely false—the likelihood of an IRS audit will not be reduced by meaningless clicks from the “hit generator.” Showing that a website received thousands of “hits” without earning any commissions proves nothing in regard to business purpose.

Customer Gary Lahti testifies that NADN prepared his 2003 tax return and, in a new twist, amortized the \$10,475 Shopn2000 purported modification expense as a “startup cost,” even though Lahti never signed the promissory note that is the ostensible source of most of the

⁷ Gelzheizer Decl. at ¶¶ 11-12.

⁸ Gelzheizer Decl. at ¶¶ 8, 10-18.

\$10,475 purported modification cost.⁹ Lahti also states that NADN's salesperson told him on April 26, 2004, 13 days after the Government filed this suit, that Lahti needed to buy additional products to "legitimize" the Shopn2000 "business" and that Lahti could take a \$5,000 tax credit on his 2003 return.¹⁰ The same salesperson said that NADN has saved customers \$324 million and the Government is "not happy about it," but the Shopn2000-related purported tax credit was legal.¹¹ The \$324 million figure comes from the Government's filings in this case—it is the estimated tax loss from all of NADN's fraudulent activities. NADN has told the court that this number is wildly inflated while at the same time claiming that it is accurate and using it as part of its sales pitch to further defraud its customers.

As demonstrated below and in our initial brief, NADN is running a tax-scam boilerroom, defrauding its customers and the US Treasury. NADN protests that these terms were thrown around carelessly in the Government's brief. But the shoe fits. The claims of fraud and boilerroom high-pressure tactics were amply substantiated by voluminous evidence, including NADN's own documents. The claims are now further confirmed by the two new attached declarations showing NADN's post-suit tactics. The Government's request here is simple:

⁹ Declaration of Gary Lahti at ¶¶ 8-12. Further, because Oryan's contracts with Shopn2000 customers provides that they are purchasing a website and, within 30 days after purchase Oryan will "modify" the website, these costs cannot be amortizable "startup costs" under I.R.C. § 195.

¹⁰ *Id.* at ¶ 11.

¹¹ *Id.* at ¶ 12. Defendants will no doubt try to brush off Gelzhiser's and Lahti's declarations as another in a series of supposedly isolated, "disgruntled" customers. We note that the Court can find similar complaints at www.ripoffreport.com (search "NADN"), referenced in the Niccum declaration at ¶ 67.

NADN and the related defendants should be barred from making fraudulent sales pitches and preparing false tax returns. A TRO will protect the Government and, equally important, NADN's customers, from further misconduct of the sort detailed in the Government's sworn declarations. Every day that NADN is allowed to continue selling fraudulent tax schemes and prepare fraudulent tax returns is another day in which its customers and the US Treasury will be irreparably harmed.¹²

I. ARGUMENT

A. **The Government's TRO motion is supported by substantial, largely un rebutted evidence and NADN's victimization claim is unfounded.**

1. The Government's TRO motion has substantial, un rebutted support

NADN did not effectively rebut any of the matters to which customers including Bradford Howard, Valerie Weinstein, Pauline Cox, Vivian Robinson, and Donna St. Martin-Smith swore in their declarations.¹³ These customers detailed similar patterns of deception related primarily to the Shopn2000 program, including a document prepared on behalf of NADN and sent to Howard, which characterized any revenue from Howard's Shopn2000 "website" as

¹² The Government disputes, but does not have sufficient time to brief, other allegations and legal arguments contained in Defendants' brief. For example, Defendants' explanation of gross valuation overstatement cases is flawed, as a cursory reading of cases previously cited in the Government's brief and a brief evaluation of the sham promissory notes—which made up more than half of the purported \$10,475 "modification" value—demonstrate. We request that the Court not treat any unaddressed issue as waived, under these circumstances, and we will of course be happy to address at the hearing any questions the Court may have.

¹³ Vivian Robinson's declaration inadvertently does not contain the standard "under penalty of perjury," although such was the clear intent of the declaration. This issue goes to weight, not admissibility, but if the Court finds this attestation essential, the Government will provide a corrected declaration forthwith.

“found money if it comes.”¹⁴ Further, Defendants ignore essential, unvarnished statements from NADN’s own website that describe the program’s purported tax advantages (\$6,000-\$8,000 per client) and make merely a passing reference to website-generated revenue.¹⁵ Former employee Smallwood also details the false statements that *NADN trained him to make* and explains how he and his supervisor sold six Shopn2000 PINs to one customer, solely for tax benefits. These declarations, supplemented by the two new declarations showing post-lawsuit activity, and buttressed by the 17 attachments to Delaney’s declaration, leave no doubt that NADN’s fraudulent statements are systemic. They are not, as suggested by Defendants, isolated incidents.¹⁶

Instead of offering letters¹⁷ or declarations from some of the hundreds of thousands of their purportedly satisfied customers, NADN and the other defendants suggest that: (1) there are not enough declarations to support the government’s TRO request; (2) the declarations are

¹⁴ Howard Decl. at ¶15-16.

¹⁵ Goyette Decl. at GOY156, 161.

¹⁶ For example, Delaney Decl. Attachment 2 describes how the customer did not know about the promissory note until after the 72-hour rescission period expired. Attachment 3 describes how NADN promised to zero out the customer’s taxes and then told the customer that he needed to buy a Shopn2000 program to zero-out his taxes. Attachment 11 offers a story similar to that of Eileen Gelzheiser, showing how NADN customers thought they were buying another “modification” but instead were sold an entirely new PIN. And Attachment 15 describes how the customer was “coached” before being sent to the verification employee and being recorded by NADN.

¹⁷ NADN invites such testimonials, which in any event would not necessarily detail the tax-related statements made during the sales pitch. Duncan Decl. at Exh. 6, pp. 4-5.

hearsay and contain double hearsay; and (3) revenue agent Sue Cutler's declaration contains triple hearsay and is unreliable.

First, under penalty section 26 U.S.C. § 6700, the Government need only present credible evidence that NADN's employees made false tax-related statements while selling a plan or arrangement, and NADN (including its supervisors and owner) knew or had reason to know the statements were false. The Government has done that for every allegation contained in the brief. Instead of admitting this, Defendants suggest that one, two, or three declarations are not sufficient evidence of penalty conduct to sustain an injunction. They imply that there is some quantum of complaints and declarations that the Government must provide, although they do not tell the court how many declarations is sufficient, before the Government can establish that an injunction is warranted.

Although we have demonstrated that NADN's problems are widespread and long-lasting, we did not need to do so to demonstrate that a TRO and injunction are warranted. Instead, the Government must show under this statutory injunction section solely that an injunction is appropriate to prevent the recurrence of this penalty conduct.¹⁸ In addition to Defendants' long history of fraudulent tax advice, and the new fraudulent sales tactics that NADN has employed even after this suit was filed, NADN's failure to accept responsibility for false statements such as "dropping off a business card in a restaurant means a customer can deduct the meal expense,"¹⁹

¹⁸ 26 U.S.C. § 7408(b)(2).

¹⁹ Smallwood Decl. at ¶ 9.

amply demonstrates that an injunction is appropriate, indeed necessary, to prevent the recurrence of penalty conduct here.²⁰

Second, while some declarations contain some hearsay, most of those hearsay statements are not “double hearsay,” as Defendants claim. As we noted in our initial brief, “[a]ffidavits and other hearsay materials are often received in preliminary injunction proceedings.”²¹ Defendants’ repeated suggestion that using declarations here is somehow irregular or prohibited is inexplicable. Also inexplicable is Defendants’ repeated suggestion that statements from NADN’s salespersons, recounted in the declarations, are hearsay. To begin with NADN’s salespersons’ and supervisors’ statements are admissions of NADN and therefore not hearsay. Moreover, these statements are not being offered to prove the truth of the matters asserted therein. Quite the opposite: they are being offered as examples of false statements by NADN’s employees and are thus “not hearsay” under Fed. R. Evid. 801(c).

Defendants also falsely suggest that NADN return preparer Julia Thompson’s recounting of what her clients told her about the sales pitches are triple hearsay. In fact they are only single hearsay. And while these statements admittedly are not as reliable as having the clients submit declarations, Defendants have offered no reason to doubt either Thompson’s veracity or her clients’ motivation to tell her the truth about NADN’s sales pitches.

²⁰ See *United States v. Raymond*, 228 F.3d 804, 814 (7th Cir. 2000) (finding injunction appropriate, even though defendants voluntarily ceased activity before lawsuit filed, because, in part, defendants “expressed no remorse” and “refused to acknowledge that their conduct in this matter was anything other than perfectly lawful.”).

²¹ *Asseo v. Pan Am. Grain Co.*, 805 F.2d 23, 26 (1st Cir. 1986).

Defendants also attack revenue agent Sue Cutler's declaration, after first disingenuously designating her as the Government's "star" witness—a moniker more apt for Smallwood, Thompson, Howard, or a number of other declarants whose testimony forms the backbone of the Government's case. Defendants first attack Cutler's \$324 million damage estimate, clearly identified as an estimate, which is not an essential element in the case but was provided solely to explain the estimated scope of harm to NADN customers and the Government. NADN offers no alternative harm computation, for instance by identifying how many customers returned Shopn2000 programs and deducting that from the \$100 million estimated damage. Nor does NADN acknowledge that it is now using (and implicitly accepting) the \$324 million figure in its own post-suit sales pitches, as revealed in the attached Lahti declaration.

Cutler's other estimate was based on NADN's own promises to customers, so NADN likely did not want to admit that most customers saw much less than the promised \$3,000 per year in tax savings. The most salient criticism of Cutler's declaration is that she does not identify the current and former employees upon whose statements she based some of her declaration. If called to testify (she will be present at the hearing), Cutler will explain that the primary source for statements attributed to current employees is Robert Stovall, who provided a very brief and limited declaration in support of NADN's brief. The former employee will remain undisclosed unless the Court orders otherwise because the former employee agreed to sign a draft declaration but then refused to sign it for fear of being physically harmed for testifying against NADN. The declaration did not highlight this fact because of the obvious prejudicial effect on

NADN's case, but NADN's allegations have forced this disclosure. Two other former employees refused to provide declarations for the same stated reason.

NADN and the related defendants have tried to divert attention from the Government's un rebutted testimony and evidence, including statements from NADN's own website and its employees. Their primary tool is an ineffectual attack on the already-victimized declarants, including the formerly unemployed Donna St. Martin-Smith, 79-year-old Vivian Robinson, and quadriplegic Pauline Cox—calling them “disgruntled.” To the extent these witnesses are disgruntled they have a perfect right to be, each having been defrauded of thousands of dollars. If being disgruntled makes a scam victim's testimony unreliable, then the Government can never use scam victims' testimony in support of shutting down the scam. One can see why Defendants find appeal in that notion, but Defendants' suggestion in this regard falls apart of its own weight.

Finally, Smallwood's testimony, plus sales scripts, websites, and sample complaints from the Nevada Attorney General's Office demonstrate not only that NADN's salespersons have made false statements, but that the statements were approved by NADN's training staff and managers.

2. Defendants also exaggerate the scope and effect of the proposed TRO and preliminary injunction.

Defendants falsely suggest that the Government is trying to stop NADN from engaging in legitimate incorporation activities and tax-product sales, thereby pushing NADN into a Chapter 7 bankruptcy and forcing more than 400 employees out of work.²² The Government's brief never

²² Resp. at pp. 48-50.

stated that all of NADN's incorporation-related and home-based-business-related statements are false. Instead, the Government selected the false statements of which it was aware, including that corporations are entitled to myriad business deductions that sole proprietorships are not, and asked the Court to bar *that* false or fraudulent activity.²³ Instead of trying to explain why the statements, taken from NADN's website, are true, NADN tries to shift focus to its truthful statements about the benefits of incorporating in Nevada and to truthful statements about home-based-business tax deductions. The issue here is not how many true statements NADN's employees have made; it is how many false statements they have made. Defendants fail to rebut the evidence of false statements from NADN's own website and from former employee Smallwood and customers such as St. Martin-Smith. For instance, St. Martin-Smith testified that NADN's salespersons told her that, by incorporating in Nevada, she could become a "tax-exempt person."²⁴ NADN did not search its records for St. Martin-Smith's salesperson and obtain a declaration from him or her.

NADN admits that it has stopped selling the Shopn2000 program, so Defendants cannot claim any potential TRO-related damage by enjoining them from selling this or any other false or fraudulent tax scheme.

B. The Shopn2000 program is demonstrably a sham, sold as a tax deduction, and not entitled to the § 44 tax credit.

²³ TRO Brief (Br.) at pp. 41-45.

²⁴ St. Martin-Smith Decl. at ¶ 3.

In support of their claim that NADN made no false tax statements about the Shopn2000 program, Defendants offer four suggestions: (1) that the Shopn2000 program is a real business and was marketed as such; (2) that the ADA is very complicated and therefore the tax credit issue is somehow debatable; (3) that they relied on Michael Potter's and Curtis Shaw's opinion letters; and (4) that computer expert Niccum's and Shopn2000 designer Andrew Orgell's declarations should be completely disregarded. All four suggestions are contradicted by the record.²⁵

1. The Shopn2000 program was not a real business and was not marketed as one.

First, NADN and the related defendants in their brief try to shift the Court's focus from the exhaustively detailed false tax-related statements about the Shopn2000 program, including from NADN's website, and instead asks the Court to focus on whether customers tried to make the so-called business work. Defendants even highlight a footnote²⁶ in which the Government describes how some customers may claim legitimate (*i.e.*, not Shopn200-related) business deductions if, notwithstanding NADN's tax-credit-centric sales pitch, the customers incurred deductible expenses. Defendants miss the point of this footnote and of the injunction sections when stressing that the Court should look at customers' subjective intentions when evaluating whether this is a tax scam. Defendants also ignore the two opinion letters on which NADN and other defendants purportedly relied, which both state that the Shopn2000 product will be subject

²⁵ Defendants also suggest, Resp. at p. 35, that the Government failed to demonstrate that NADN's return-preparation department violated § 6694, because the Government did not specifically analyze whether NADN's Shopn2000 position was unreasonable. The Government demonstrated the myriad reasons why the position was unreasonable in its brief, so a summary statement later in the already 69-page brief was sufficient.

²⁶ Repl. at pp. 15-16.

to legitimate attack if NADN marketed it as a tax product and not a business.²⁷ The Court's proper focus under IRC § 6700 is on the false and fraudulent statements NADN made when it sold the product, not on whether some customers may have made a sincere effort to use their Shopn2000 PINs as a business. The defendants have not refuted the substantial evidence of the false and fraudulent statements. And we have amply demonstrated, through website statements and declarations, that NADN emphasized tax benefits to the exclusion of a business purpose. Even under NADN's own self-serving opinion letters, the Shopn2000 program was a sham.

2. The ADA's purported complexity is irrelevant to this obvious scam.

Second, Defendant sets up a false argument²⁸ about whether some websites are subject to the ADA—the Government never claimed that some websites could be covered by the ADA. After making this false argument, NADN assumes, without demonstrating, that the Shopn2000 websites are “places of public accommodation” under the ADA, and then claims that, at very least, these issues are so complex and subject to varying interpretations that no one at NADN could have known that the Shopn2000 program was not entitled to the § 44 credit.

The purported “Internet mall” here is vastly different from a physical mall, which, for example, offers the exclusive method of ingress and egress to stores leasing space from the mall owner. The Shopn2000 website here is more like a yellow pages or newspaper advertisement that lists stores in certain categories and highlights some of their products, which is not subject to

²⁷ Potter opinion letter, Gordon Decl. at ASH079; Shaw opinion letter, Stovall Decl. at Attachment 2, p. 25.

²⁸ Repl. at pp. 18-22.

the ADA. Defendants make no attempt to analyze the ADA and instead assume, without explanation, that Shopn2000 is a place of public accommodation.

But even if the website is a place of public accommodation, each PIN is not a separate website and each PIN is not a “place of public accommodation.” Further, we demonstrated that one purported modification—the text-only page—was inoperable for weeks and that the other remaining modification—the voice-shopping function—was provided to all Shopn2000 visitors, regardless of PIN entered, so each new so-called “owner” was not really paying for this purported modification. Defendants contest none of this evidence, which demonstrates that Shopn2000 PIN purchasers could not qualify as places of public accommodation and hence for the § 44 tax credit.

Further, even if the ADA is “complex” and its application to the Internet is not settled, issues relating to sham promissory notes and similar obvious falsehoods can be recognized without reference to these more complicated issues. Moreover, the defendants’ gross valuation overstatements (within the meaning of IRC § 6700) are entirely unrelated to any supposed complexity of the ADA. As we said before, Defendants employed the oldest trick in the book, selling the same product over and over thousands of times to customers who were falsely told they were getting a unique product. This isn’t complex; it is perfectly simple.

Defendants seemingly invite the Court to throw up its hands and say “this is a tough area, so it’s okay that NADN sold \$40 million (17,000 times \$2,500) worth (or \$170 million if one counts the face value of the sham promissory notes) of these worthless PIN modifications despite being warned by company attorneys and despite receiving similar warnings from NADN’s hand-

picked opinion-letter writers.” Defendants did not need to be experts in tax law or the ADA to recognize this as a scam. Pointing to unrelated complexities does not support their argument against an injunction. Indeed, it is merely a ploy to further the fraud.

3. Defendants did not, and could not, reasonably rely on the Potter and Shaw opinion letters.

Third, Defendants falsely suggest that they reasonably relied on the Potter and Shaw opinion letters. Defendants make no showing that Potter or Shaw have any experience in tax law or the ADA, and Shaw’s letter mimics Potter’s letter to a large degree. To begin with, reliance on counsel (or anyone else) is no defense, as is noted above, to the gross-valuation-overstatement portion of IRC § 6700. Additionally, neither letter refers to the Stovall memorandum, strongly suggesting that NADN failed to provide a copy of the letter to either Shaw or Potter, even though Tigani claims that the two hand-picked opinions were sought to establish a “majority” opinion on the program.²⁹ Further evidence of this is that neither letter addresses some of the Stovall memorandum’s most damaging points, such as the economic-substance discussion. Both letters falsely suggest that the federal-website standards, explicitly applicable solely to federal websites, may somehow apply to private websites and that the W3C guidelines instead may be standards for ADA compliance. These obviously erroneous statements are contradicted by the Stovall memorandum, which offers a much more thorough analysis.

²⁹ Tigani Decl. at ¶ 18(b). Tigani’s declaration does not disclose why Potter and Shaw would have been more qualified than, or even equally qualified as, him and NADN’s other technical department lawyers and enrolled agents to create the desired “majority opinion.”

Interestingly, Defendants obtained Stovall's declaration, but Stovall said nothing about his memorandum and did not disavow one word of it. Tigani's declaration is very carefully worded to protect Tigani's bar license and permission to practice before the IRS, but does not disavow anything in the Stovall memo, which he helped to draft.

Further, as noted above, both opinion letters explicitly state that the program must be marketed as a business, shown to have real profit potential, to withstand scrutiny. Defendants have not disputed that the average website earned \$2.40 in commissions over its multi-year life, that the promissory notes were shams, that NADN's website touted the program as a tax credit-driven product, and that NADN's salespersons sold to at least some customers based solely on the purported tax benefits. All of these undisputed statements demonstrate that, even under the Shaw and Potter opinion letters, Defendants were operating a tax scheme that could not be sustained upon scrutiny.

Defendants also claim that they relied, in part on defendant Porter's e-mails to the IRS. The Government included these e-mails in its TRO exhibits to demonstrate two things: Porter gave the IRS partial information, which led to a partially correct answer, and Porter never asked whether he could claim a website modification expense under § 44. Instead he asked, assuming that he was entitled to the credit, whether he could he take the credit in the first year, even if he "borrowed" some of the money. Defendants cannot credibly suggest that they relied in any fashion on these IRS responses, especially where Defendants knew that key information, especially about the sham promissory notes, was omitted from Porter's question.

4. Niccum and Orgell's declarations are reliable and uncontradicted.

Fourth, Defendants raise two objections to Niccum's declaration and two objections to Orgell's declaration; none are valid. Defendants first argue that, although Niccum performed an exhaustive analysis, including testing, of the Shopn2000 website, his inability to look at the "source code" for the website means his entire declaration should be disregarded. Defendants fail to explain why this omission taints any of his conclusions, why it is important, and whether Defendants consulted any computer experts or used NADN's own computer-specialist employees to evaluate the source code. In reality, Niccum's declaration is so thorough and so credible that Defendants seized on the only area flagged for further possible evaluation.

Defendant further argue that Niccum never values the website modifications. This argument is false. Niccum explains how the chat function is available for free or for, at most, \$8.99 per month. Orgell stated that the chat function received a very low volume of messages, generally fewer than 10 per day, which wouldn't require a robust, expensive system. Further, Niccum stated that the text-only site would cost, at most, \$4,000. These establish a value for both so-called modifications, from worthless to, at most, \$4,000. And those numbers are for only one website; once the single Shopn2000 website was modified, everyone else would get the modifications automatically.

Defendant attack Orgell's declaration by saying, without any support, that he is a "disgruntled employee."³⁰ There is certainly no support for that in his declaration, in which he helped Goetsch by claiming that Goetsch tried to make the Shopn2000 website more profitable

³⁰ Resp. at p.12.

for customers. Defendants also suggest that Orgell lacks personal knowledge on the “actual commissions earned,” although Orgell reviewed the Linkshare statements and concluded that the vast majority of PIN owners earned no commissions. Further, Defendants simply ignore the Michael Shea declaration, given by a Linkshare employee who verified that all PINs combined earned less than \$24,000 in commissions since inception.

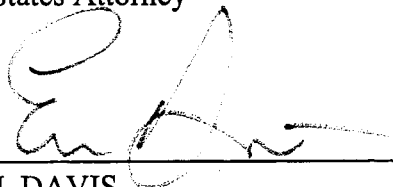
II. CONCLUSION

NADN and the related defendants seek to divert attention from the demonstrably false and fraudulent statements that NADN’s salespersons used when marketing NADN’s tax products and services. They attack the declarants’ motives, without shaking their core statements and evidence. Defendants claim these incidents didn’t happen, or if they did they were isolated incidents and that NADN can be trusted to police itself, with its one compliance officer. But we have shown what NADN’s response has been, and will be, to this enforcement action; two more declarants have described NADN’s post-lawsuit attempts to extort yet more money from customers. NADN and the related defendants can hardly be trusted to police themselves. The Government has demonstrated an immediate need to stop all of Defendants’ tax-scam activities. Defendants’ response—baseless attacks on the declarants instead of accepting responsibility for

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the Defendants' past fraud—provides the best possible evidence that a TRO is appropriate to prevent the recurrence of this fraudulent conduct.

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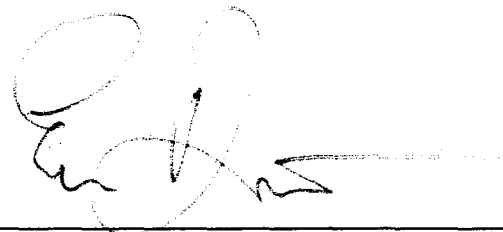
CERTIFICATE OF SERVICE

IT IS HEREBY CERTIFIED that service of the foregoing **PLAINTIFF'S REPLY TO NADN'S OPPOSITION TO PLAINTIFF'S MOTION FOR TEMPORARY RESTRAINING ORDER AND PRELIMINARY INJUNCTION and PLAINTIFF'S RESPONSE TO NADN'S MOTION TO REFER COMPLAINT TO BANKRUPTCY COURT** has been made upon the following by hand delivery this 5th day of May, 2004:

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IN THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF NEVADA

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
v.) Civil No. CV-S-04-0455-LDG
)
NATIONAL AUDIT DEFENSE NETWORK,)
et al.,)
)
Defendants.)

DECLARATION OF EILEEN GELZHISER

1. I am over the age of 18 and am competent to testify to the contents herein. I live in Delmont, Pennsylvania and I hold a B.S. in accounting. I am not a tax accountant, but am instead a controller for a health care company.
2. I initially contacted NADN to prepare my tax return and to give me tax advice in 2002. They had been advertising heavily on radio station 1020 KDKA in Pittsburgh. I had a tax return that I was having trouble figuring out for myself. They advertised that they had ex-IRS agents working for them and implied that their knowledge of tax laws would insure that I would benefit from their advice.
3. NADN prepared and filed my 2002 income tax return. Soon after the return was filed, NADN contacted me about purchasing a website business known as "Mallforall." According to NADN, the Mallforall program involves buying a web page (designated with a five-digit number), having it modified to help disabled people use it, and claiming a tax credit and tax deduction for the modifications. Mallforall owners collect commissions if someone visits the mallforall.com site, enters the owner's five-digit

number, clicks through to a merchant listed on mallforall.com, and then purchases a product from the merchant's site.

4. After receiving several phone calls in which NADN tried to sell me a Mallforall, I caved in to their pressure. Based on how NADN's salespersons described the Mallforall, it seemed like an easy way to start a home-based business. NADN employee Mike Grubb told me to use 10 folders to collect my household expenses so that I could take full advantage of a home-based business by claiming tax deductions for these expenses. NADN's salespersons also instructed me to purchase business cards listing my Mallforall website and leave the cards with my tips at restaurants—NADN's salespersons told me that by doing so, I could deduct my meals as business expenses on my tax returns. NADN's salespersons also told me that if I left town for any reason, I could deduct all travel expenses if I did nothing more than leave business cards at various places during my travels. I did not follow these instructions because they didn't seem right. I did, however, file a 2002 tax return showing the Mallforall as a business and claiming the Mallforall-related tax credit and deductions, as directed by NADN.

5. I was not getting any visitors (or hits) to my web page, other than the hits made when I visited it myself. Therefore, I wasn't earning any commissions. NADN called me in 2003 and convinced me that I had to put some money into the business to prove to the IRS that I was working to make it profitable. Consequently, I paid NADN for a disability act "modification" to my web page. Although I paid for this modification, there was no noticeable change to the website. I should have asked NADN, but didn't, why these changes weren't noticeable. I assumed that the modifications were invisible to non-disabled people, but people with special disabilities could access modifications

through special tools on their computers (*e.g.*, deaf people can select closed-captioned words to be displayed on the bottom of TV screens).

6. NADN called to sell me another Mallforall website modification in 2003.

However, when selling me the modification, NADN's salesperson told me that my Mallforall web page had been diverted to someone else because I had taken too long to purchase the modification. Therefore, before making the modification to my web page, NADN told me that they would have to sell me another Mallforall web page, designated with a different five-digit number. It turns out that this statement wasn't true; I still owned the original modified Mallforall and I then purchased another one based on this misrepresentation. I therefore ended up owning two web pages instead of just the one.

7. NADN continued to call me regularly to try to convince me that I needed to do more to my web pages. They repeatedly offered me a variety of products. Sometimes it was more upgrades, other times it was to join a "mall partnership" program. Instead of signing up over the phone, I would ask them to send me the information in writing, but I never received anything in writing. On average, NADN would call me between four and five times per week, and sometimes two times in one day.

8. In the past two months (March and April, 2004), the number of calls from NADN has been increasing. At one point I got them to promise they would put me on a "do not call" list. That stopped the calls for less than two weeks. NADN's salespersons then started calling me with more urgency. They made me feel like if I didn't purchase additional products from them, then I would be ruined financially. According to NADN's salespersons, I needed to buy more Mallforall-related products from them because I needed desperately to start showing that I was making a profit on my two

Mallforall web pages. NADN said that if I didn't start showing a profit soon then the IRS would consider the web pages to be a hobby and the IRS would reverse the tax credit and deductions I had taken on my prior tax return and ask for money back.

9. Also in the past two months, I called NADN to get tax advice; all I got was full voicemail boxes, so I faxed a request for them to file an extension for my 2003 federal income tax return. I received a fax back telling me to do it myself. This really made me mad because I had been paying NADN for tax preparation and advice from the beginning.

10. When NADN called me on April 15, 2004, I should have hung up. I didn't because I needed them to prepare my 2003 income tax return—I had earlier signed a three-year contract for NADN to do my taxes. The NADN salesperson did not mention the federal lawsuit that I now know had been filed on April 13. This particular day they got to me. According to the NADN salespersons I spoke to that day, I had to purchase their "search engine hit generator" product if I wanted to stay out of trouble for having purchased the two Mallforall web pages. I told the salespersons over and over again that I did not have the \$4,000 purchase price for the two hit generators (for my two web pages). The salespersons told me that they didn't want a credit card payment but would take a post-dated check, so that I could get the money and then deposit it my checking account. I told the salespersons that that I didn't want to pay the 26-28% percent interest rate for a credit card cash advance to purchase these hit generator products. The salespersons responded that I should keep my credit card statement and that the interest would be tax-deductible as a business interest expense. I was told that the \$4,000 purchase price would also be fully tax deductible.

11. I then pointed out that even if I paid the \$4,000, I would be out a lot of money without having any current evidence that my Mallforall web pages would generate any income from these hit generators. The NADN salespersons responded that the hit generators would make money for me. Because I would not agree to purchase the hit generator program, I was then transferred to a supervisor. The supervisor told me that she and her son had just bought the hit generators and I needed the hit generators to make the Mallforall businesses work. Based on this representation, I agreed to purchase two hit generators for a total of \$4,000. I was given a name, phone number, and extensions at NADN to call back if I had any trouble, then I was transferred to customer service.

12. A customer service employee took my account information and arranged for payment. The employee told me I was being recorded and I relayed how I felt about all this grief that NADN had gotten me in. After I hung up I tested the number and extension just given to me in case of any trouble. I was transferred right to the person I was supposed to get. I expressed to this person my concerns again that I didn't want to lose any more money. This NADN employee told me that the hit generator would increase the visits to my site and I would be making money by the fall. He said that I would be making so much money that, in the fall, I would want to talk to him about incorporating my Mallforall businesses.

13. That same night, April 15, I decided that enough was enough with NADN. I would not give them any more money and therefore I would cancel my \$4,000 purchase from earlier that day. On Friday, April 16, I called the same number and extension, but I was not transferred to the gentleman I talked to the day before. The NADN employee I spoke to said that NADN didn't even have anybody by that name working for the

company. However, I did get through to NADN's customer service department and was able to cancel my \$4,000 payment for the hit generators.

14. I tried again the same number and extension on Monday, April 19. There was no response, but I was transferred to another NADN employee. That employee assured me that my \$4,000 payment was canceled. That employee then said that I could instead purchase one generator for \$1,500 for just one site and now they would accept credit card payment. I turned this offer down.

15. On Tuesday night, April 20, NADN's employees called me at home. The employees said it was important for me to reconsider my decision to cancel the hit generator purchase. The employees said that I needed to buy these hit generators now. I didn't change my mind and we ended the phone call. On that same night, I started searching the Internet for information about NADN and found the complaint that the Department of Justice had filed on April 13.

16. On April 21, I received another call from NADN. This call, which was made to my work phone number, was made by the man I had spoken to on Thursday—the one who said I would be making so much money by the fall that I would need to incorporate my business. He started by saying “now don't get mad, we have to talk,” at which point I hung up the phone.

17. On April 26, I received a call from NADN again. A gentleman name Larry said that a senior tax person needed to talk to me. When the “tax person” got on the line he failed to introduce himself. When I asked for the tax person's name, he gave it to me then responded very defensively. He said that he hadn't liked my tone and wanted to know why I wanted his name. (The name he gave to me was Tim Frank and phone

number was 877-623-6463, ext 1114). I told him that he knew *my* name and it seemed reasonable for me to know who I was talking with. He proceeded to tell me that I had purchased a hit generator on April 15. I explained to him that I did not, because I had canceled on the 16th and had called NADN again on the 19th to confirm the cancellation. I told him that the Mall for All was offering a free 90-day trial for the hit generators. He claimed to have no knowledge of this.

18. When I was adamant about not purchasing a hit generator at this time, he asked me if I was all done with NADN. He also said that, because I was not purchasing the hit generator, I will get audited by the IRS. He said that I needed their business plan or their hit generator. He then hung up on me.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 27, 2004.


EILEEN GELZHISER

IN THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF NEVADA

UNITED STATES OF AMERICA,)

)

Plaintiff,)

)

v.)Civil No. CV-S-04B0455-LDG

)

NATIONAL AUDIT DEFENSE NETWORK,)

et. al,)

)

Defendants.)

DECLARATION OF GARY LAHTI

1. I am over 18 years of age and am competent to testify to the facts stated below.
2. I was initially contacted by NADN in October, 2003. I paid NADN \$200 to prepare my 2003 federal income tax return and to prepare my will.
3. NADN continued to contact me to purchase a website business known as Mallforall. NADN promised me that if I purchased the Mallforall, I would be able to get a \$7,000 tax refund for the 2003 tax year. On October 31, 2003, I decided to purchase the Mallforall and paid NADN \$3,195 with the understanding that I would get a \$7,000 tax refund in the spring. I thought that I was purchasing an internet website.
4. After I purchased the Mallforall for \$3,195, I received a promissory note from NADN in the amount of approximately \$7,000. NADN had not to that point told me anything about signing a promissory note when I purchased the Mallforall-the stated purchase price was \$3,195, not over \$10,000. I contacted NADN about the promissory note. They told I had to contact Oryan the creator of the website. I contacted Oryan, they told me that I had to sign it if I owned the website business.
5. I did not sign the promissory note and sent the unsigned promissory note back to

GL

Oryan.

6. I next heard by mail from Oryan Management. I received from Oryan information about the website and a contract from Oryan. At one point, I contacted Oryan. The Oryan representative that I spoke to was surprised that I had paid \$3,195 to NADN for the website. The Oryan representative said that I paid more than he expected. He thought it would be more like \$2,695.
7. In February 2004, I mailed my tax information to NADN for them to prepare my 2003 federal income tax return. On or about April 15, 2004, NADN sent a prepared tax return to me, ready for me to sign and then file it with the IRS. I had questions about the way they had prepared my tax return, so I contacted NADN in order for someone to explain to me how the return was prepared. No one at NADN could be reached to explain this to me.
8. The tax return looked correct to me until my accountant and I reviewed the Schedule C, Profit or Loss From Business, attached to the return. The Schedule C showed that my Mallforall business had received no income, and the only expense shown was a \$524 "start up cost" deducted as an amortization (on line 48 - other expenses). The return listed \$10,475, presumably the amount I paid for the Mallforall plus the promissory note that I did not sign, as a start up cost. The \$524 amount represents 3 months of a 60-month amortization schedule for the \$10,475 figure.
9. We were very disturbed by this amortization entry on my 2003 tax return because I did not pay \$10,475 for the website business. I only paid \$3,195. In addition, I thought that the \$3,195 figure was for the purchase of the internet website, not the start-up cost of a business. No one ever told me that the \$3,195 or the promissory note related to start-up costs.
10. Because NADN had not answered my questions, I went to an outside tax preparer/accountant who looked at my tax return that NADN had prepared. The tax preparer told me that the amortization of the \$10,475 amount was not legal.
11. I was again contacted by NADN on Tuesday, April 26, 2004. Mike Jones from NADN contacted me on that day and wanted me to purchase from three different levels with NADN that cost \$2,200.00, \$3,200.00 or \$4,200.00. Mike said the payments would "legitimize" the business. Mike told me that the website which I had purchased from NADN needed to be "marketed" so that the government realizes it is a legitimate business.
12. I told Mike that I had gone to an outside tax preparer/accountant who informed me that the amortization of the \$10,475 amount on my tax return was not legal. Mike disagreed, and said that it was all fixed. Referring to the government's lawsuit against NADN, Mike told me that "NADN has saved taxpayers \$324 million. The government is not happy about it, but it is legal." Mike told me that I would still be able to take a \$5,000.00 credit and a \$475.00 credit on my tax return for 2003 (which had already been prepared by NADN without either of these credits). Mike said that this would be legal.
13. From the sales people in October of 2003 I assumed I would be getting a \$7,000.00 refund on my 2003 tax return. However, NADN only claimed a tax deduction in the amount of \$524.00.

42

14. During our discussions, Mike told me that Senator Harkin from Iowa had done something that made this tax credit for Mallforall modifications legal. Mike also told me that he has a website from which he makes between \$1,100.00 and \$1,500.00 a month. I found this interesting as I have never received any money from my website.

15. On April 26, 2004 I told Mike that I needed to wait to purchase anything else. Mike told me that the prices were going up the next day, and asked me what credit card I wanted to use. I gave Mike my check card number for \$2,200.00. I told Mike that I was not sure I could do this. Mike told me that he would put it on hold until April 28th. Instead of using a credit card, Mike told me that a check would be better proof of the expense for the government.

16. Attached hereto is a true and accurate copy of my 2003 federal income tax return that NADN prepared for me, which includes the amortization credit.

Pursuant to 28 U.S. C. Section 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 28, 2004



GARY LAHTI

Label For the year Jan. 1-Dec. 31, 2003, or other tax year beginning ending OMB No. 1545-0074

(See instructions on page 19.) Use the IRS label. Otherwise, please print or type.

Your first name M.I. Last name Suffix
GARY R LAHTI

If a joint return, spouse's first name M.I. Last name Suffix
ROXANNE J LAHTI

Home address (number and street). If you have a P.O. box, see page 19. Apt. no.
1315 S CLARA ST

City, town or post office State ZIP code
APPLETON WI 54915

Important!
You must enter your SSN(s) above.

Election Campaign (See page 19.) **Note.** Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? Yes No Yes No

Filing Status

1 Single

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse's SSN above and full name here.

4 Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here.

5 Qualifying widow(er) with dependent child. (See page 20.)

Check only one box.

First name Last name SSN

Exemptions

6 a Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a.

b Spouse

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than five dependents, see page 21.

d Total number of exemptions claimed

No. of boxes checked on 6a and 6b: 2

No. of children on 6c who:

- lived with you: 0
- did not live with you due to divorce or separation: 0

Dependents on 6c not entered above: 0

Add numbers on lines above: 2

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2: 71,859

8 a Taxable interest. Attach Schedule B if required: 21

b Tax-exempt interest. Do not include on line 8a: 0

9 a Ordinary dividends. Attach Schedule B if required: 0

b Qualified dividends (see page 23): 0

10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23): 0

11 Alimony received: 0

12 Business income or (loss). Attach Schedule C or C-EZ: -524

13 a Capital gain or (loss). Attach Sch. D if required. If not required, check here: 0

b If box on 13a is checked, enter post-May 5 capital gain distributions: 0

14 Other gains or (losses). Attach Form 4797: 0

15 a IRA distributions: 0

b Taxable amount (page 25): 0

16 a Pensions and annuities: 0

b Taxable amount (page 25): 0

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E: 0

18 Farm income or (loss). Attach Schedule F: 0

19 Unemployment compensation: 0

20 a Social security benefits: 0

b Taxable amount (page 27): 0

21 Other income. List type and amount (see page 27): 0

22 Add the amounts in the far right column for lines 7 through 21. This is your TOTAL INCOME: 71,356

Adjusted Gross Income

23 Educator expenses (see page 29): 0

24 IRA deduction (see page 29): 0

25 Student loan interest deduction (see page 31): 0

26 Tuition and fees deduction (see page 32): 0

27 Moving expenses. Attach Form 3903: 0

28 One-half of self-employment tax. Attach Schedule SE: 0

29 Self-employed health insurance deduction (see page 33): 0

30 Self-employed SEP, SIMPLE, and qualified plans: 0

31 Penalty on early withdrawal of savings: 0

32 a Alimony paid b Recipient's SSN: 0

33 Add lines 23 through 32a: 0

34 Subtract line 33 from line 22. This is your adjusted gross income: 71,356

Tax and Credits	35	Amount from line 34 (adjusted gross income)	35	71,356
Standard deduction People who checked any box on line 6a or 36b or who can be claimed as a dependent, see page 34. All others: Single or married filing separately, 4,750 Married filing jointly or qualifying widow(er), 3,500 Head of household, 7,000	36 a	Check <input type="checkbox"/> You were born before January 2, 1939, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1939, <input type="checkbox"/> Blind. Total boxes checked 36a		
	b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here 36b		
	37	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	37	12,256
	38	Subtract line 37 from line 35	38	59,100
	39	If line 35 is \$104,625 or less, multiply \$3,050 by the total number of exemptions claimed on line 6d. If line 35 is over \$104,625, see the worksheet on page 35	39	6,100
	40	Taxable income. Subtract line 39 from line 38. If line 39 is more than line 38, enter -0-	40	53,000
	41	Tax (see pg 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	41	7,254
	42	Alternative minimum tax (see page 38). Attach Form 6251	42	0
	43	Add lines 41 and 42	43	7,254
		44	Foreign tax credit. Attach Form 1116 if required	44
	45	Credit for child and dependent care expenses. Attach Form 2441	45	0
	46	Credit for the elderly or the disabled. Attach Schedule R	46	0
	47	Education credits. Attach Form 8863	47	0
	48	Retirement savings contributions credit. Attach Form 8880	48	0
	49	Child tax credit (see page 40)	49	0
	50	Adoption credit. Attach Form 8839	50	0
	51	Credits from: a <input type="checkbox"/> Form 8396 b <input type="checkbox"/> Form 8859	51	0
	52	Other credits. Check applicable box(es): a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8801 c <input type="checkbox"/> Specify	52	0
	53	Add lines 44 through 52. These are your TOTAL CREDITS	53	0
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0-	54	7,254
Other taxes	55	Self-employment tax. Attach Schedule SE	55	0
	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	56	0
	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	57	0
	58	Advance earned income credit payments from Form(s) W-2	58	0
	59	Household employment taxes. Attach Schedule H	59	0
	60	Add lines 54 through 59. This is your total tax	60	7,254
Payments	61	Federal income tax withheld from Forms W-2 and 1099	61	7,271
	62	2003 estimated tax payments and amount applied from 2002 return	62	0
	63	Earned income credit (EIC)	63	0
	64	Excess social security and tier 1 RRTA tax withheld (see page 56)	64	0
	65	Additional child tax credit. Attach Form 8812	65	0
	66	Amount paid with request for extension to file (see page 56)	66	0
	67	Other payments from: a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885	67	0
	68	Add lines 61 through 67. These are your TOTAL PAYMENTS	68	7,271
Refund	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you overpaid.	69	17
	70 a	Amount of line 69 you want REFUNDED TO YOU	70a	17
	b	Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d	Account number <input type="text"/>		
	71	Amount of line 69 you want applied to your 2004 estimated tax	71	0
Amount you Owe	72	Amount you owe. Subtract line 68 from line 60. For details on how to pay, see page 57	72	0
	73	Estimated tax penalty (see page 58)	73	0

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see page 58)? Yes. Complete the following. No

Designee's name Phone no. Personal identification number (PIN)

Signature Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation **COIL WINDER** Daytime phone no.

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation **PURCHASING** Home phone no. **(920) 739-6980**

Preparer's Information

Preparer's signature **Cecilia Crohett** Date **4/10/2004** Check if self-employed Preparer's SSN or PTIN **P00238556**

Firm's name (or yours if self-employed), address, and ZIP code **NATIONAL AUDIT DEFENSE NETWORK** EIN **88-0352500**
4340 SOUTH VALLEY VIEW BLVD STE 230 Phone no. **800-486-4108**
LAS VEGAS State **NV** ZIP code **89103**

SCHEDULE A

(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Schedule A - Itemized Deductions

OMB No. 1545-0074

2003

Attachment
Sequence No. **07**

▶ **Attach to Form 1040.** ▶ **See instructions for Schedule A (Form 1040).**

Name(s) shown on Form 1040

GARY R and ROXANNE J LAHTI

Your social security number

387-56-5695

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
1	Medical and dental expenses (see page A-2)	1	1,978		
2	Enter amount from Form 1040, line 35	2	71,356		
3	Multiply line 2 by 7.5% (.075)	3	5,352		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4			0
Taxes You Paid	5 State and local income taxes	5	4,146		
(See page A-2.)	6 Real estate taxes (see page A-2)	6	2,917		
	7 Personal property taxes	7	130		
	8 Other taxes. List type and amount ▶	8	0		
	9 Add lines 5 through 8	9			7,193
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10	4,833		
(See page A-3.)	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11			
	Name				
	Address				
	TIN	11			
Note.	12 Points not reported to you on Form 1098. See page A-3 for special rules	12	0		
Personal interest is not deductible.	13 Investment interest. Attach Form 4952 if required. (See page A-4.)	13	0		
	14 Add lines 10 through 13	14			4,833
Gifts to Charity	15 Gifts by cash or check. If you made any gift of \$250 or more, see page A-4	15	80		
If you made a gift and got a benefit for it, see page A-4.	16 Other than by cash or check. If any gift of \$250 or more, see page A-4. You must attach Form 8283 if over \$500	16	150		
	17 Carryover from prior year	17	0		
	18 Add lines 15 through 17	18			230
Casualty and Theft Losses	19 Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	19			0
Job Expenses and Most Other Miscellaneous Deductions	20 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	20	0		
(See page A-5.)	21 Tax preparation fees	21	120		
	22 Other expenses - investment, safe deposit box, etc. List type and amount ▶	22	0		
	23 Add lines 20 through 22	23	120		
	24 Enter amount from Form 1040, line 35	24	71,356		
	25 Multiply line 24 by 2% (.02)	25	1,427		
	26 Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	26			0
Other Miscellaneous Deductions	27 Other - from list on page A-6. List type and amount ▶	27	0		0
Total Itemized Deductions	28 Is Form 1040, line 35, over \$139,500 (over \$69,750 if married filing separately)?	28			12,256
	<input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 37.				
	<input type="checkbox"/> Yes. Your deduction may be limited. See page A-6 for the amount to enter.				

For Paperwork Reduction Act Notice, see Form 1040 instructions.
(HTA)

Schedule A (Form 1040) 2003

**SCHEDULE C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2003

Attachment

Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**
▶ **Attach to Form 1040 or 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

Name of proprietor GARY R LAHTI		Social security number (SSN) 387-56-5695
A Principal business or profession, including product or service (see page C-2 of the instructions) ELECTRONIC SHOPPING AND INFORMATION SERVICES		B Enter code from pages C-7, 8, & 9 454111
C Business name. If no separate business name, leave blank. MallForAll.com/28031		D Employer ID number (EIN), if any
E Business address (including suite or room no.) ▶ 1315 SOUTH CLARA STREET		
City, town or post office, state, and ZIP code APPLETON WI 54915		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶		
G Did you "materially participate" in the operation of this business during 2003? If "No," see page C-3 for limit on losses <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2003, check here <input checked="" type="checkbox"/>		

Part I Income

1 Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here ▶ <input type="checkbox"/>	1		0
2 Returns and allowances	2		
3 Subtract line 2 from line 1	3		0
4 Cost of goods sold (from line 42 on page 2)	4		0
5 Gross profit. Subtract line 4 from line 3	5		0
6 Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6		0
7 Gross income. Add lines 5 and 6 ▶	7		0

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8			19 Pension and profit-sharing plans	19		
9 Car and truck expenses (see page C-3)	9	0		20 Rent or lease (see page C-5):	20	/	
10 Commissions and fees	10			a Vehicles, machinery, and equipment	20a		0
11 Contract labor (see page C-4)	11			b Other business property	20b		0
12 Depletion	12			21 Repairs and maintenance	21		
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	0		22 Supplies (not included in Part III)	22		
14 Employee benefit programs (other than on line 19)	14			23 Taxes and licenses	23		0
15 Insurance (other than health)	15			24 Travel, meals, and entertainment:	24	/	
16 Interest:	16	/		a Travel	24a		0
a Mortgage (paid to banks, etc.)	16a			b Meals and entertainment	24b	0	
b Other	16b			c Enter nondeductible amount included on line 24b (see page C-5)	24c	50%	0
17 Legal and professional services	17			d Subtract line 24c from line 24b	24d		0
18 Office expense	18			25 Utilities	25		
28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns ▶	28			26 Wages (less employment credits)	26		0
29 Tentative profit (loss). Subtract line 28 from line 7	29			27 Other expenses (from line 48 on page 2)	27		524
30 Expenses for business use of your home. Attach Form 8829	30			28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns ▶	28		524
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31			29 Tentative profit (loss). Subtract line 28 from line 7	29		-524
32 If you have a loss, check the box that describes your investment in this activity (see page C-6). • If you checked 32a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198.	32			30 Expenses for business use of your home. Attach Form 8829	30		0
				31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31		-524

32a All investment is at risk.

32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule C (Form 1040) 2003

Depreciation and Amortization (Including Information on Listed Property)

2003

Department of the Treasury
Internal Revenue Service

Attachment
Sequence No. 67

▶ See separate instructions. ▶ Attach to your tax return.

Name(s) shown on return MARY R LAHTI	Business or activity to which this form relates ELECTRONIC SHOPPING AND INFORMATION SERVICE	Identifying number 387-56-5695
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Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount. See page 2 of the instructions for a higher limit for certain businesses	1	100,000
2 Total cost of section 179 property placed in service (see page 2 of the instructions).	2	0
3 Threshold cost of section 179 property before reduction in limitation	3	400,000
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 2 of the instructions	5	100,000

(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6	0	0
7 Listed property. Enter the amount from line 29	7	0
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	0
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	0
10 Carryover of disallowed deduction from line 13 of your 2002 Form 4562.	10	0
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	0
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	0
13 Carryover of disallowed deduction to 2004. Add lines 9 and 10, less line 12 ▶	13	0

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

4 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see page 3 of the instructions)	14	0
5 Property subject to section 168(f)(1) election (see page 4 of the instructions)	15	0
6 Other depreciation (including ACRS) (see page 4 of the instructions)	16	0

Part III MACRS Depreciation (Do not include listed property.) (See page 4 of the instructions.)

Section A

7 MACRS deductions for assets placed in service in tax years beginning before 2003	17	0
8 If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ <input type="checkbox"/>		

Section B - Assets Placed in Service During 2003 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
9 a 3-year property						0
b 5-year property						0
c 7-year property						0
d 10-year property						0
e 15-year property						0
f 20-year property						0
g 25-year property			25 yrs.		S/L	0
h Residential rental property			27.5 yrs.	MM	S/L	0
i Nonresidential real property			39 yrs.	MM	S/L	0

Section C - Assets Placed in Service During 2003 Tax Year Using the Alternative Depreciation System

0 a Class life					S/L	0
b 12-year			12 yrs.		S/L	0
c 40-year			40 yrs.	MM	S/L	0

Part IV Summary (see page 6 of the instructions)

1 Listed property. Enter amount from line 28	21	0
2 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions	22	0
3 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

or Paperwork Reduction Act Notice, see separate instructions.

Part V Listed Property (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See page 7 of the instructions for limits for passenger automobiles.)

Table with columns (a) through (i) for depreciation and other information. Includes rows 25-29 with various input fields and calculated values.

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

Table for Section B with columns (a) through (f) for vehicle information and a grid for questions 34-36 regarding personal use and other exceptions.

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see page 8 of the instructions).

Table for Section C with questions 37-41 regarding employer policies and information retention, with Yes/No columns.

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

Part VI Amortization

Table for Part VI Amortization with columns (a) through (f) for cost descriptions and amortization details. Includes rows 2-4.

(Rev. July 1998)
Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**

Attachment
Sequence No. **71**

▶ If you received this form from a partnership, S corporation, or trust, see the instructions.

Investor's name(s) as shown on return GARY R and ROXANNE J LAHTI		Investor's identifying number 387-56-5695	Investor's tax year ended 12/31/2003
(a) Tax Shelter Name		(b) Tax Shelter Registration Number (11-digit number)	(c) Tax Shelter Identifying Number
1	SHOP N 2000/MALL FOR ALL	03022000021	88-0352500
2			
3			
4			
5			
6			
7			
8			
9			
10			

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

Use Form 8271 to report the tax shelter registration number the IRS assigns to certain tax shelters required to be registered under section 6111 ("registration- required tax shelters") and to report the name and identifying number of the tax shelter. This information must be reported even if the particular interest is producing net income for the filer of Form 8271. Use additional forms to report more than 10 tax shelter registration numbers.

Note: A tax shelter registration number does not indicate that the tax shelter or its claimed tax benefits have been reviewed, examined, or approved by the IRS.

Who Must File

Any person claiming or reporting any deduction, loss, credit, or other tax benefit, or reporting any income on any tax return from an interest purchased or otherwise acquired in a registration- required tax shelter must file Form 8271. If you are an investor in a partnership or an S corporation, look at item G, Schedule K-1 (Form 1065), or item C, Schedule K-1 (Form 1120S). If a tax shelter registration number or the words "Applied for" appear there, then the entity is a registration- required tax shelter. If the interest is purchased or otherwise acquired by a pass-through entity, both the pass-through entity and its partners, shareholders, or beneficiaries must file Form 8271.

A pass-through entity that is the registration- required tax shelter does not have to prepare Form 8271 and give copies to its partners, shareholders, or beneficiaries unless the pass-through entity itself has invested in a registration- required tax shelter.

In certain cases, a tax shelter that does not expect to reduce the cumulative tax liability of any investor during the 5-year period ending after the date the investment is first offered for sale may be considered a "projected income investment." Such a tax shelter will not have to register, and thus not have to furnish a tax shelter registration number to investors, unless and until it ceases to be a projected income investment. It is possible, therefore, that you may not be furnished a tax shelter registration number, and not have to report it, for several years after you purchase or otherwise acquire your interest in the tax shelter. If you are later furnished a tax shelter registration number because the tax shelter ceased to be a projected income investment, follow these instructions. However, you must file Form 8271 only for tax years ending on or after the date the tax shelter ceases to be a projected income investment.

Note: Even if you have an interest in a registration- required tax shelter, you do not have to file Form 8271 if you did not claim or report any deduction, loss, credit, or other tax benefit, or report any income on your tax return from an interest in the registration- required tax shelter. This could occur, for example, if for a particular year you are unable to claim any portion of a loss because of the passive activity loss limitations, and that loss is the only tax item reported to you from the shelter.

Filing Form 8271

Attach Form 8271 to any return on which a deduction, loss, credit, or other tax benefit is claimed or reported, or any income reported, from an interest in a registration- required tax shelter. These returns include applications for tentative refunds (Forms 1045 and 1139) and amended returns (Forms 1040X and 1120X).

Furnishing Copies of Form 8271 to Investors

A pass-through entity that has invested in a registration- required tax shelter must furnish copies of its Form 8271 to its partners, shareholders, or beneficiaries.

However, in the case where (a) the pass-through entity acquired at least a 50% interest in one tax year in a registered tax shelter (and in which it had not held an interest in a prior year), and (b) the investment would not meet the definition of a tax shelter immediately following the acquisition if it had been offered for sale at that time, the pass-through entity need not distribute copies of Form 8271 to its investors. The pass-through entity alone is required to prepare Form 8271 and include it with the entity tax return.

Penalty For Not Including Registration Number on Return

A \$250 penalty will be charged for each failure to include a tax shelter registration number on a return on which it is required to be included unless the failure is due to reasonable cause.

Specific Instructions Investor's Identifying Number

Enter the social security number or employer identification number shown on the return to which this Form 8271 is attached.

Investor's Tax Year Ended

Enter the date the tax year ended for the return to which this Form 8271 is attached.