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UNITED STATES DISTRICT COURT
DISTRICT OF OREGON

UNITED STATES OF AMERICA

Plaintiff,

v.

Case No: 3:08-cv-426-CL

EUGENE "GINO" CASTERNOVIA,
d/b/a SOUTHERN OREGON RESOURCE
CENTER EDUCATIONAL SERVICES
("SORCE"), d/b/a CASTLENUEVO,
INC., d/b/a EXECUTIVE'S RESOURCE, LLC.,
ROBERT HAGOPIAN, ROB PENDELL,
and MARK LYON,

**ORDER GRANTING
PERMANENT INJUNCTION
AGAINST
EUGENE CASTERNOVIA
BY DEFAULT**

Defendants.

Plaintiff United States of America filed its complaint for permanent injunction under 26 U.S.C. §§ 7402 and 7408 seeking to bar Eugene Casternovia from promoting fraudulent tax fraud schemes and from engaging in conduct that substantially interferes with the administration and enforcement of the internal revenue laws. Casternovia was properly served and has failed to

timely file an answer or other response to the United States' amended complaint.

Entry of default was made against Casternovia on April 7, 2011. Having reviewed the record in this case, the Court makes the following findings of fact and conclusions of law and enters this permanent injunction against Casternovia.

Findings of Fact

1. Jurisdiction exists under 28 U.S.C. §§ 1340 and 1345, and I.R.C. §§ 7402(a) and 7408.
2. Eugene "Gino" Casternovia resided in Ashland, Oregon, within this judicial district. Casternovia conducted business in this judicial district as Southern Oregon Resource Center Educational Services ("SORCE"), located in Medford, Oregon, and Ashland, Oregon. Casternovia was the president and CEO of SORCE. Casternovia also conducted business in this judicial district as Executive's Resource ("ERS") and Castlenuovo, Inc.
3. SORCE was formerly known as Ashland Resource Center ("ARC"), which was run by John David Van Hove. In 2006, Van Hove pleaded guilty to one count of obstructing and impeding the administration of the tax laws and one count of wire fraud as a result of him promoting a plan that falsely promised to remove a person and their assets from the jurisdiction of the United States government and assisting others with concealing their assets and income from the IRS through the use of "common law trusts."
4. In 2006, after the IRS executed a search warrant on SORCE's office, SORCE began doing business as Executive's Resource.
5. Through SORCE and a related multilevel marketing organization called Pinnacle Quest International (PQI), Casternovia promoted tax scams that involved the sale and use of

sham entities, including what they called international business corporations (IBC), private interest foundations (PIF), pure foreign common law trusts, and Nevada corporations. Casternovia organized and marketed his programs as a fraudulent means for customers to evade the reporting and payment of federal taxes, as well as a way for customers to conceal their assets to evade IRS tax collection efforts.

6. Casternovia promoted his tax scheme through PQI, an unincorporated organization conducting business in Florida. PQI did business under the names “Pinnacle Quest International,” “PQI,” “PQI, Inc.,” “Pinnacle,” and “Pinnacle Quest.” PQI held itself out as a Panamanian International Business Company (IBC). PQI was a successor organization to the Institute for Global Prosperity, which ceased operations in 2002. Global Prosperity’s products falsely assured customers they could legally stop paying federal income taxes without repercussion. The sale of these products caused five state attorneys general to issue cease and desist orders to Global Prosperity.
7. One of Global Prosperity’s founders, David Struckman, formed PQI in 2002 using the customer list and certain technology—including a sales database—that Global Prosperity had used. Claudia Hirmer served as Global Prosperity’s marketing director and was the Global Prosperity representative responsible for creating Global Prosperity’s website and administering its sales database. The government has sued Hirmer, PQI, and other defendants in the Northern District of Florida, seeking civil injunctions to shut down their fraudulent tax schemes.
8. Despite the cease-and-desist orders, under Struckman’s guidance PQI began offering for sale products very similar to those formerly offered by Global Prosperity. PQI formed its

original sales force by allowing Global Prosperity salespeople to pay a fee for the authority to promote PQI products, including SORCE.

9. In 2004, David Struckman and other Global Prosperity founders were indicted on charges of conspiracy to defraud the federal government. Two Global Prosperity founders pleaded guilty to charges of conspiracy to defraud the government in 2004. David Struckman fled to Panama to avoid justice, but the Panamanian government subsequently returned Struckman to the United States to stand trial. A federal jury convicted David Struckman of tax evasion and conspiracy to defraud the government on November 8, 2007.
10. PQI sold three products—named Q1, Q2, and Q3. All three products were promoted by a team of approximately 840 PQI-authorized sales people known as “Qualified Consultants,” and PQI customers were required to purchase these products from Qualified Consultants in a prescribed sequence.
11. PQI was a multilevel marketing scheme. Qualified Consultants were individually authorized by PQI to sell one, two, or all three of PQI’s products, depending on the Qualified Consultant’s previous sales record.
12. Qualified Consultants paid PQI \$99 per year to serve as Qualified Consultants, and in return, they received a portion of the purchase price of each PQI product they sell.
13. PQI’s multilevel marketing structure created strong financial incentives for Qualified Consultants to sell PQI’s:
 - a. PQI sells Q1 for \$1350, of which the Qualified Consultant retains \$1,000;
 - b. PQI sells Q2 for \$7500, of which the Qualified Consultant retains \$5,000; and
 - c. PQI sells Q3 for \$18,500, of which the Qualified Consultant retains \$12,000

14. To conceal their schemes, SORCE and its customers conducted financial transactions through a so-called warehouse bank called ICIS (“Internet Currency Interface System”), which purportedly allowed SORCE and its customers to remain anonymous when engaging in financial transactions. Federal courts have enjoined the operation of several similar warehouse banks, and people who operate such banks have been convicted of federal tax-related crimes for operating them. The ICIS bank, which was accessed through the Internet, permitted customers and defendants to conduct immediate electronic financial transactions using anonymous identification numbers, without disclosing their names, dates of birth, or social security numbers. ICIS authorized defendants to set up ICIS accounts for new SORCE customers. SORCE instructed its customers to use the ICIS warehouse bank to make anonymous payments to Casternovia for their products and services.
15. SORCE had at least 350 customers. Casternovia promoted and sold two primary tax schemes: “asset protection” and “disenfranchisement.”
16. Through the “asset protection” scheme, Casternovia helped customers unlawfully evade federal taxation and collection efforts by helping them create bogus entities to which the customers transfer and hide their personal assets and businesses, while maintaining complete control over them. Casternovia falsely told customers that income generated by their transferred businesses and assets was not taxable. To help their customers accomplish these transfers, which were designed to avoid reporting income and collection, Casternovia provided his customers with instructional materials, guidance, and staff support.

17. In connection with promoting the “asset protection” scheme, Casternovia’s SORCE Process Workbook, which was provided to SORCE customers, fraudulently states:

A corporation domiciled and registered in another country, that is not involved in a tax treaty with the U.S., (like Panama), is not subject to the IRS corporate tax code but to the tax laws of the country where it is registered . . . An International Corporation domiciled in Panama doing business in the U.S. has no tax reporting requirements, is not required to pay any tax on any of its income, and is not required to report or withhold earnings from any of its workers . . .

If someone sues the IBC, in order for them to come after the corporation, they must have their case heard in a Panamanian court. This provides yet one more layer of protection between you and any attacking entity such as tort lawyers or the IRS.

18. These are false statements because income derived from such entities doing business in the U.S. is taxable income under the Internal Revenue Code (I.R.C.), regardless of where the entity is based. *See* I.R.C. §§ 951-964.
19. Through the “disenfranchisement” scheme, Casternovia falsely told customers that the federal income tax system is voluntary, and that customers can opt out of their federal income tax obligations by revoking or not using their social security numbers and other government identification numbers.
20. Promoting the “disenfranchisement” scheme, Casternovia made false statements regarding the tax benefits of plans sold by SORCE. For example, during a videotaped interview in Cancun, Mexico, on February 23, 2005, that was broadcast/posted on the Internet in connection with promoting his scheme, Casternovia made the following statements:

You basically can reduce your tax liability down to as low as you wish, and you can begin to take advantage of what it means to actually be a sovereign American in free enterprise as the founders intended. And I’ll leave you with this. No one

took anybody's rights away. You signed them away with your own signature as I discovered in 1963. SORCE 190.com is our website.

Look up the word alienable, and, of course, put the prefix un on it, and you've got the opposite . . . Basically it indicates that your rights cannot be transmitted to another through commercial process . . . And that they are not commercializable; therefore, not taxable.

Remember, you don't pay your tax money to the IRS. The IRS is just a collection agency out of Puerto Rico that's – I think it's Puerto Trust 92 or something like that. When you look to the root of it, you'll find out that it's a collection agency for the World Bank.

21. On June 18, 2005, at a PQI seminar in Oahu, Hawaii, Casternovia made the following statement during his presentation:

Your labor is nontaxable, unless of course you take a debtor's ID number and write it on a form and sign it and validate the debt. You validated the debt. (Id. at ¶ 30).
22. Casternovia knew or had reason to know that the statements he made to customers regarding the tax benefits of their programs were false and fraudulent. (Id. at ¶ 34).
23. Casternovia's conduct harmed the government in multiple ways, including: (a) lost revenue due to the failure of customers to file accurate income tax returns and pay taxes on income earned, and (b) the expense incurred by the IRS in conducting investigations and audits of the defendants' customers. Given the IRS's limited resources, identifying and recovering all revenues lost from the defendants' fraudulent programs may be impossible, resulting in a permanent loss to the United States Treasury. (Id. at ¶ 36).
24. Casternovia's customers have been harmed by the defendants' promotions because the customers have paid SORCE significant sums to establish worthless legal entities and obtain erroneous tax advice that has caused the customers to fail to file required federal tax returns and understate their income tax liabilities. (Id. at ¶ 37).

25. The public is harmed because the IRS is forced to devote its limited resources to identifying and attempting to recover revenue lost as a result of the Casternovia's program. (Id. at ¶ 38).
26. In addition to the harm caused by Casternovia's advice and products, his activities undermine public confidence in the fairness of the federal tax system and incite noncompliance with the internal revenue laws.
27. Casternovia's sale and promotion of SORCE's illegal and fraudulent asset protection scheme led to his indictment for conspiring to defraud the IRS and to commit wire fraud. (Id. at ¶ 40).
28. On March 31, 2010, Casternovia was convicted of one count of conspiring to defraud the IRS and one count of conspiring to commit wire fraud. In doing so, the jury found that, by operating SORCE and selling SORCE's services, Casternovia knowingly and willfully conspired to defraud the Internal Revenue Service by attempting to impede, impair, obstruct, and defeat the IRS's ascertainment, computation, assessment and collection of income tax. (Id. at ¶ 41).

Conclusions of Law

29. Under 26 U.S.C. § 7408, a tax-scheme promoter may be enjoined if a court finds "(1) that the person has engaged in any conduct subject to penalty under section 6700 (relating to penalties for promoting abusive tax shelters) . . . [and] (2) that injunctive relief is appropriate to prevent recurrence of such conduct." Here, the undisputed facts establish that: (1) Casternovia engaged in conduct that subjects him to penalty under 26 U.S.C. § 6700; and (2) an injunction is necessary and appropriate to prevent recurrence of such

conduct.

30. Because 26 U.S.C. § 7408 expressly authorizes the injunction, Casternovia may be permanently enjoined without considering the traditional equitable prerequisites.
31. Under 26 U.S.C. § 7408, the government must prove five elements to enjoin Casternovia:
 - (1) Casternovia organized or sold, or participated in the organization or sale of, an entity, plan, or arrangement;
 - (2) In connection therewith Casternovia made or caused to be made false or fraudulent statements concerning the tax benefits to be derived from the entity, plan, or arrangement;
 - (3) Casternovia knew or had reason to know that the statements were false or fraudulent;
 - (4) Casternovia's false or fraudulent statements pertained to a material matter; and
 - (5) An injunction is appropriate to prevent recurrence of this conduct.
32. The government must prove each element by a preponderance of the evidence. The government has established each of these five elements. Thus, Casternovia should be permanently enjoined from engaging in conduct subject to penalty under 26 U.S.C. § 6700.
33. Casternovia organized two tax-fraud arrangements within the meaning of 26 U.S.C. § 6700 and made false statements concerning the tax benefits to be derived from those arrangements.
34. First, Casternovia sold customers an asset protection scheme that assisted customers with unlawfully evade federal taxation and collection efforts by helping them create bogus entities to which the customers transferred and hid their personal assets and businesses, while maintaining complete control over them. Casternovia falsely told customers that income generated by their transferred businesses and assets was not taxable. To help

their customers accomplish these transfers, which were designed to avoid reporting income and collection, Casternovia provided his customers with instructional materials, guidance, and staff support.

35. Second, Casternovia sold a “disenfranchisement” scheme. In promoting this scheme Casternovia falsely told customers that the federal income tax system is voluntary, and that customers can opt out of their federal income tax obligations by revoking or not using their social security numbers and other government identification numbers.
36. Casternovia knew or had reason to know that their statements were false or fraudulent.
37. Under 26 U.S.C. §6700, a court may infer the knowledge a reasonable person in the defendant’s position would have discovered, Estate Preservation Servs., 202 F.3d at 1103, and may impute to the defendant knowledge “commensurate with the level of comprehension required by the speaker’s role in the transaction,” United States v. Cambell, 897 F.2d 1317, 1321-22 (5th Cir. 1990).
38. A reasonable person in Casternovia’s position would discover that schemes purporting to allow U.S. citizens to stop paying federal income taxes were not legal.
39. The false statements made by Casternovia are “material” within the meaning of section 6700.
40. If a particular statement has a substantial impact on the decision-making process or produces a substantial tax benefit to a taxpayer, the matter is properly regarded as “material” within the meaning of section 6700. United States v. Buttorff, 761 F.2d 1056, 1062 (5th Cir. 1985).
41. Customers could rely on false statements made by Casternovia in deciding to not file

federal income tax returns and to not pay federal income taxes.

42. The court must also determine whether “injunctive relief is appropriate to prevent recurrence of such conduct.”
43. This element is satisfied where there is a reasonable likelihood of continued fraudulent conduct.
44. Other factors are: (1) whether mechanisms are in place for continuing the business or scheme; (2) whether the defendant had a high degree of knowledge and level of intent; (3) whether the actionable conduct was an isolated occurrence; (4) whether the defendant insists on the legality of his actions; and (5) whether the defendant has provided assurances that he will change her behavior in the future.
45. Casternovia’s conduct demonstrates that only a court order will prevent him from continuing to promote tax-fraud schemes. When the government took action against Casternovia’s company SORCE, he began selling his scheme through a new company Executive’s Resource. SORCE itself was formed from the Ashland Resource Center, which also promoted tax fraud schemes. Because of Casternovia’s continued promotion of tax fraud schemes, an injunction is necessary to prevent Casternovia from forming another business that sells tax fraud schemes.
46. Internal Revenue Code § 7402(a) grants federal district courts broad authority to issue orders of injunction and to render such judgments as may be necessary or appropriate for the enforcement of the internal revenue laws.
47. An injunction under § 7402 can be issued “in addition to and not exclusive of any and all

other remedies of the United States in such courts or otherwise to enforce such laws.”¹

48. It manifests the “Congressional intention to provide the district courts with a full arsenal of powers to compel compliance with the internal revenue laws.”²
49. The Court finds that an injunction under § 7402 is necessary and/or appropriate to ensure that Casternovia does not continue to promote tax-fraud schemes and to engage in other conduct that substantially interferes with the proper administration and enforcement of internal revenue laws.

X. ORDER

Based on the foregoing findings of fact and conclusions of law it is hereby ORDERED that the United States’ Motion for Permanent Injunction against Eugene Casternovia by Default is GRANTED.

Pursuant to 26 U.S.C. §§ 7402 and 7408, this Court enters a permanent injunction prohibiting Casternovia and his representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with him, from directly or indirectly:

1. Organizing, promoting, marketing, or selling the SORCE, Castlenuovo, or Executive’s Resource program, or any other schemes described in this order, or any other plan or arrangement that assists or advises customers to attempt to violate the internal revenue laws or unlawfully evade the assessment or collection of their federal tax liabilities;
2. Helping others to establish sham or nominee entities or transfer assets to sham or

¹ I.R.C. § 7402.

² *Brody v. United States*, 243 F.2d 378, 384 (1st Cir. 1957).

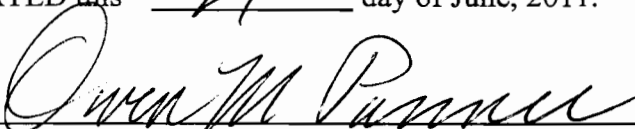
nominee entities;

3. Engaging in conduct subject to penalty under 26 U.S.C. § 6700, i.e., by making or furnishing, in connection with the organization or sale of a plan or arrangement, a statement about the securing of any tax benefit that the defendant knows or has reason to know to be false or fraudulent as to any material matter under the federal tax laws;
4. Engaging in any conduct that interferes with the administration and enforcement of the internal revenue laws; and
5. Engaging in any other activity subject to penalty under the Internal Revenue Code.

It is further **ORDERED** that Casternovia shall remove from websites over which he has control, all tax-fraud scheme promotional materials, false commercial speech regarding the internal revenue laws, and speech likely to incite others imminently to violate the internal revenue laws; to display prominently at the top of the first page of those websites a complete copy of the permanent injunction; and to maintain it on those websites for one year.

The United States shall be entitled to conduct discovery to monitor Casternovia's compliance with the terms of this permanent injunction.

DATED this 29 day of June, 2011.



OWEN M. PANNER
United States District Judge