TAX INFORMATION RELATED TO

CHARLES MICHAEL VAUGHN AND CM VAUGHN, LLC

NOTICE

The following information is not tax advice. Each individual investor should consult with a qualified tax adviser such as a Certified Public Accountant or Attorney to determine the appropriate tax treatment based on his or her specific circumstances.

On March 3, 2008 Charles Michael Vaughn and CM Vaughn LLC filed for bankruptcy in the Northern District of Georgia, cases 08-64071-MGD and 08-64060-MGD. On April 22, 2008 these cases were converted to Chapter 7 of the bankruptcy code and on April 25, 2008 Neil C. Gordon was appointed Chapter 7 Trustee.

Charles Vaughn apparently was operating two businesses. The first of these was a tax preparation service for individuals who may or may not have also been clients of his other business, investing. This tax preparation business is no longer in operation. Anyone who employed Charles Vaughn to prepare their tax returns should immediately seek another qualified tax adviser such as a Certified Public Accountant or Attorney if they wish assistance in the preparation of any of their unfiled tax returns or other tax matters.

A very preliminary investigation into the circumstances of Vaughn's investment business suggests that Vaughn's investment offerings were illegal and perhaps operated as a Ponzi scheme. At this time we have not found tax returns for CM Vaughn LLC and related entities and do not know if any of them have ever been filed with the Internal Revenue Service. **If any investors have received K-1's, 1099's or other tax information from Vaughn or any of his entities for any years, please send a copy to us to aid us in our search for additional information.**

THEFT LOSS

Section 165(a) of the Internal Revenue Code provides that there shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise. Section 165(c) provides that in the case of an individual, losses are limited to losses incurred in a trade or business, losses incurred in a transaction entered in to for profit, and losses from fire, storm shipwreck, other casualty, or theft. Under Section 1.165-8(d) of the Income Tax Regulations, the term "theft" shall be deemed to include, but shall not be limited to, larceny, embezzlement, or robbery. The leading case in this area, Edwards v. Bromberg, states that for tax purposes, theft "is a word of general and broad connotation, intending to cover and covering, any criminal appropriation of another's property to the use of the taker, particularly including theft by swindling, false pretenses, and any other form of guile." Therefore, obtaining money under false pretenses might constitute fraud, which means that investors in a Ponzi scheme may be entitled to a theft loss deduction.

Theft losses must be deducted in the year the theft is discovered. The year of discovery is deemed to be the year a "reasonable person" would have discovered the loss. Because the bankruptcy action was filed in 2008, it could be determined that a "reasonable person" would have discovered any theft loss in connection with the investment transactions in 2008. Again, you need to discuss the specific circumstances of your investment with your tax adviser to determine whether this is applicable to your situation.

An important point of clarification is that to qualify as a theft loss, the theft must be imposed directly on the taxpayer. Thus, for example, if a person's IRA or 401(k) plan purchased the investments, the IRA or the 401(k) plan is considered the "taxpayer" and not the individual who is the beneficiary of the IRA or 401(k) plan.

Because payments made under these investment transactions may be taxable to you, you may receive K-1's or 1099's from the entities in which you have invested. However, you and your tax adviser should consider whether, in light of the bankruptcy actions, the cash payments you received might instead be considered as a recovery of part of your investment. In addition, you may have received one or more K-1's or 1099's from these entities in prior years that may or may not be correct. If we are able to conclusively determine this, we will prepare and furnish you corrected K-1's or 1099's. The amount of income you have reported on your tax returns in years earlier than 2005 for which you did not receive cash payments may also increase your adjusted basis in your investment.

RECENT COURT DECISIONS

Two recent court decisions may affect the tax treatment of any loss you may have suffered.

In a decision dated August 15, 2007 the United States District Court for the Middle District of Florida decided *Kaplan v. U.S., 2007 U.S. Dist. LEXIS 59684, *; 100 A.F.T.R.2d (RIA) 5674*, which could affect the way that your losses are treated by you and the IRS.

In short, the *Kaplan* case arises from a Ponzi scheme that operated from 1986 to 2001. The Kaplans, who were investors in the scheme, claimed deductions for theft losses for: (1) the amount of their actual loss; (2) certain "phantom income" reported but not received by them over the term of their investment in the scheme; and, (3) taxes paid on the "phantom income" in earlier years for which a refund was barred by the statute of limitations. The deductions were taken in 2001, the year in which the nature of the scheme was discovered (but prior to resolution of all investor's claims and a distribution). The IRS contested the timing of the deductions, as well as the Kaplans ability to claim the "phantom income" and related tax payments as theft losses. In its decision, the district court ruled in favor of the government and against the taxpayers (i.e., the Kaplans) on each of these issues.

In another decision dated January 9, 2008 the United States Court of Federal Claims decided *Johnson v. U.S.,101 AFTR 2d 2008-523*, which also could affect the way that your losses are treated by you and the IRS.

The *Johnson* case arises from their investment of $78 million in a Ponzi scheme that operated from 1988 to 1997. The Johnsons claimed deductions for theft losses for the amount of their actual loss. This deduction was first claimed in 1998, the year of the loss discovery. By the end of 2001 the Johnsons had ascertained with reasonable certainty they had no prospect of recovery of some $37 million of their loss. An additional $17 million in recoveries was still being pursued. All issues concerning this remaining $17 million of recoveries were finally resolved by 2005. The IRS contested the timing of the deduction in any year prior to 2005, the year of final settlement of all issues. The Court disagreed, stating that the IRS regulations state that a taxpayer is not required to wait until the total amount of recovery from every source has been established, but in this case may take a theft loss deduction for 2001 for the portion of the loss ($37 million) they were reasonably certain they would not recover at that time.

While the *Kaplan* and *Johnson* decisions are in some ways dependent on the specific facts of these cases, you and your tax advisor may find them instructive in dealing with your individual tax situation. Importantly, it could have a significant beneficial impact on the ability of investors to seek refunds of taxes previously paid and the timing of any theft loss deduction. Accordingly, we encourage you to discuss these issues with your tax adviser as soon as possible so that you can make decisions about filing amended returns or refund claims, as well as whether and when to deal with a theft loss deduction.

We hope the above information will be helpful to you and your tax adviser. Repeating, ***this information is not tax advice. Each individual investor should consult with a qualified tax adviser such as a Certified Public Accountant or Attorney to determine the appropriate tax treatment based on his or her specific circumstances.***