SEC V. TRAVIS E. CORRELL, ET AL.
POTENTIAL TAX RAMIFICATIONS TO INVESTORS
IN THE "BANK DEPOSIT PROGRAM"

POSSIBLE TAX RAMIFICATIONS OF 2005 EVENTS CONCERNING YOUR PURCHASE OF ONE OR MORE INVESTMENTS THAT PURPORTEDLY INVOLVED INTERNATIONAL BANK DEPOSITS AND LOAN PROGRAMS ("BANK DEPOSIT PROGRAMS").

The following information concerning these transactions is not tax advice. Each individual should consult with a qualified tax adviser such as a Certified Public Accountant or Attorney to determine the appropriate tax treatment based on their specific set of facts and circumstances.

As you are aware, the United States Securities and Exchange Commission (the "SEC") has filed lawsuits against certain companies and individuals alleging that the Bank Deposit Program was a classic Ponzi scheme – i.e., that monthly payments made to investors were made from the proceeds of investments from new investors. The SEC charges each of the defendants with violations of the anti-fraud provisions of the federal securities laws, as well as engaging in the sale of unregistered securities.

Pursuant to a motion filed by the SEC, the Court appointed S. Gregory Hays as Receiver (the "Receiver") for the Defendants. As Receiver, Mr. Hays has taken control of all known assets and is investigating whether there are additional assets that can be recovered.

The Receiver has filed his First Interim Report, which provides a summary of the Receiver's preliminary activities and findings. As more fully explained in that report, it appears that well in excess of $150 million was raised from more than 1,500 investors. As of the date of the Receiver's appointment in December 2005, less than $2.5 million of cash remained in all of the Defendants. There is no evidence of an actual "Bank Deposit Program" being operated by any of the Defendants. There does not appear to be any readily recoverable cash or other assets that will result in a significant cash distribution to investors. However, as outlined in the First Interim Report, the Receiver will continue his investigation in an effort to discover and recover any such assets.

Some of the Defendants issued 1099s to investors in prior years, while others did not. As a part of the Investor Declaration, the Receiver has requested that all investors provide copies of the any 1099's they received.

The Receiver will NOT issue Form 1099's for investors for 2005. However, you and your tax adviser should determine whether any payments represent taxable income to you. In this regard, you should consider the allegations of the SEC's Complaint and the Receiver's First Interim Report, both of which are available on the Receiver's website – www.haysconsulting.net. You should also understand that the Receiver may seek to

recover “windfall” and “phantom” profits that may have been obtained by investors who received more than the principal amount of their investment.

While there may be other applicable regulations and code provisions, you and your tax adviser may find the following to be useful.

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”. As obtaining money under false pretenses may constitute fraud and thereby amount to theft under state law, investors in pyramid, or Ponzi, schemes may be entitled to a theft loss as victims of a fraudulent scheme.

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. Since 2005 was the year the above-referenced actions were filed by the SEC, it might be considered that 2005 is the year a “reasonable person” would have discovered any theft loss in connection with these transactions. ***You should discuss this issue with your tax advisor.***

The amount of the theft loss is the taxpayer’s adjusted basis in the property. Like any loss, a theft loss is not deductible while there is a reasonable prospect of recovery or reimbursement. Such a prospect postpones the deduction until the prospect no longer exists, but only to the extent of any potential recovery. Any excess is deductible in the year of discovery. If a theft loss is claimed and a taxpayer subsequently receives a reimbursement, the taxpayer must recognize income in the year of recovery, subject to the limits of the tax benefit rules of Section 111 of the Internal Revenue Code.

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.

The Receiver hopes the above information may be helpful to you and your tax adviser. Repeating, ***this information is not tax advice. Each individual should consult with a qualified tax adviser such as a Certified Public Accountant or Attorney to determine the appropriate tax treatment based on their specific set of facts and circumstances.***