



Certified Public Accountants
and Business Consultants

January 6, 2006

Re: All Investors of the Alanar, Inc./Guardian Services, LLC Group of Entities

The purpose of this letter is to address numerous tax questions that have been or will be asked regarding your investment with any Alanar or related companies. This letter provides general information and possible tax status of those accounts for the year ended December 31, 2005. Please be aware this letter is preliminary and reflects the current situation at the Alanar Companies. Therefore, in no way should this letter be relied upon by individual investors as their sole source of information. Investors should seek individual tax advice from their own tax professional, including providing them a copy of this letter. **THE RECEIVER AND BGBC PARTNERS, PC CANNOT PROVIDE YOU WITH PERSONAL TAX ADVICE.** In addition, this letter in no way represents a Tax Opinion Letter on these matters.

The following summarizes the recent events and current status of the Alanar Companies:

- On December 20, 2005, the Court entered an Order effective immediately converting this action to a Receivership.
- As Court-appointed accountants for the Receiver, our tasks include, but are not limited to, providing forensic analysis of the financial affairs of all entities, determining the status of tax filings, and preparing future reports to the Court and future tax filings.
- The Receiver's first interim report and inventory is due to the Court in February 2006. Consequently, it is highly unlikely there will be distributions, including partial distributions, of any funds currently subject to the Order in the near future. This includes any account with a cash balance or partial cash balance.

The forensic work will be extensive as the Alanar Companies have approximately:

- 55 separate entities (41 of which are separate bond funds)
- 450 separate bank accounts
- 300 open bond issues
- Upwards of 15,000 investors and/or bondholders

The ultimate tax treatment for the investors, bond fund members (equity holders), and specific bondholders (debt instruments) will be extremely complex and will depend on the subsequent facts and circumstances to be determined and uncovered.

For the year ended December 31, 2005, the following will take place:

- Investors receiving cash for interest on their bondholdings will receive a Form 1099 for those amounts received.
- The bond fund tax returns, 1065s, and related K-1s to investors will be extended until at least August 2006.
- Any and all other income tax returns will be extended.

Should the forensic accounting results determine specific losses to investors, bond fund members, and bondholders, the possible options for ultimate tax treatment of these likely losses are as follows:

Theft Loss – If determined to be a Ponzi scheme or equivalent

Available guidance on the subject indicates that investor losses from Ponzi schemes are properly characterized as theft losses subject to IRC §165. *PREMJI v. COMM.*, 81 AFTR 2d 98-861 (139 F.3d 912) affirming *Zahirudeen Premji, et ux. V. Commissioner*, TC Memo 1996-304; *JENSEN, DAVID S v. COM.* 76 AFTR 2d 95-8066 affirming *David Jensen*, TC Memo 1993-393; *Fenimore Storch*, TC Memo 1985-17. Theft losses are reported on Form 4684 and Schedule A of Form 1040 and can result in negative taxable income available for net operating loss (NOL) carryback and/or carryforward. It is important to note, per IRC §165(e), the theft loss shall be treated as sustained during the taxable year in which the taxpayer discovers the loss and not in the year the theft occurs.

There are several departures from the above treatment worthy of caveat. First, tax law requires "nonbusiness bad debt," as defined under IRC §166, to be treated as short-term capital loss subject to a \$3,000 deduction limit on excess short-term capital losses. Secondly, the IRC §165 regulations clearly state that "if in the year of discovery there exists a claim for reimbursement that has a reasonable prospect of recovery, the loss is not treated as sustained until the taxable year in which it can be ascertained with reasonable certainty whether or not such reimbursement of the loss will be received" *PREMJI v. COMM.*, 81 AFTR 2d 98-861 (139 F.3d 912). Our analysis of case law indicates investors with claims against the Alanar Companies could be affected by these regulations. However, there is judicial precedent supporting investors recognizing losses in the year of discovery up to this recovery amount. *BUBB, GUY JR. v. U.S.* (1993 DC PA) 72 AFTR 2d93-5857.

Capital Loss – Likely losses determined by facts and circumstances; to be treated simply as an ordinary long-term or short-term capital loss

401(k) and IRA – At the present time, 401(k) and IRA funds are frozen and no distributions or transfers of funds from the accounts will be made. This specifically includes any cash portion of those accounts.

Since these funds were invested as tax-deferred, the ultimate treatment of these will be different than the discussion above.

It should be noted, however, that many of these funds were invested in church bonds, which have significant impairment issues and commingling of funds and, as such, are subject to the accounting and investigation requirements of the Receivership.

As the Receivership proceedings unfold with regard to the Alanar Companies, individual taxpayers will need to collectively or individually monitor the progress in the case along with IRS positions. In cases as large as this, it is common for the IRS to issue special filing positions, rulings, other guidance, various relief, and special instructions to deal with these circumstances. However, it is entirely too early in the Receivership action to obtain that guidance.

In conclusion, you can easily see the complexity that potentially confronts each individual investor. Therefore, each investor should consult with their individual tax professional and provide them with this letter. REMEMBER, NEITHER THE RECEIVER NOR BGBC PARTNERS, PC CAN GIVE TAX ADVICE ON THIS MATTER.



BGBC Partners, PC
Court-appointed Accountants for the
Alanar/Guardian Companies Receiver