Dear Taxpayer(s):

This is in reply to your claim dated July 20, 2005.

We have determined that the information you sent is frivolous and your position has no basis in law. Claims such as yours have been considered and repeatedly rejected as without merit by the federal courts — including the United States Supreme Court. Therefore, we will not respond to future correspondence concerning these issues. Our lack of response to further correspondence does not mean that you may not appeal to the U.S. Tax Court or the United States Court of Federal Claims, if you so desire.

This is to inform you of the potential consequences of the position you have taken and to offer you an opportunity to correct your position within 30 days of the date of this letter.

Also be advised that people who violate the tax laws may be subject to federal criminal prosecution and imprisonment. Information about the IRS’s criminal enforcement program is available on the Internet at www.irs.gov. Once there, enter the IRS keyword fraud.

There are some people who encourage others to violate our nation’s tax laws by arguing that there is no legal requirement for them to file income tax returns or pay income taxes. These people base their arguments on legal statements taken out of context and on frivolous arguments that have been repeatedly rejected by federal courts. People who rely on this kind of information can ultimately pay more in taxes, interest and penalties than they would have paid simply by filing correct tax returns.

IRS Publication 348, Why Do I Have to Pay Taxes?, can be obtained from our Internet website www.irs.gov/pub/irs-pdf/p348.pdf. We also refer you to a document entitled The Truth About Frivolous Tax Arguments. It is also on our website at: www.irs.gov/pub/irs-pdf/p5198.pdf. If you do not have Internet access, you can obtain copies of these documents from your local IRS office.

Letter 3178C (3-1-2004)
This letter advises you of the legal requirements for filing and paying federal individual income tax returns and informs you of the potential consequences of the position you have taken. Please observe that the Internal Revenue Code sections listed below expressly authorize IRS employees that act on behalf of the Secretary of the Treasury to: 1.) examine taxpayer books, papers, records, or other data which may be relevant or material; 2.) issue summons in order to gain possession of records so that determinations can be made of the tax liability or for ascertaining the correctness of any return filed by that person; and 3.) collect such liability.

General Information on filing requirements

Title 26, United States Code
Section 6001 Notice or regulation requiring records, statements, and special returns
Section 6011 General requirement of return, statement, or list
Section 6012 Persons required to make returns of income
Section 6109 Identifying numbers
Section 6151 Time and place for paying tax shown on return
Section 6301 Collection authority
Section 6331 Lien for taxes
Section 6334 Levy and distraint
Section 7602 Examination of books and witnesses

INTERNAL REVENUE CODE SECTION 6702 (PRIVILEGED INCOME TAX RETURN PROVIDES:

CIVIL PENALTY - IT -

(1) any individual files what purports to be a return of the tax imposed by subtitle A but which -

(A) does not contain information on which the substantial correctness of the self-assessment may be judged, or

(B) contains information on its face indicates that the self-assessment is substantially incorrect; and

(2) the conduct referred to in paragraph (1) is due to -

(A) a desire which appears on the purported return to delay or impede the administration of Federal income tax law, then such individuals shall pay a penalty of $500.00

PENALTY IN ADDITION TO OTHER PENALTIES - The penalty imposed by subsection (a) shall be in addition to any other penalty provided by law.

Revenue procedure 68-12, 1968-1 C.B. 763 does not allow appeals procedures in cases of failure or refusal to comply with tax laws because of moral, religious, political, constitutional, conscientious or similar grounds. The Internal Revenue Service does not have the authority to consider such grounds in administrating the Federal income tax laws. If you request an appeal, a hearing, or a meeting to disagree with any examination action based wholly upon one of these arguments, you will not be given consideration.

If we receive the enclosed Form 2290 and Form 3363, both properly signed, within 30 days from the date of this letter, we will

Letter 3178C (3-1-2004)
disregard the previous documents filed and not assess the frivolous return penalty.

Please attach this letter to your response and mail it to the address shown above. The copy of this letter is for your records.

If you have any questions, please write to us at the address shown at the top of the first page of this letter. Or, you may call us toll free at 1-866-899-9283 between the hours of 7:00 am and 7:00 pm. Whenever you write, please include this letter and, in the spaces below, give us your telephone number with the hours we can reach you. You may also wish to keep a copy of this letter for your records.

Your Telephone Number (__) Hours, ____________

Sincerely yours,

[Signature]

Operations Manager
Exax SC support

Enclosure(s):
Copy of this letter
Publication 1
Publication 2128
Envelope
Form 2297
Form 3363

Letter 3176C (3-1-2004)
Privacy Act Statement

Under the Privacy Act of 1974, we must tell you that our legal right to ask for information is Internal Revenue Code sections 6001, 6011, 6012 (g) and their regulations. They say that you must furnish it with records or statements for any tax for which you are liable, including the withholding of taxes by your employer.

We ask for information to carry out the Internal Revenue laws of the United States, and you are required to give us this information. We may give the information to the Department of Justice for civil and criminal litigation, other federal agencies, states, cities, and The District of Columbia for use in administering their tax laws.

If you don’t provide this information, or provide fraudulent information, the law provides that you may be charged penalties and, in certain cases, you may be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on your tax return. This could make you pay higher taxes or delay any refund. Interest may also be charged.

Lotter 3176C (3-1-2004)
Form 2297

Department of the Treasury/Internal Revenue Service

Waiver of Statutory Notification of Claim Disallowance

waive the requirements under Internal Revenue Code section 6532(a)(1) that a notice of claim disallowance be sent to me by certified or registered mail for the claims for credit or refund shown in column (d), below.

I understand that the filing of this waiver is irrevocable and it will begin the 2-year period for filing suit for refund of the claims disallowed as if the notice of disallowance had been sent by certified or registered mail.

<table>
<thead>
<tr>
<th>(a) Taxable Period Ending</th>
<th>(b) Kind of Tax</th>
<th>(c) Amount of Claim</th>
<th>(d) Amount of Claim Disallowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2001</td>
<td>Income Tax</td>
<td>$18,102.50</td>
<td>$15,102.50</td>
</tr>
</tbody>
</table>

If you file this waiver for a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as appears on your return. If you are acting under a power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under a power of attorney, a power of attorney must be sent with this form if not previously filed.

For a partnership or an estate or trust, all partners or fiduciaries must sign. If a partner is not a U.S. citizen or resident alien, the U.S. citizen or resident alien who is authorized to sign must also sign.

If a corporation, enter the name of the officer authorized to sign.

Your Signature: ___________________________ (Date Signed)

Spouse's Signature: ___________________________ (Date Signed)

Taxpayer's Representative: ___________________________ (Date Signed)

Partners/Corporate Officers: ___________________________ (Date Signed)

NOTE: Filing this waiver within 6 months from the date the claim was disallowed will not permit filing a suit for refund before the 2-year period has expired unless a decision is made by the Service while that time disallowing the claim.

Catalog Number 124617P

Form 2297 (Rev. 9-2002)
Form 3363
(Rev. November 1999)

Department of the Treasury — Internal Revenue Service

Acceptance of Proposed Disallowance of Claim for Refund or Credit

Name(s), SSN or EIN, and address of taxpayer(s) (Number, Street, City or Town, State, ZIP Code)

MARK A.
MAGNOLIA MS.

<table>
<thead>
<tr>
<th>Year or Period</th>
<th>Date Claim Filed</th>
<th>Kind of Tax</th>
<th>Amount of Claim</th>
<th>Amount of Claim Disallowed</th>
<th>Amount of Claim Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2001</td>
<td>July 25, 2005</td>
<td>Income Tax</td>
<td>16,162.50</td>
<td>16,162.50</td>
<td>.00</td>
</tr>
</tbody>
</table>

I accept the proposal of the Internal Revenue Service to disallow the claim(s) to the extent described above. This means only that I do not want the Service to consider the claim(s). It does not waive my right to file suit on the disallowance.

If you file this acceptance for a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under a power of attorney, a power of attorney must be sent with this form if not previously filed.

For a partnership with a single or employment tax liability, all partners must sign. However, one partner may sign with appropriate evidence of authorization to act for the partnership.

For a person acting in a fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form if not previously filed.

For a corporation, enter the name of the corporation followed by the signature and title of the officer(s) authorized to sign.

Your Signature

Spouse's Signature If A Joint Return Was Filed

Taxpayer's Representative Sign Here

Partnership/Corporate Name:

Partners/Corporate Officer Sign Here

Form 3363 (Rev. 11-1983)
Catalog Number 22244Y
Department of the Treasury — Internal Revenue Service