



Memorandum – Via Email

To: Lewis Mosburg, Esq. & Diana Stanford, Esq.
From: Tim Weed and Brian Myrick
Date: September 10, 2003
Re: Basic Energy and Affiliated Resources (BEAR): Tax issues related to BEAR wind-down

Executive Summary

Our understanding is that you are planning to petition to Federal Court to permit the closure of the BEAR estate and need an understanding of the remaining tax filings and whether any amounts need to be reserved to pay any taxes. A schedule of the tax filings is listed below (a-h). There is no tax due with any of these tax returns. We will begin preparation of the tax returns now and be poised to file them shortly after October 15, 2003¹ (subject to the need for remaining estimated fees and costs to close the estate).

Required Filings

The following steps need to be performed in order to dissolve a for-profit corporation:

- a. Obtain a copy of the plan of dissolution, or similar court document that provides authority to close the company. The plan of dissolution is usually filed with the Final Form 1120 and the Form 966.
- b. Form C&S 531 - Certificate of Dissolution (Attach a copy of the plan of dissolution)
- c. Form 966 - Corporate Dissolution or Liquidation (Federal) File should be filed within 30 days after adoption of the plan of liquidation.
- d. Form MI 501 - Request by corporation for Michigan Tax Clearance
- e. Form MI 163 - Notice of Change or Discontinuance
- f. Form 1120 - Final Federal Income Tax return to be filed on or before the 15th day of the third month following the month of dissolution, including extensions.
- g. Form C-8000 - Final Michigan Single Business Tax return to be filed on or before the last day of the fourth month following the month of dissolution, including extensions. File with Tax Clearance Division, Michigan Department of Treasury.

¹ Other than the Form 1099-MISC which is not due until January 31, 2004.



- h. Form 1096 & 1099-MISC - Informational Returns (Federal) - Every corporation making payments to individuals, law firms or other professionals of \$600 or more must file a form 1099-MISC.

Background

The conservator for BEAR is currently in the process of finalizing the accounting for the entity, including calculating and preparing final distributions to the investors. BEAR is a Michigan C Corporation. Selected Facts on BEAR follow.

The ending balance sheet as of 12/31/02 reflected the following amounts:

Cash	\$2,273,392
Deposits	3,360
Private Well Interests **	<u>1,000,000</u>
Total Assets	\$3,276,752

Amount Due to Investors	\$31,512,540
Common Stock	32,500
Additional Paid-in Capital	3,144
Retained Earnings	<u>(28,271,432)</u>
Total Liabilities & Equity	\$3,276,752

The return also showed the following NOL carryovers to 2003:

Regular Tax NOL	\$28,241,456
AMT NOL	15,240,995
MI NOL	391,031

**(Note: this asset was an investment that has been recorded on the books at a value of \$1,000,000; however, this asset has a FMV of \$0 and in fact is completely worthless, so there is no chance of recovery any monies from this investment which could be returned to investors of BEAR)

Tax Consequences and how to treat the Amounts Due to Investor

Because we have treated payments made to investors as a "return of investment principal" this is how we should treat the final distributions to the investors of BEAR. We will need to distribute the remaining cash to the investors. Next, we will write-off the private well interests that are on the books, since these are completely worthless. Once we have done this, we can essentially make a journal entry to zero out the remaining amounts due to investors and adjust the retained earnings on the books to zero, thus effectively closing the books of BEAR.