

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

ALANAR, INC.,
GUARDIAN SERVICES, LLC,
FIRST FINANCIAL SERVICES OF SULLIVAN
COUNTY, INC., THE LIBERTY GROUP, INC.,
CHURCHMEN'S INCOME BOND FUND 1,
LLC, CHURCHMEN'S INCOME BOND FUND
2, LLC, CHURCHMEN'S INCOME BOND
FUND 3, LLC, CHURCHMEN'S INCOME
BOND FUND 4, LLC, CHURCHMEN'S
INCOME BOND FUND 6, LLC,
CHURCHMEN'S INCOME BOND FUND 7,
LLC, CHURCHMEN'S INCOME BOND FUND
8, LLC, CHURCHMEN'S INCOME BOND
FUND 11, LLC, CHURCHMEN'S INCOME
BOND FUND 13, LLC, CHURCHMEN'S
INCOME BOND FUND 14, LLC,
CHURCHMEN'S INCOME BOND FUND 15,
LLC, CHURCHMEN'S GROWTH BOND
FUND 1, LLC, CHURCHMEN'S GROWTH
BOND FUND 3, LLC, CHURCHMEN'S
GROWTH BOND FUND 4, LLC,
CHURCHMEN'S GROWTH BOND FUND 6,
LLC, CHURCHMEN'S GROWTH BOND
FUND 7, LLC, CHURCHMEN'S GROWTH
BOND FUND 10, LLC, CHURCHMEN'S
GROWTH BOND FUND 11, LLC,
CHURCHMEN'S GROWTH BOND FUND 12,
LLC, CHURCHMEN'S AGGRESSIVE
INCOME BOND FUND 1, LLC,
CHURCHMEN'S AGGRESSIVE INCOME
BOND FUND 2, LLC, CHURCHMEN'S
AGGRESSIVE INCOME BOND FUND 3, LLC,

Judge **1 : 05-cv-1 102 -JDT -TAB**

Civil Action No.

Magistrate Judge

CHURCHMEN'S AGGRESSIVE INCOME
BOND FUND 4, LLC, REGENT CAPITAL,
LLC, VAUGHN A. REEVES, SR.,
VAUGHN A. REEVES, JR., JONATHAN
CHRISTOPHER REEVES, JOSHUA CRAIG
REEVES,

Defendants,

and

CHURCHMEN'S INVESTMENT
CORPORATION, CHURCHMEN'S CAPITAL
GROUP, INC., AIC AVIATION, INC., THE
CITADEL CORPORATION OF SULLIVAN
COUNTY, NORTHSTAR DEVELOPMENT
CORPORATION, NORTHSTAR MORTGAGE
FUNDING, INC.,

Relief Defendants.

ORDER OF PERMANENT INJUNCTION AND OTHER RELIEF

The Securities and Exchange Commission ("SEC" or "Commission") having filed a
Complaint and:

- 1) Alanar, Inc. ("**Alanar**"),
- 2) Vaughn A. Reeves, Sr. ("Vaughn Reeves"), Vaughn A. Reeves, Jr. ("Chip Reeves"), Jonathan Christopher Reeves ("Chris Reeves") and Joshua Craig Reeves ("Josh Reeves") (Vaughn Reeves, Chip Reeves, Chris Reeves and Josh Reeves collectively referred to as the "**Reeves**");
- 3) Guardian Services, LLC, First Financial Services of Sullivan County, Inc. and The Liberty Group, Inc. (collectively referred to as the "**Paying Agents**");
- 4) Churchmen's Income Bond Fund 1, LLC, Churchmen's Income Bond Fund 2, LLC, Churchmen's Income Bond Fund 3, LLC, Churchmen's Income Bond Fund 4, LLC, Churchmen's Income Bond Fund 6, LLC, Churchmen's Income Bond Fund 7, LLC, Churchmen's Income Bond Fund 8, LLC, Churchmen's Income Bond Fund 11, LLC, Churchmen's Income Bond Fund 13, LLC, Churchmen's Income Bond Fund 14, LLC, Churchmen's Income Bond Fund 15, LLC, Churchmen's Growth Bond

Fund 1, LLC, Churchmen's Growth Bond Fund 3, LLC, Churchmen's Growth Bond Fund 4, LLC, Churchmen's Growth Bond Fund 6, LLC, Churchmen's Growth Bond Fund 7, LLC, Churchmen's Growth Bond Fund 10, LLC, Churchmen's Growth Bond Fund 11, LLC, Churchmen's Growth Bond Fund 12, LLC, Churchmen's Aggressive Income Bond Fund 1, LLC, Churchmen's Aggressive Income Bond Fund 2, LLC, Churchmen's Aggressive Income Bond Fund 3, LLC, Churchmen's Aggressive Income Bond Fund 4, LLC and Regent Capital, LLC (collectively, the "**Bond Funds**"); and

- 5) Relief Defendants Churchmen's Investment Corp. ("CIC"), Churchmen's Capital Group, Inc. ("CCG"), AIC Aviation, Inc. ("AIC"), the Citadel Corporation of Sullivan County ("Citadel"), Northstar Mortgage Funding, Inc. ("Northstar Mortgage") and Northstar Development Corp. ("Northstar Development") (CIC, CCG, AIC, Citadel, Northstar Mortgage and Northstar Development collectively referred to as the "**Relief Defendants**");

having entered general appearances; consented to the Court's jurisdiction over Defendants and Relief Defendants that are the subject matter of this action; consented to entry of this Order without admitting or denying the allegations of the Complaint (except as to jurisdiction); waived findings of fact and conclusions of law; and waived any right to appeal from this Order:

I.

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that Defendants Alanar, the Bond Funds, the Paying Agents and the Reeves, and their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Order of Permanent Injunction by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5], by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security:

- (a) to employ any device, scheme, or artifice to defraud;
- (b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

II.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that Defendants Alanar, the Bond Funds and the Reeves, and their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Order of Permanent Injunction by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly:

- (a) to employ any device, scheme, or artifice to defraud;
- (b) to obtain money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
or
- (c) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

III.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that Defendant Alanar, its agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, and each of them, be and are hereby permanently restrained and enjoined from, directly or indirectly, while acting as a broker or dealer, making use of the mails or any means or instrumentality of interstate commerce to effect any transaction in, or induce or attempt to induce the purchase or sale of, any securities (other than an exempted security or commercial paper, bankers' acceptances or commercial bills) otherwise than on a national securities exchange of which it is a member, by means of any act, practice or course of business which operates or would operate as a fraud or deceit upon any person; or by means of any untrue statement of a material fact or omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, where such statement or omission is made with knowledge or reasonable grounds to believe that it is untrue or misleading, in violation of Section 15(c)(1) of the Securities Exchange Act of 1934 [15 U.S.C. § 78o(c)(1)].

IV.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that:

A. Alanar, The Reeves and the Relief Defendants, their agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, and each of them, be and hereby are prohibited from, directly or indirectly:

1. transferring, selling, assigning, pledging, dissipating, concealing or otherwise disposing of in any manner, any funds, assets, accounts, or other property belonging to any of the Defendants or in their possession, custody or control, wherever located;
2. transferring, selling, assigning, pledging, dissipating, concealing or otherwise disposing of in any manner, any funds, assets, accounts, or other property into which investor funds were deposited; and
3. destroying, mutilating, concealing, altering or disposing of in any manner, any of the books, records, documents, correspondence, brochures, manuals, obligations or other property (including records contained on any computer or computer storage media) in Defendants' possession, custody or control, wherever located.

Any account in the name of any Defendant or Relief Defendant, or in which any Defendant or Relief Defendant has signatory authority or a beneficial interest, is frozen until further order of the Court.

B. Notwithstanding paragraph IV.A of this Order, the Reeves shall be permitted to withdraw no more than \$3,000 per month for the payment of ordinary household expenses. The Reeves shall submit to the Court and counsel for the Commission a monthly accounting of all household expenses paid by withdrawals from the frozen accounts. The monthly accounting shall include copies of all supporting documents and be submitted to the Court within ten (10) days after the last day of each month. The Commission may seek to modify, amend or revoke the Reeves' ability to withdraw any funds as discussed in this paragraph upon review of the accounting of the Reeves' assets and liabilities specified in paragraph VIII.A of this Order.

Alanar, the Reeves and the Relief Defendants may petition the Court to modify this freeze to allow for the payment of attorneys fees outstanding as of the date of the signing of this Consent that they incurred in connection with this matter. The Commission reserves its rights with respect to any such petition.

V.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that Defendants and Relief Defendants shall pay disgorgement of ill-gotten gains, prejudgment interest thereon, and the Defendants may be required to pay a civil penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act. The Court shall determine the amounts of the disgorgement and civil penalty upon motion of the Commission. Prejudgment interest shall be calculated based on the rate of interest used by the Internal Revenue Service for the underpayment of federal income tax as set forth in 26 U.S.C. § 6621(a)(2). In connection with the Commission's motion for disgorgement and/or civil penalties, and at any hearing held on such a motion: (a) Defendants will be precluded from arguing that they did not violate the federal securities laws as alleged in the Complaint; (b) Defendants and Relief Defendants may not challenge the validity of the Consent or this Order; (c) solely for the purposes of such motion, the allegations of the Complaint shall be accepted as and deemed true by the Court; and (d) the Court may determine the issues raised in the motion on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence, without regard to the standards for summary judgment contained in Rule 56(c) of the Federal Rules of Civil Procedure. In connection with the Commission's motion for disgorgement and/or civil penalties, the parties may take discovery, including

discovery from appropriate non-parties.

VI.

IT IS HEREBY FURTHER ORDERED, ADJUDGED AND DECREED that:

- A. If the Plaintiff, in its discretion and at any time, that Defendants or Relief Defendants contest any matter with respect to disgorgement or civil penalties, or with respect whether a Defendant or Relief Defendant is in contempt of Court, the parties may take depositions of parties and non-parties subject to five (5) business days notice. If plaintiff later determines that discovery is necessary regardless of whether defendants are contesting any issue, it may petition the court for modification of this provision.
- B. Immediately upon entry of this Order, the parties shall be entitled to serve interrogatories, requests for the production of documents and requests for admissions. The parties shall respond to such discovery requests within fourteen (14) calendar days of service.
- C. Should a party fail to respond to a request for admission within fourteen (14) calendar days of service, that request may be deemed admitted for all purposes in this action.
- D. Should a party fail to respond to an interrogatory within fourteen (14) calendar days of service, that party may be prohibited from introducing any evidence concerning the subject of the interrogatory for any purpose in this action.

- E. Should a party fail to produce a responsive document within fourteen (14) calendar days of service, that party may be prohibited from introducing the withheld document for any purpose in this action.
- F. All responses to the SEC's discovery requests shall be delivered to Cassandra Becker, 175 W. Jackson Blvd., Suite 900, Chicago, Illinois 60604 by the most expeditious means available.
- G. If any party to this action intends to present the testimony of any witness at any hearing in this matter, that such party shall, at least five (5) business days prior to the scheduled date and time of hearing, serve on counsel for the other parties a statement of the name, address, telephone number of any such witness, and either a summary of the witness' expected testimony, or the witness' affidavit or declaration disclosing the substance of such witness' expected testimony.
- H. Service of discovery requests shall be sufficient if made upon the parties by facsimile or overnight courier; depositions may be taken by telephone or other remote electronic means without further order of the Court.

The parties to this action may commence third-party discovery immediately.

VII.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that the Consent of the Defendants and Relief Defendants is incorporated herein with the same force and effect as if fully set forth herein, and that Defendants and Relief Defendants shall comply with all of the undertakings and agreements set forth therein.

VIII.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that the Defendants and Relief Defendants shall comply with the Undertakings below which expressly apply to him/her/it:

A. Undertakings by the Reeves, AIC, Citadel, Northstar Mortgage and Northstar Development:

1. to each provide within twenty-one (21) days after the signing of the Consent of the Defendants and Relief Defendants a full accounting to the Commission and the Court that identifies all of their current assets and liabilities, sources and amounts of current income and expenses, a list (with financial institution and account number) of all accounts at any financial institution in which they have a beneficial interest, and a list (with date and purpose) of all expenditures in an amount of \$1,000 or greater since May 1, 2004.

2. to each cooperate in the placement of liens on their personal and real property, as appropriate;

3. to refrain from interfering with the performance of any undertaking by any party to this action; and

4. to cooperate with the Monitor.

B. Undertakings by the Paying Agents:

1. to ensure that Joseph Craft and Michael Kramb, and their successors, direct their operations in a manner consistent with the obligations of the Paying Agents to the

Bondholders, without interference or oversight by the Reeves or anyone affiliated with the Reeves;

2. to identify all transactions between each Paying Agent and any related party, such as the Reeves or any of the Relief Defendants, during the time period from January 1, 2001 to the present; and

3. to each provide a full accounting to the Commission and the Court that identifies all of their current assets and liabilities, sources and amounts of current income and expenses, a list (with financial institution and account number) of all accounts at any financial institution in which they have a beneficial interest, and a list (with date and purpose) of all expenditures in an amount of \$5,000 or greater since May 1, 2004.

C. Undertakings by the Bond Funds:

1. To designate, by no later than thirty (30) days after the signing of the Consent of Defendants and Relief Defendants, competent officers not unacceptable to the plaintiff's staff who are capable of directing the operations of the Bond Funds who are not the Reeves;

2. to reconcile, maintain and preserve the books and records of the Bond Funds, with such reconciliation to be completed by no later than forty-five (45) days after the entry of this Order and provided to the Monitor and the Commission;

3. to maintain a moratorium on the processing of any requests for redemptions by any investors in the Bond Funds, until such time as the Court approves a plan for the restructuring, liquidation or redemption of the Bond Funds;

4. to identify all transactions between each of the Bond Funds and any

related party, such as the Reeves or any of the Relief Defendants, during the time period from January 1, 2001 to the present;

5. to recover all funds borrowed from the Bond Funds by any person or entity or, to the extent such funds are not immediately recoverable, to obtain liens (in the amount of any unpaid principal or interest) against personal and real property of any debtors to the Bond Funds;

6. to provide copies to the appropriate investors of the applicable Bond Funds' audited financial statements for the year ended December 31, 2004, together with a report on the current financial and operational status of that bond funds;

7. to place a moratorium on making distribution payments to Bond Fund investors. Such moratorium may be lifted only after: (i) the Bond Funds complete the reconciliation referenced in the paragraph VIII.C.2 above, (ii) the Bond Funds unwind all related party transactions involving them, and (iii) the Bond Funds provide the Commission and the Monitor with a proposed plan for resuming distribution payments, the Commission and the Monitor consent to such proposed plan, and the Court approves the plan;

8. to maintain a moratorium on buying new bonds or other securities for the Bond Funds;

9. to maintain a moratorium on loaning any funds to other parties without the approval of the Monitor; and

10. to maintain a moratorium on creating new Bond Funds.

D. Undertakings by CIC:

1. to complete, by no later than thirty (30) days after the signing of the

Consent of the Defendants and Relief Defendants, financial statements for CIC, for the time period of January 2004 through May 31, 2005, and provide copies of such financial statement to the Monitor and the Commission;

2. to identify all transactions between CIC and any related party, such as the Reeves or any of the Relief Defendants, during the time period from January 1, 2001 to the present;

3. to immediately liquidate all open securities positions in the CIC brokerage account at E*Trade (Account # 6735-4255) and maintain the proceeds from such liquidation in the E*Trade money market account until further order of the Court;

4. to refrain from purchasing any additional securities; and

5. to refrain from making any loans to any other parties without the approval of the Monitor.

E. Undertakings by CCG:

1. to identify all transactions between CCG and any related party, such as the Reeves or any of the other Relief Defendants, during the time period from January 1, 2001 to the present; and

2. to provide the Monitor and the Commission with a copy of its current financial statements by no later thirty (30) days after the signing of the Consent of Defendants and Relief Defendants.

IX.

IT IS HEREBY FURTHER ORDERED, ADJUDGED AND DECREED that:

A. Bradley Skolnik is appointed to serve as an independent monitor ("Monitor"), with of Stewart and Irwin, P.C.

the powers set forth in Paragraph IX.B below. The Monitor's mandate will be to protect the interests of the Bondholders and the Bond Fund investors, to the extent permitted by law. At any time after six (6) months from the date of the signing of this Consent, the parties may petition the Court to set a date by which the Monitor shall complete his work as set forth in this Order.

B. The Monitor shall have final approval authority over all facets of the day-to-day operations of the Bond Funds, non-defendant bond funds (comprised of Churchmen's Income Bond Fund 5, LLC, Churchmen's Income Bond Fund 9, LLC, Churchmen's Income Bond Fund 10, LLC, Churchmen's Income Bond Fund 12, LLC, Churchmen's Income Bond Fund 16, LLC, Churchmen's Growth Bond Fund 2, LLC, Churchmen's Growth Bond Fund 5, LLC, Churchmen's Growth Bond Fund 8, LLC, Churchmen's Growth Bond Fund 9, LLC, Churchmen's Growth Bond Fund 13, LLC, Churchmen's Growth Bond Fund 14, LLC, Churchmen's Growth Bond Fund 15, LLC and Churchmen's Aggressive Growth Bond Fund 1, LLC, collectively referred to as the "Non-Defendant Bond Funds") the Paying Agents, the Relief Defendants and Alanar, which approval shall not be unreasonably withheld.

C. No operational act or decision by the Alanar, the Bond Funds, the Non-Defendant Bond Funds, the Paying Agents and the Relief Defendants shall be made without first consulting the Monitor and providing the Monitor sufficient time to determine whether the proposed act or decision is appropriate.

D. No funds may be used by the Bond Funds, the Non-Defendant Bond Funds, the Paying Agents, the Relief Defendants or Alanar without the prior approval of the Monitor with the exception that the Paying Agents may use income generated by virtue of their operation to them to pay for the fees of their retained attorneys and that the Bond Funds and the Non-

Defendant Bond Funds may use the income generated by the portfolio holdings to pay the fees of their retained attorneys and accountants without prior approval of the monitor; provided, however, that under no circumstances may the Paying Agents pay professional fees using funds in their custody or control that are held in trust for churches or bondholders, including but not limited to funds that are in "Bond Proceeds Accounts," or "Bond Repayment Accounts," as those terms are defined in the Paying Agents trust indentures.

E. To the extent that the Paying Agents, the Bond Funds or the Non-Defendant Bond Funds use funds to pay their retained advisors as set forth in paragraph IX.D. above, they will submit to Monitor a monthly accounting of the sources and uses of all such funds, the monthly accounting to include copies of all supporting documents and be submitted to the Monitor within ten (10) days after the last day of each month.

F. The Monitor may take any steps he deems necessary to fulfill his mandate, as set forth in this Order of Permanent Injunction and Other Relief.

G. Failure to obtain the Monitor's approval as provided in this paragraph shall constitute a contempt of court, and the Commission may pursue all appropriate relief based on any such contempt.

H. In furtherance of the Monitor's mandate,

1. Defendants and Relief Defendants shall:

a. immediately provide the Monitor with full access to all of their corporate records;

b. immediately arrange (through the relevant financial institutions) for the Monitor to be designated as a party entitled to receive periodic statements for all bank and

brokerage accounts in which the Reeves, the Relief Defendants, Alanar, the Bond Funds, and the Paying Agents have any beneficial interest;

c. immediately require all of their remaining officers, directors, employees and agents to cooperate fully with the Monitor and to respond, within the time requested by the Monitor, to any inquiries or questions by the Monitor; and

2. The Reeves shall pay the Monitor reasonable compensation and expense reimbursement in amounts commensurate with the services performed by the Monitor. Within ten (10) days after the entry of the Order of Permanent Injunction and Other Relief, the Reeves shall establish an escrow account, and fund that account with \$75,000 (the "Initial Amount"), to be used to pay the fees and expenses of the Monitor and of the advisers and experts hired or retained by the Monitor. The Monitor may apply to the Court for such compensation and expense reimbursement monthly and such amounts shall be drawn from the escrow account. The Reeves shall continue to provide additional funds to the escrow account as necessary to maintain at all times a balance equal to or greater than the Initial Amount.

I. The Commission may, in its discretion, petition the Court to modify the scope of the Monitor's authority, or relieve the Monitor of all authority.

J. The Commission shall have the right to petition the Court for immediate relief if the Commission deems that any of the Defendants and Relief Defendants' ongoing activities are not in the best interest of the Bondholders or Bond Fund investors.

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk of the Court is hereby directed to enter this Order forthwith and without

further notice.

IT IS SO ORDERED.

Dated: July 26, 2005

A handwritten signature in black ink, consisting of a large, stylized 'J' and 'T' followed by a horizontal line.

John Daniel Tinder, Judge
United States District Court