

**TRANSMITTAL LETTER**

Dated: \_\_\_\_\_, 20\_\_\_\_\_

To: \_\_\_\_\_

From: \_\_\_\_\_, the Manager of  
\_\_\_\_\_, LLC,  
a California Limited Liability Company.

Re: Investors with \$ \_\_\_\_\_ cash available for placement in an income-producing real estate investment program.

You are kindly requested to consider this investment opportunity.

\$ \_\_\_\_\_ cash will be raised for a down payment, closing costs, and reserve funds to purchase income-producing real estate.

The property to be acquired is a(n) \_\_\_\_\_ building located at \_\_\_\_\_, in \_\_\_\_\_ California.

The purchase price of this income property is \$ \_\_\_\_\_.

The mortgage financing on the property is the total principal amount of \$ \_\_\_\_\_.

Group ownership of this property will create the following advantages for the investors:

1. A high-yield priority return on invested funds from spendable income, equity build-up, and increase in property value;
2. No additional capital contribution;
3. Management of the property and accounting to be handled by the LLC manager; and
4. Individual co-owner tax benefits.

Please review the specially prepared investment circular accompanying this letter for the details of these and other advantages.

My deadline for funding the close of the purchase escrow is \_\_\_\_\_, 20\_\_\_\_\_.

Please call me at \_\_\_\_\_ if you desire any further information.

Sincerely,

\_\_\_\_\_

**INVESTMENT OPPORTUNITY**

\_\_\_\_\_, LLC,  
a California Limited Liability Company,  
offers investors a  
\$ \_\_\_\_\_ cash  
investment program  
consisting of \_\_\_\_\_  
\$ \_\_\_\_\_ Class A membership units  
in the ownership of  
income-producing real estate  
valued at \$ \_\_\_\_\_

This Investment Circular is dated: \_\_\_\_\_, 20\_\_\_\_\_

# **INVESTMENT CIRCULAR**

Presented by \_\_\_\_\_, LLC,

a California Limited Liability Company  
Offering Class "A" investment units at  
\$ \_\_\_\_\_ per unit.

The investment program is designed to raise cash in the sum of \$ \_\_\_\_\_, for use by the Limited Liability Company (LLC) to acquire and operate, as a long-term investment, an existing income-producing \_\_\_\_\_ property. The investment is designed to deliver to the investor:

- spendable income;
- equity build-up by monthly amortized loan reduction;
- an inflationary hedge and appreciation in value;
- tax benefits of annual depreciation deductions;
- minimum management requirements;
- priority distribution of income and profits;
- liability limited to capital invested; and
- debt leveraged ownership serviced by rental income.

The investment program is limited to investors meeting minimum financial and suitability standards.

Other than filing articles of organization for the LLC, this investment program has not been qualified or registered with any governmental agency, as no qualification or registration is required by law. No permits of any kind have been sought or received prior to offering this investment program to prospective investors.

## **INVESTMENT CIRCULAR SUMMARY**

\_\_\_\_\_, LLC, a California Limited Liability Company, offers \_\_\_\_\_ investment units of \$ \_\_\_\_\_ each, as a long-term investment program involving a degree of risk.

The LLC is newly organized and has no operating history. It holds the contract rights to purchase income-producing real estate commonly referred to as \_\_\_\_\_, in the City of \_\_\_\_\_, \_\_\_\_\_ County, California. The property current fair market value is \$ \_\_\_\_\_.

The LLC will hold title to the property subject to a loan(s) totaling \$ \_\_\_\_\_. The purpose of this offering is to raise capital funds for the down payment on the purchase of the income-producing real estate, pay an organizational fee to the manager and establish a reserve fund.

The material set forth in this circular is a presentation of this investment program and solicitation of investors. In the investment circular, the Manager has set out all available material facts and data for presentation to prospective investors.

This investment does contain risk factors, as it is more speculative than insured interest-bearing accounts or real estate owned clear of any mortgage financing.

The investors' interests in this LLC will not be acquired with the intent to resell. The interests offered will be difficult to market or resell, and liquidation of any individual member's interest will likely result only from resale of the property by the Manager. [See Section 6, Risk Factors]

The units offered may be subscribed to by investors who meet financial and suitability standards, and who are sufficiently well informed in real estate investments to discern for themselves the risks inherent in the offering.

If for any reason the subscription of sufficient investors fails to be completed by \_\_\_\_\_, 20\_\_\_\_\_, the investor's funds will be returned in full without reduction in amount, together with any interest earned thereon.

The minimum financial suitability standards set by the Manager for this investment program require investors to have a minimum adjusted gross income of \$\_\_\_\_\_ and a net worth of \$\_\_\_\_\_, exclusive of personal residence, automobile, and personal property. The intention to purchase and hold a membership share in the LLC for long-term investment purposes rather than for resale is also a necessary requisite.

The Class A membership interests offered have not been registered with the Securities Exchange Commission (SEC) nor qualified with the California Department of Corporations (DOC), and no permits have been obtained from any governmental agency. This investment program is to capitalize the purchase and ownership of an existing asset, to be held for income from rents and profit on resale. No future improvement or development of any kind to create or complete this investment is anticipated, and the investment requires no reporting under any securities laws, state or federal.

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\_\_\_\_\_, LLC,  
a new California Limited Liability Company  
formed for a group of investors  
to acquire a(n) \_\_\_\_\_ building  
located in \_\_\_\_\_, California.

## SECTION 1. INVESTMENT OBJECTIVES AND POLICIES

The Limited Liability Company (LLC) will purchase and operate, for long-term investment advantages, an existing \_\_\_\_\_, located at \_\_\_\_\_, in \_\_\_\_\_, California.

The project is more commonly referred to as \_\_\_\_\_.

The objectives of the LLC are to provide Class A members with:

- spendable income;
- equity build-up by monthly amortized loan reduction;
- an inflationary hedge and appreciation in value;
- tax benefits of annual depreciation deductions;
- minimum management requirements;
- priority distribution of income and profits;
- liability limited to capital invested; and
- debt leveraged ownership serviced by rental income.

Local and national conditions should allow the LLC to attain all these objectives. However, there can be no assurance these objectives will be fully attained.

The Manager will direct the acquisition of the real estate. Income, profits and return of invested capital from the LLC property will be the result of spendable income generated by property operations, proceeds of refinance or resale of the property, and annual tax benefits, in any.

The Manager will diligently conduct the affairs of the LLC to achieve these investment objectives.

Information presented in this investment circular is intended to provide a prospective investor with sufficient facts concerning the proposed investment to make an informed decision to invest. Estimates of income and expenses incurred by the LLC are based on existing facts and the best estimates of the manager and his advisors, and are not intended as guarantees or warranties to the investor.

Any real estate investment is speculative in nature and includes some degree of risk. It is suggested that a prospective investor contact his accountant, attorney or investment counselor for additional advice concerning this investment's suitability.

**SECTION 2. SUMMARY OF PROPERTY PURCHASE**

A contract to purchase the real estate has been entered into by \_\_\_\_\_, an individual, as the Buyer. These purchase rights will be assigned to the LLC for its acquisition of the property prior to closing, in exchange for Class B membership interests valued at \$\_\_\_\_\_.

The Seller, who has contracted to sell the property, is \_\_\_\_\_. The purchase contract is dated \_\_\_\_\_, 20\_\_\_\_. An escrow has been opened with \_\_\_\_\_, escrow number \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_\_\_\_.

The purchase contract and escrow instructions are attached to this investment circular as Exhibits "A" and "B". These documents are the only purchase contracts involved in this transaction.

The terms of the purchase price are:

Cash down payment	\$_____
Existing debt taken over	\$_____
New loan to record	\$_____
Note carried back by Seller	\$_____
TOTAL Purchase Price	\$_____

The amount of the cash down payment includes the return to the Manager of his deposit toward the down payment on the purchase price.

The purchase price is not the total cost to the LLC to acquire the property. Pro rations and adjustments for the Landlord/Tenant obligations are also included, as well as transactional closing costs. A completed Buyer's Cost Sheet for acquisition of the property by the LLC is set forth in Exhibit "D".

**SECTION 3. REAL ESTATE FINANCING**

The financing, its balance, interest rates, monthly payments, due dates and other facts are as follows:

The first trust deed encumbrance secures a note in the remaining balance of \$\_\_\_\_\_, payable \$\_\_\_\_\_ monthly, including interest at the rate of \_\_\_\_\_%, until paid \_\_\_\_\_.

The seller's carryback note, secured by a second trust deed on the property, is in the amount of \$\_\_\_\_\_, payable \$\_\_\_\_\_ monthly, including interest at the annual rate of \_\_\_\_\_%, all due and payable on \_\_\_\_\_ 20\_\_\_\_\_, with a final/balloon payment of \$\_\_\_\_\_.

**SECTION 4. CAPITALIZATION OF THE LIMITED LIABILITY COMPANY**

The amount of capital to be raised by cash contributions from prospective investors is \$\_\_\_\_\_. To obtain this amount, \_\_\_\_\_ Class A units at \$\_\_\_\_\_ per unit are offered to investors.

Each subscribing investor may purchase a minimum of \_\_\_\_\_ units and a maximum of \_\_\_\_\_ units. Subscriptions are to be accompanied by full payment.

Should the total amount of capital to be raised not be received prior to the cancellation of the purchase escrow on the real estate, or \_\_\_\_\_, 20\_\_\_\_\_ if sooner, the subscription will terminate and all funds received from prospective investors will be returned promptly with any interest earned.

## **SECTION 5. USE OF THE CONTRIBUTION PROCEEDS**

The capital cash contributions of \$ \_\_\_\_\_ from investors with Class A interests will be deposited and disbursed as follows:

1. \$ \_\_\_\_\_ will be deposited in escrow as the additional funds required to close the real estate purchase.
2. \$ \_\_\_\_\_ will be disbursed to the manager to return his cash deposit in escrow toward the down payment on the purchase price.
3. \$ \_\_\_\_\_ will be disbursed to the Manager as an organizational fee.
4. \$ \_\_\_\_\_, approximately, will be deposited with any other funds remaining in the LLC bank account as a reserve fund to be used by the Manager at his discretion for expenditures which were or will be incurred for the organization of the LLC and the acquisition of the property, including costs related to a title search.

## **SECTION 6. RISK FACTORS**

An investment in the Class A units offered involves some risk of loss of the capital invested. Potential investors are to carefully consider each of the following factors.

### **A. LLC Operations**

This LLC is newly organized and has no operational history. The Manager will devote to the LLC's affairs such time as he, in his discretion, deems necessary and diligent.

This investment circular is intended to provide prospective investors with all the facts concerning the proposed investment which might affect his decision to invest. Estimates of income and operating costs, debt service and cash returns are based on existing facts and the best estimates of the Manager and his advisors. However, they are not intended as guarantees or warranties to the investor.

Many of the factors which may affect the LLC and its affairs are subject to change, or are not within the control of the LLC, its Manager, or its members. The extent to which such factors could restrict LLC activities or affect the value of the LLC properties is not currently ascertainable.

Factors which might affect the LLC include environmental controls, rent controls and government restrictions, adverse use of adjacent or neighboring real estate by its owners, changes in the demand for or supply of competing properties, changes in state or local tax rates and assessments, rapid depreciation in the value of the property, unexpected expenditures for repairs and maintenance, dramatic changes in general or local economic conditions, shortages or reductions in available resources or energy, acts of God or other calamities. The LLC will not be able to obtain insurance against most of these ownership risk factors.

### **B. Mortgage Risks**

In the event the LLC's revenues prove insufficient to service its loan(s) and pay property taxes and operating costs, the LLC will be required to use reserve funds. Should reserve funds be insufficient, the LLC will seek additional funds in the form of loans. If loans are unavailable or imprudent, the members will be called upon to vote and approve additional capital contributions to raise the needed funds. If additional contributions are not approved, the investor's initial capital will be placed at risk of loss should the LLC default on its obligations.

The mortgage contains a FINAL/BALLOON PAYMENT, and thus the debt is not fully amortized. When the remaining balance of the Note is due and payable, there can now be no assurance that refinancing, modification or extension of the balloon payment will then be available to the LLC.

### **C. Tax Consequences**

Limited liability companies qualify for treatment as partnerships for income tax purposes. On the sale of the property by the LLC, any sums distributed in excess of the investor's adjusted basis are presently taxed as capital gains, not ordinary income. However, no assurance can be made that capital gains tax rates will be available, or even apply.



**D. Conflicts of Interest**

The Manager has numerous other business responsibilities and ownership interests which will demand some or most of his time during the LLC’s ownership of the property. The Manager’s other interests include ownership of projects comparable to the property purchased in this transaction. To the extent his time is required on other business and ownership management decisions, he will not be involved in monitoring or marketing of the LLC’s property.

**SECTION 7. DESCRIPTION OF THE REAL ESTATE**

**A. Area Map**

A map of the area immediately surrounding the property is set forth in Exhibit “J”.

**B. Property Profile**

- 1. Improvements: \_\_\_\_\_
- 2. Zoning: \_\_\_\_\_ zoning under ordinance from the City of \_\_\_\_\_, allowing \_\_\_\_\_.
- 3. Dimensions: \_\_\_\_\_
- 4. Size: \_\_\_\_\_ square feet of net ground, exclusive of streets and rights of ways.
- 5. Soil: \_\_\_\_\_
- 6. Utilities: \_\_\_\_\_
- 7. Topography: \_\_\_\_\_
- 8. Street: \_\_\_\_\_
- 9. Improvements: \_\_\_\_\_

**C. Legal Description**

The legal description of the parcel of property being purchased is set forth in the Grant Deed in Exhibit “C”.

**D. Title Condition**

The property’s title has been searched and a copy of Schedule “B” from the preliminary title report, prepared for issuance of title and affecting use of the property, is set forth in Exhibit “E”.

**E. Property Condition**

A checklist itemizing the many features of the property and their condition is set forth in Exhibit “F”.

**F. Fair Market Value**

The real estate to be acquired by the LLC has been appraised at a fair market value of \$\_\_\_\_\_, as of \_\_\_\_\_, 20\_\_\_\_\_. A copy of the relevant portions of the detailed fee appraisal and valuation report prepared by \_\_\_\_\_ is attached to this circular as Exhibit “L”. The appraiser’s fee for research and preparation of the report and opinion was \$\_\_\_\_\_. The entire appraisal is available from the Manager on the request of any prospective investor.

## **SECTION 8. PROJECTED FIRST-YEAR OPERATING BUDGET**

A 12-month annual budget has been prepared and is attached as Exhibit "H". The budget is referred to as an Annual Property Operating Data Sheet (APOD).

The budget estimates the probable gross rental income likely to be received and operating expenses expected to be incurred in the operations and management of the property. By an analysis of the APOD as a budget, it demonstrates the cash flow for the next 12-months of ownership by the LLC, not for a calendar or tax year, which will vary.

The gross operating income on the budget represents the rents and other income anticipated to be collected and deposited to cover disbursements of operating expenses and loan payments. The gross operating income is estimated by first establishing the scheduled rental income for all units and space available to be rented, whether or not they are now rented.

A vacancy factor will always exist due to turnover of tenants, if for no other reason, such as lack of demand, oversupply of units or other fluctuations in the local or national economy. The vacancy factor is set forth on the budget and deducted from the gross scheduled income to set the gross operating income.

Actual rents will differ slightly from the budget analysis since the demand for rental and security of vacant units varies from month to month.

Presently, tenants under written rental and lease agreements occupy approximately \_\_\_\_\_% of the scheduled rental space. An itemized rent roll of tenants, the unit of space they occupy, and the rent they pay is set out on the dated rental income statement in Exhibit "I".

Spendable income calculated on the budget is for a 12-month period. The spendable income consists of rental income remaining for reserves and distribution to co-owners after payment of all operating expenses and loan payments.

The spendable income provides a cushion against unexpected increases in operating costs and any decrease in rental income. As projected on the budget, the vacancy factor would have to rise to \_\_\_\_\_% before the cushion of spendable income would be eliminated.

Taxwise, the budget projects the reportable income or loss from ownership operations anticipated to be experienced during the first year of operation. All operating expenses are deducted from the gross rental income, resulting in the net operating income (NOI). The government's depreciation schedule allows a non-cash deduction from the NOI as well as a deduction from NOI for interest accrued and paid on purchase/improvement loans.

Each co-owner will report their pro rata ownership share of the actual end-of-year reportable income or loss on their Federal Income Tax Form 1040, Schedule "E". The LLC, under the small partnership exemption, will not report on a Federal Income Tax Form 1065 and will not prepare a Schedule K-1.

**SECTION 9. PROJECTED FINANCIAL BENEFITS TO MEMBERS**

This income property investment program, under the budget presented and explained in Section 8, will deliver the members the following economic benefits:

1. Spendable income;
2. Equity build-up by monthly amortized loan reduction;
3. An inflationary hedge and appreciation in value; and
4. Tax benefits of annual depreciation deductions.

Typically, based on the budget, a \_\_\_\_\_% member would receive the following dollar amounts of benefit and percentage yield under the previous four categories:

Item:	Annual Amount	_____% Member's Amount	_____% Member's Percentage Yield
1. Spendable Income	\$ _____	\$ _____	_____ %
2. Loan Reduction	\$ _____	\$ _____	_____ %
3. Value Increase ( _____% annual rise)	\$ _____	\$ _____	_____ %
4. Tax Savings	\$ _____	\$ _____	_____ %
<b>TOTAL Annual Benefits</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>

These projections are, at best, estimates of the dollar and percentage amounts expected from the property's first 12 months of operations and will differ from the end-of-year report since it will be for only a portion of the calendar year. Also, the dollar amount of each of the benefits received will vary.

Spendable income will be disbursed quarterly beginning \_\_\_\_\_ months after closing. Earnings represented by the annual loan reduction and increased property value will be cashed out and distributed when a refinance or resale of the property occurs. Tax benefits from reportable losses result in a reduced income tax payment for the member who qualifies when filing his return.

**SECTION 10. BENEFITS RECEIVED BY MEMBERS**

The LLC will be comprised of ownership interests held by Class A Members and Class B Members. Cash investors will hold Class A interests; \_\_\_\_\_ will hold Class B interests.

Class A Members will have priority over Class B Members' interests on all cash disbursements made to members by the LLC.

Members will receive the following benefits:

1. \_\_\_\_\_% annual cash disbursements from the net spendable income projected to be earned. Net spendable income consists of those funds remaining from gross rental income after payment of all operating expenses, management fees, and debt service.

Disbursements of unreserved spendable income will commence beginning with spending income generated for the \_\_\_\_\_ quarter of operations. Any net spendable income received during the interim period will be placed in the reserve account and used for its purposes.

Spendable Income is to be distributed first to the Class A members in a sum equal to \_\_\_\_\_% a year, cumulative, of their original contributions; then to Class B members in a sum equal to \_\_\_\_\_% a year, cumulative, of their original contributions. Any remaining Spendable Income will be distributed pro rata to all members based on their ownership interest.

2. Equity build-up results from loan reduction due to the amortization of the mortgage financing encumbering the property. This equity build-up is converted to cash and distributed on refinance or resale of the property.
3. Sale and refinance proceeds remaining after payment of all costs and mortgages on the sale/refinance and repayment of loans made by members will be first distributed to Class A Members until they have received their contributions, plus \_\_\_\_\_% annually thereon from the date of contribution, less any disbursements received.

Next, proceeds then remaining will be distributed to the Class B Members until they have received their contributions plus \_\_\_\_\_% annually thereon from the date of contribution, less any disbursements received.

Then, any proceeds remaining will be distributed to all members to be shared in accordance with their percentage of ownership.

4. Depreciation deductions will be taken by each individual member on his capital contribution and pro rata share of purchase-assist or improvement loans. The depreciation schedule will be chosen by the member and his accountant under the appropriate government-issued depreciation schedule.

## **SECTION 11. COMPENSATION AND DUTIES OF THE MANAGER**

The Manager will receive no compensation from any aspect of this transaction, other than those set forth in this section.

### **A. Contribution to the LLC**

A contract to purchase the real estate has been entered into by \_\_\_\_\_, an individual, as the Buyer. The purchase rights created by entering into this contract will be assigned to the LLC for its acquisition of the property prior to closing. In exchange for the assignment, the above named individual is receiving Class B membership interests valued at \$\_\_\_\_\_.

The Manager will receive a fee of \$\_\_\_\_\_ cash for services in the creation and formation of the LLC entity, solicitation of members and accompanying time and effort.

### **B. Management of the Property**

The LLC and the members will employ \_\_\_\_\_ to manage the LLC property. The property Manager will receive a fee of \_\_\_\_\_

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[See Property Management Agreement, Exhibit "K"]

All members will sign the property management agreement to provide for themselves a form for qualifying for the federal income tax rental loss deduction.

Should a later resale of the property occur, the Manager is to receive \_\_\_\_\_% of the price of any resale, and in the event of a refinance, \_\_\_\_\_% of the refinancing, if he is the procuring cause of the resale or refinance.

### **SECTION 12. THE MANAGER**

The Manager of this LLC will be \_\_\_\_\_.

The Manager will be responsible for supervising the LLC's operations, including compliance with legal and regulatory requirements, and the preparation and forwarding of periodic reports to the members. [See Section 15, Reports to Investors]

The Manager has the ultimate authority in all matters affecting the ongoing business affairs of the LLC and establishes guidelines with respect to the LLC's investment.

### **SECTION 13. RESERVE FUND ACCOUNT**

A reserve fund will be established from contributions remaining after expenditures made in the acquisition of the real estate payment and payment of organizational fees. These expenditures are estimated to total \$ \_\_\_\_\_. [ See Section 5, Use of the Contribution Proceeds]

Also, during the first \_\_\_\_\_ quarters of operations, all net spendable income will be deposited into this account. The account will be maintained at a bank in an interest bearing account in the name of the LLC.

The purpose of this reserve fund is to cover any unforeseen and unforeseeable emergency costs. Business reversals due to local and national economic conditions occasionally occur and cannot be determined in advance. The reserve fund will cover any deficit cash flow which might occur, with the expectation of avoiding the need for additional capital contributions from the investors. The fund is to be handled at the sole discretion of the manager, for the general benefit of the LLC.

### **SECTION 14. THE LIMITED LIABILITY COMPANY ASPECTS**

The operating agreement, which each subscribing Class A investor agrees to by signing duplicate copies of its signature page, is attached to this investment circular as Addendum "B". Set forth in the operating agreement are all the terms for sharing the income and losses from the operation of the property, the obligations of the manager, the rights of the members and the buy-out provisions should an event occur which terminates a member's interest. Some of the more important aspects are reviewed in this section.

For tax purposes, the ownership is intended to be treated as a partnership. There should be no taxation of the LLC, except for the California annual franchise tax. The LLC will not report on a Federal Income Tax Form 1065, since 10 or fewer members will participate in the program. Each member will include in his individual tax return on Schedule "E" his pro rata share of income and expenses from operations, including interest. Members will choose their own depreciation schedules.

The operations of the real estate will be supervised by the Manager. Should he die or be terminated as the Manager by a majority vote in ownership, then another Manager will be appointed by the members.

Buy-out provisions cover the termination of members' interests due to events ranging from death, bankruptcy or withdrawal, to expulsion by court order or by all the remaining members. Should one member be terminated, the other members have the option to purchase his interest.

The operating agreement calls for the LLC to terminate on any of these events. However, the remaining members may vote to continue after an event occurs which causes the LLC to terminate.

Two processes are provided for determining the price to be paid to a terminated member should the member be bought out by the remaining members. The real estate's full current value is received only by those persons whose interest is held by their estate. Those members terminated for "voluntary" events such as judgment debtor attachments, bankruptcy, withdrawal, etc., will receive only a return of their invested capital. No interest or additional value will be received.

The interests held by the members are not readily marketable. No market exists for the resale of membership interests in LLCs, and one will not likely develop. Liquidity is further restricted as the Manager has the right of first refusal to purchase any member's interest which is offered for sale. If he chooses not to do so, the remaining members have the right to purchase the interest sold. Should all members not exercise their right to purchase, any sale to a non-member which the remaining members do not approve is also cause for termination of the interest sold. The value of the buy out option on such a sale to a third party is the return only of the capital invested.

The liability of all members, including the Manager, will be limited to the amount of their capital contributions. The Manager will file articles of organization for the LLC with the Secretary of State to establish this limitation on liability.

## **SECTION 15. REPORTS TO INVESTORS**

Periodic reports to investors will include:

1. On closing of the property acquisition:
  - a copy of the recorded LLC-1 (articles of organization) of the limited liability company;
  - a copy of the operating agreement signed by all members and setting forth each member's percentage of ownership;
  - a copy of the recorded grant deed to the LLC;
  - a copy of the policy of title insurance on the LLC's ownership of the property; and
  - a copy of the beginning LLC balance sheet on acquisition of the property.
2. After the end of each calendar quarter:
  - an itemized income statement on year-to-date rental income, operating expenses and interest and principal payments on the loan(s).
3. After the end of each calendar year:
  - a balance sheet showing the LLC's end-of-year net worth and financial position; and
  - an itemized income and loss statement on end-of-year rental income, operating expenses and interest and principal payments on loan(s).

**NOTICE:** The LLC will not report on a Federal Income Tax Form 1065, and a K-1 Schedule for the members will not be prepared or filed:

Reports available for inspection or copying at the office of the LLC include:

- rental or lease agreements with tenants;
- monthly operating statements;
- bank account records; and
- the LLC file.

**NOTICE:** Your accountant will need some of the annual reports and the initial costs of acquisition to prepare your annual 1040 federal income tax return and a Schedule "E", for rental income, expenses, interest and depreciation.