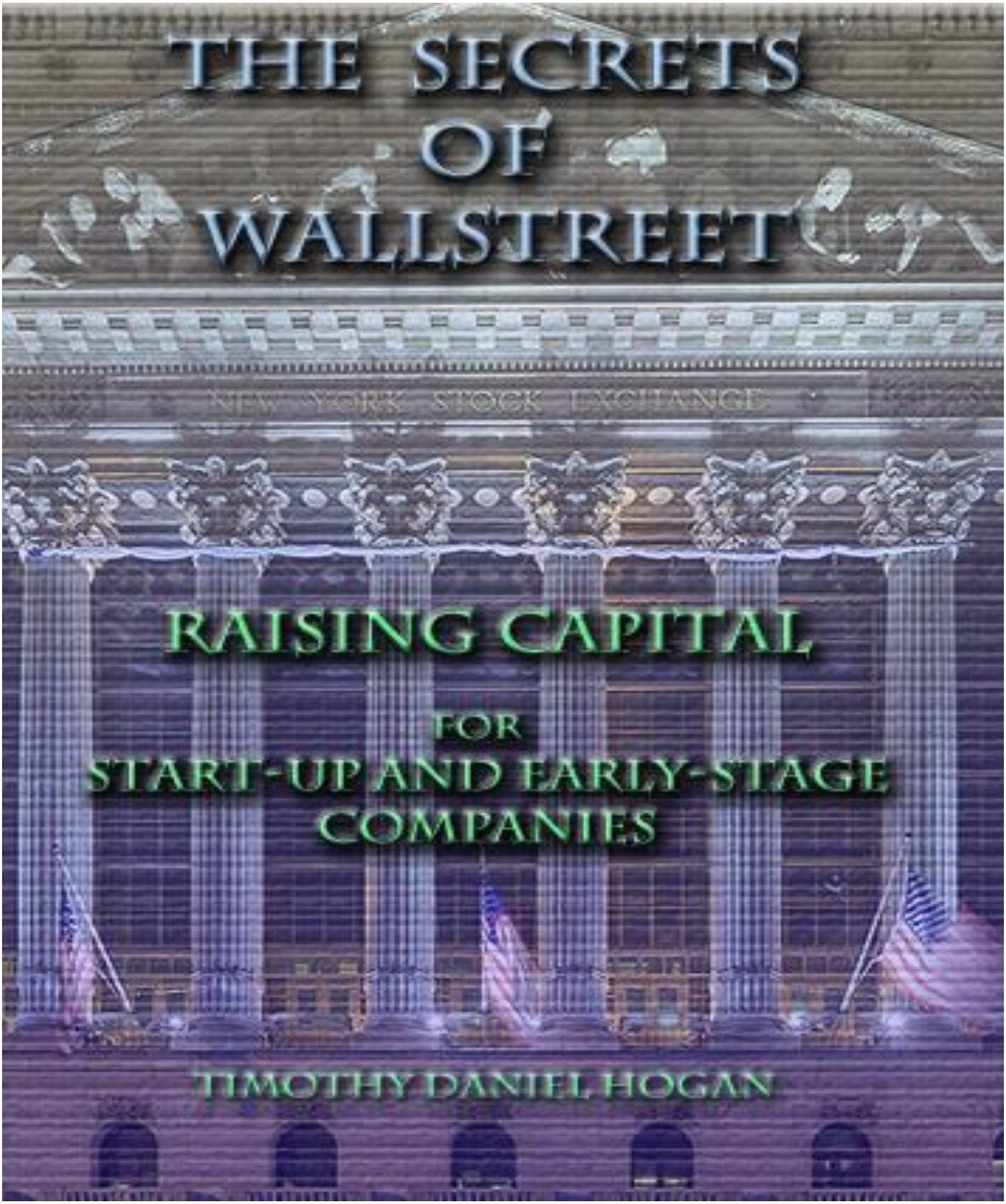

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Dedications

Financial Architect® is dedicated to my family, friends and colleagues who put up with my constant refining of Financial Architect®. Thanks to Nicole Ryan, Charles David Dreher, George D. Psoinos, Esq., Lynn Stedman, Esq., Bill Romanos, Esq., Ronald Alderman, CPA, and Carol Brubaker, CPA, for their enthusiastic support and assistance in the development of this system. Thanks to Scott J. McKinnon for the development of the company's international websites and Keven Webb for the main website and our e-commerce operation.

Thanks to our managing directors and professional supporters who have been instrumental in the continued growth of the company.

Special thanks to our current investors — Jeff H., Michael K., Johnny Z., Charles D., Charles N., David V., Roberto and Sine F., Bob and Joan D., Kip and Phelps E., Terry and Oliver H., and Tom and Margaret C.— who have placed their confidence in us, as well as their capital in the very early stages of our company.

Thanks to God.
Thanks to You.

Author: Timothy Daniel Hogan, Founder & CEO
Commonwealth Capital Advisors, LLC

PREFACE

As former Wall Street financiers turned entrepreneurs, we know what you're going through or about to go through. We have felt the pain of attempting to capitalize start-up and early stage companies. We know about the bottom-feeders within this industry, looking to charge up-front fees to introduce you to investors, leaving you with only their broken promises. We know how to succeed, but more importantly, we know about the pain and how to avoid it. We get it! And we have "had it" with the status quo of the unregulated posers hanging around Main Street, as well as, the "good ole boys" network on Wall Street....***that's why we left Wall Street.*** And we brought the goods with us…the secrets…the real deal. This is the truth!

If you are new at this, consider yourself fortunate to have found us now, as opposed to later. Not to sound too cynical, but you just saved yourself a world of hurt. You have avoided the pain of dealing with wasted time, money grubbers, and dead ends. You're dealing in the world of money, the toughest…roughest game in town. You're about to learn how to "Play Hard Ball."

If this is not your first rodeo at raising capital you're probably thinking… "Where the heck have you guys been?"

If so, get ready to join the Financial Architect® revolution. We are going to teach you right here, right now, how to beat the same "good ole boys" at their own game and raise capital by legally seizing their investors, on *your* terms. We are not here to make friends on Wall Street. We are here to build allies on Main Street by shaking the foundations of the financial, commercial and political establishments. That - is a promise we can keep.

Raising capital is like fishing. We must deal with two factors, the known and the unknown:

1. We know there are fish in the sea, and we know they eat. We know there are investors in the world and that they invest.

2. What we do not know is, "Will they invest in your company?"

    a. To legally go *fishing* for investors, you must have a securities offering document (i.e. a Private Placement Memorandum) compliant with federal and state(s) securities law.

    b. To effectively *attract* investors you must have a securities-offering with a "Marketable Deal Structure" that they are *hungry* for.

    c. To get them to *bite* you must "Mitigate Operational and Investment Risk" to shift fear. Shift the fear of *perceived* investment capital lost to *absolute* opportunity lost.

    d. To easily *reel* investors in you simply need to know how to get them to *want* to be "In the Boat".

When raising substantial amounts of capital, while maintaining the vast majority of equity ownership and voting control, everything starts with the production of a "marketable deal structure". This model mitigates both operational and investment risk.

The marketable deal structure *must be housed* in a securities offering document compliant with federal and state(s) securities laws (i.e. a Private Placement Memorandum). A vast majority of business plans are highly insufficient for this effort. Business plans do not raise money; security offerings documents do. However, these documents when done correctly can be extremely expensive to produce. Enter "Financial Architect" the fastest way to legally raise capital, period!

Do you *need* legal counsel to review the securities offering documents? No, not if you are a U. S. Citizen. As a U. S. Citizen you have the legal right, not an obligation, to be represented by legal counsel. A review by legal counsel is always wise and we suggest one do so. But, only *you* can make that call.

Learn how to shift the fear, ask for the check, and close the deal. All of these selling techniques are contained in our private password protected area on the website known as the Commonwealth Capital Club.

I am the originator of Financial Architect®. I say "originator" because Financial Architect® has taken on a life of its own. Due to constructive input and requested modifications from entrepreneurs like you, Financial Architect® has significantly expanded in depth and scope. The exponential growth behind this phenomenon is directly tied to your success.

Financial Architect® gives you an unfair advantage when competing with others for capital, not just another tool to produce a securities offering document. It is enabling entrepreneurs to significantly increase the degree of success, because of its sophistication and comprehensive nature. Financial Architect® continues to get stronger each and every year. We are shocked (certainly humbled) by all the positive comments and success stories we receive.

Before the Financial Architect System™ was created this process only existed on Wall Street and was controlled by the *fat cats*. The extreme out-of-pocket costs of being able "just to try*"* to raise capital was cost prohibitive for most start-up and early stage companies.

However, like the "E*Trades of the world" where electronic automation drove the cost of a "securities trade" to a fraction of the traditional cost, Financial Architect® does the same for raising capital through a "securities offering." We have spent hundreds of thousands of dollars in legal, accounting and investment banking advisory work to build Financial Architect®. Now we offer a license to you for a fraction of the cost.

The bottom line of this proposition is to vastly exceed any expectation you may have. Like "E*Trades of the world" who cannot guarantee that you will make a profit trading stocks, Financial Architect® cannot guarantee you will raise *all* the capital sought, it simply assures you are able to do so with the highest probability of success with the lowest possible cost.

Your competitors *are* right behind you; arm yourself with Financial Architect® or face its opposition.

This is *<u>the</u>* game changer!

Timothy Daniel Hogan, Author

FOREWORD

I first became acquainted with Commonwealth Capital Advisors and their Financial Architect System™ in late 2003. At the time, I was a partner at a large general practice law firm [Bell, Boyd & Lloyd – Chicago] that had a substantial corporate practice. I was in the Intellectual Property Department. Inter-departmental cross selling was the watchword at the time, and I was often recruited by partners in our Corporate Department to develop Intellectual Property strategies for both newly formed star- up companies and established corporate clients.

Such was the case with Commonwealth Capital Advisors. One afternoon I received an invitation to meet a new client who had developed some software for structuring deals for raising capital. I was to assess their technology and determine whether it might be patentable. The new client was Commonwealth Capital Advisors, and that day I met Tim Hogan. In short order Tim launched into an enthusiastic description of Commonwealth Capital Advisor's new Financial Architect System™. As is often the case with new inventors, Tim was exuberant. It was clear that he was excited about Commonwealth Capital Advisor's new product and that he truly believed that Financial Architect® would revolutionize the way start up companies and entrepreneurs raise capital.

Tim related how many small businesses and entrepreneurs are denied access to capital because they can't pay the price of admission. Private offerings, debt issues, and other instruments for raising capital require the hands of professionals. The lawyer and accountant fees associated with preparing SEC filings, pro forma financial projections, and the like, can push the costs of obtaining funding well beyond the reach of many promising start-ups. The idea was to reduce the cost of raising capital by reducing the professional fees associated with developing a capitalization plan and preparing the supporting documentation to implement the plan by teaching entrepreneurs to do the heavy lifting themselves and providing them with tools to get the job done.

In the quintessential American spirit of self-help and do-it-yourself-ism, why not teach entrepreneurs the basic strategies, deal structures for raising capital, and give them the tools to start the process themselves? With a little effort and the right tools, there is no reason why ambitious hardworking entrepreneurs cannot put together their own capitalization plans complete with all the necessary financials and other supporting documentation. Taking care of these preliminaries on the entrepreneur's time rather than the lawyer or accountant's time could save thousands of dollars, even tens of thousands of dollars in attorney and accountant fees. Tim was not advocating bypassing the services of professionals all together, merely starting the billable clock much later in the process. By minimizing professional fees, start-ups and small businesses have a better opportunity to gain access to sources of capital from which their very lack of capital would otherwise exclude them.

All told, Tim's presentation was impressive. The basic premise appeared sound. Nonetheless, I was skeptical. I have worked with many, many inventors over the years. Most are enthusiastic about their ideas. Most are as enthusiastic as Tim was. Many inventors have very good ideas. Sometimes they have great ideas. Nevertheless, the task of turning a good idea into a tangible product or service that people will be willing to pay for is another thing entirely. Happily, my job does not require me to make judgments as to whether I think new inventions will sell or whether I think, they are "a good idea." My job is to assess whether an invention is patentable, and if so prepare a patent application and shepherd it through the Patent Office.

My initial assessment with regard to Financial Architect® was that various aspects of the system did appear to be appropriate subject matter for a patent. I committed to preparing an application. Shortly thereafter I was supplied with all of the documentation and other resources that Commonwealth Capital Advisors had on hand to teach me about their invention. These included a draft copy of this book and the Securities Offering Document

Production Template Modules of Financial Architect®. They proved to be the only resources I would need.

At this point in the story I should emphasize that I am not a finance person. I am a patent lawyer with an engineering background. Until I began working with Commonwealth Capital Advisors, my involvement with start-up companies had been limited to evaluating and protecting their intellectual property assets. Yet to prepare a patent application covering the novel aspects of Financial Architect® I had to become thoroughly acquainted with the ins and outs of capital formation and deal structuring, and all of the supporting documentation necessary to put together and implement an effective capitalization plan. Not only that, I had to learn these things quickly and on a budget.

The Secrets of Wall Street: Raising Capital for Start-Up and Early-Stage Companies and the document production template-modules, of Financial Architect® were the perfect vehicles for bringing me up to speed. Within days I was not only acquainted with the various deal structures and financial arrangements that may be employed in developing a capitalization plan, I was running different scenarios, creating alternate deal structures and hybrid capitalization plans, changing deal structures, and evaluating which scenarios and capitalization plans would be best for my start-up business and my potential investors. I was able to view how various deal structures played out over time. How they affected my bottom line. How they affected control of my company. (I speak in the first person here because I literally felt as though I was setting up a capitalization plan for my own future business.) In a very short time, I went from a financing neophyte without a clue, to a CEO with a plan. And not only did I have a plan, I had the pro forma financial projections compliant with GAAP [Generally Accepted Accounting Principals] standards to back it up!

Over the years I have worked with enough solo inventors and start-up companies to know that access to capital is the single greatest obstacle to bringing new ideas to market. Without

adequate financial backing, even the most groundbreaking ideas will flounder. This book and Financial Architect® have the power to prevent that from happening. When entrepreneurs are aware of the options open to them, when they have the tools to put a realistic, well-thought-out capitalization plan together by themselves, the cost of accessing the capital markets is significantly reduced. Armed with the insights gained from this book and the tools provided by Financial Architect®, entrepreneurs can tap pools of capital that heretofore were beyond their means to even consider.

So if you have an idea, if you have a plan, if your business has everything it needs, except the financial resources necessary to put your plan into action, start reading. In short, order you will possess the knowledge and tools necessary to raise the capital you need to put your dreams into effect.

Jeffrey H. Canfield, Esq.
Brinks Hofer Gilson & Lione
www.usebrinks.com

Chapter 1: Introduction

"When it comes to raising capital, there are no guarantees…only degrees of probability. To ensure success, simply increase the probability to the highest degree possible."

Timothy Daniel Hogan, Founder & CEO: Commonwealth Capital Advisors

This book is designed to show you how to increase the probability of successfully raising capital to the highest degree possible. How can we - my colleagues and I - make such a claim? We have simply brought the "Wall Street" process to "Main Street" companies and without this process, Wall Street wouldn't exist.

This book was written as the precedent to a revolutionary change in the *ability*, not the way, capital is successfully raised. The fundamentals on the way capital is successfully raised rarely changes, if at all. The *ability* to perform the necessary tasks to ensure success, have. I will introduce you to complex processes that have been substantially streamlined and simplified. I will divulge many secrets, strategies and techniques used by Wall Street investment banking firms to further the goal of raising capital for your company. The most difficult part of writing this book was to take an enormously complex set of processes and simplify them as best they can be, without denigrating them.

The true value in what you are about to discover does not necessarily lie within your ability to successfully raise capital, but more importantly in your ability to make a qualified decision if these processes contained herein are right for you and your company. Only you and your team can make the decision if you are ready to take on this challenge. The process of selling securities to capitalize a company is not for everyone. This is not child's play. Too often, I joke about this book being a tool to scare away the vast majority of entrepreneurs – who are simply at the "Dreamer" stage in their journey. We know these processes work for those who are ready and do not work for those who are not. Many come back within a few months, when reality has set in and they're ready. *When the student is ready the teacher appea*rs.

The processes outlined, discussed and clarified herein are for serious entrepreneurs who need *substantial* amounts of capital for a start-up or early-stage company or commercial project for which they want to maintain voting control and the vast majority of equity ownership – whether they choose to remain private or go public, later on. These processes are used by Wall Street investment banks to raise capital for their client companies and you can use it to capitalize your company, as well. As you will see, once you are successful at raising capital in the private markets, opportunities will abound and you may decide to take the company public someday. You do not have to take your company public to raise capital. These processes give you options, not restrictions!

When speaking of raising capital for start-up and early-stage companies, my primary focus is how to raise *passive* rather than *active* capital. "Passive" capital means attracting capital from investors who are not interested in any active management of the company, but seek relative safety with a better than average rate of return on their investment. These investors are commonly known as "Angels." "Active" capital means attracting capital from professional investors who seek active management and or strategic support (or actual control) of the company and will structure the deal (offer terms of financing in a term sheet) to achieve relative safety, while

seeking a substantial return on their investment. This type of capital is referred to as "High Octane" capital, because of the demands for speed and performance put on the recipient company's management team. These investors are typically known as "Institutional," "Professional" or more commonly known as Venture Capital. I will address both types of investors throughout this book. Both sources of capital have their place, but in the early stages for most companies, passive capital is normally better for entrepreneurs who seek the freedom of control without having to answer to another type of boss. In other words, too many cooks in the kitchen can distract from realizing the entrepreneur's dream.

To increase your company's chances of raising capital successfully, it will be to your advantage to know how other entrepreneurs are successfully raising capital and what trends are taking place in the private, as well as, the public capital markets to get ahead of those trends to take full advantage of them. More importantly, to increase your company's chances of raising capital *correctly* you should understand the nature of the regulatory environment for issuing securities to capitalize your company. This, I explain throughout the book. Many concepts have been repeated to help you understand the full magnitude of the process. For most, this is a lot to digest.

A Brief History of Time that Led to this Book and the Process Defined Throughout.

I started my career in the securities industry in April of 1985 with Merrill Lynch, a venerable giant in the investment banking and securities industry at the time. After the stock market crash of 1987, I joined the legendary E. F. Hutton in February of 1988, which was bought shortly thereafter by another industry giant, Shearson Lehman Brothers, which subsequently was acquired by Smith Barney, which was then acquired by Morgan Stanley. Needless to say, I was heavily involved in an industry that was still in turmoil, due to the market meltdown on Black Monday, October 19th, 1987. I left the major firms in 1990 and joined one of the fastest growing regional investment banks in the Midwest. There, I rose up through the ranks to Director of Compliance within a year and a half. In that position, I oversaw the securities brokerage end of the firm and created and managed the investment banking division, the registered investment advisory division and was in the process of creating the commodities division. As I have said in the past, "my dollar to headache ratio went sour" and I was looking to get out of the industry – for good.

In-vest-ment Bank-ing: *vb* ME, fr. MF or It: *banca* MF: *banque* 1: The process of creating financial instruments (securities) and capitalization structures for companies, institutions and governments. 2: The procurement of capital through the sales of securities, normally through an association with a broker-dealer. 3. The financial management of mergers, acquisitions and divestitures.

Shortly thereafter, I was contacted by my then step-father, a professional golfer, who had a need to raise several million dollars in equity to secure adequate debt to build, own and operate an 18-hole championship golf course with a surrounding real estate development project. In January of 1993, I left the regional firm and the securities industry for a short time. I created a $2,000,000 private placement memorandum (PPM) for selling securities under Regulation D 506 (an exemption from registration of those securities – the least expensive way to go). The PPM was complete by March 3rd and I immediately proceeded to solicit and sell the $2,000,000 in stock using techniques I learned working for those large Wall Street investment banks. I

successfully closed the $2,000,000 in 5 ½ months, by August 14th of 1993 and obtained the necessary debt financing ($527,000) with a commercial bank shortly thereafter. I was able to push the debt amount to the federal legal limit the bank could lend (a small community bank) and I obtained it with no personal guarantees, as well. I was able to do this because I was in the process of creating another PPM to sell debt in the form of 1st mortgage notes to the general public. When the bank caught wind of what I was up to (attempting to compete for their depositors) they quickly assured me that they would fund the debt portion of the financing with no personal guarantees. More shall be revealed on this technique later.

Incidentally, the reason why it took that long to raise the capital was that we did everything on a shoestring. I managed the company's overall administrative and construction operations as its CFO and Vice-Chairman in the morning, and physically managed the construction process by operating heavy machinery in the afternoon – it was a blast! One last thing, we built the golf course on time and under budget by $386,000. Not meaning to brag, but the point is to simply illustrate an answer to the most important question an entrepreneur can ask me: "What separates those who succeed in this effort and those who do not." Those who succeed do whatever is necessary to get the job done…period.

Suffice it to say, I received a lot of attention from the local professional community. The next thing I know I'm getting referrals from attorneys, accountants and commercial bank presidents, who had clients that needed an extra million or so in equity capital. So, in the subsequent years following, up until Commonwealth Capital Advisors was created in the Spring of 1998, I served as a "serial CFO" of sorts, assisting a handful of companies with their capitalization needs.

I founded Commonwealth Capital Advisors in 1998 with a handful of managing directors, which included a corporate and securities attorney and a CPA. We threw up a website (an old one, not the one we use now) and the next thing I know we have entrepreneurs, primarily from California and almost exclusively in the "Dot Com" industry, hiring us to produce the appropriate "marketable" deal structures and creating securities offering documents to sell securities to raise millions for their start-up companies.

Things couldn't be better. At the ripe old age of 40 I'm playing a lot of golf; we were producing documents and assisting these entrepreneurs in their capitalization efforts. Success was everywhere – until February of 2001. That period started what is generally regarded in the securities industry as the "Tech Wreck" or the "Dot Bomb" era. The "small cap" public markets fell apart and brought start-ups to a screeching halt. Now what to do?

I realized that through that high-flying era of hot dot com speculation, also coined by the then Federal Reserve Chairmen Alan Greenspan as "speculative exuberance" we had far too many prospective clients who simply didn't have a clue on what we did or how we did it. More importantly, even for those who did know how easy and successful a securities offering to raise money could be, most simply could not afford the process. Something desperately needed to be done.

Enter the creation of the patent pending Financial Architect System™ also known by the brand name and our registered trademark-

Putting this extremely arduous and costly process into a do-it-yourself system and selling it over the Internet at an affordable price so that millions of entrepreneurs could use it to create their "dream" company was a great idea. But, I wanted to put it into a workable system "so easy a child could do it" because, as an entrepreneur myself, I can appreciate the fact that the last thing we all need is another big hurdle to overcome. Bringing it to this level was a daunting task indeed. In addition, to create a system that is seamless is most improbable, as well – no matter the degree of technological sophistication of the platform used for delivery. However, Financial Architect® is as easy as it gets, continues to evolve, and is becoming easier to use each and every year.

During the creation of Financial Architect®, I also wanted to grow our firm in several ways. I placed a career advertisement in the regional Wall Street Journal for a Managing Director in the greater Chicago area. Charles D. Dreher was one of the respondents with an investment banking background that I had a keen interest in hiring. During our several interviews, Charles asked me how many securities offering documents the firm created in the past four years, I told him, "Twenty-three." Then he asked, "What were the amounts of the capital raises?" I responded, "From $500,000 to $20,000,000 and everything in between." Lastly, he asked, "What percentage of the clients raised all the capital they were looking for?" I said, "78.2%." He said, "That's amazing. How's that possible?" I knew no difference so I hadn't had an opinion up to this point, but after some contemplation, I answered, "Probably the proper deal structure combined with the client's commitment to the process."

Charles then proceeded to tell me that there are 25 million small business owners in America and that approximately 600,000 new businesses are formed every year – these entrepreneurs are the backbone of our country. Can you imagine all the great ideas that go unfunded? Ideas that could eliminate or lessen world hunger, protect the environment, create advances in medicine, and revolutionize communications, not to mention thousands of brilliant inventions that could prove invaluable. Just think how by helping all these entrepreneurs succeed we strengthen the U.S., as well as, the world economy.

Charles went on to explain how his former company, Control Data Corporation enabled students at the University of Illinois at Champaign, back in the early seventies, to study very effectively and quickly using touch sensitive plasma screens as part of the PLATO™ project. (Programmed Logic for Automatic Teaching Operation) He knew this technology worked (Computer-Based Education) and could help drive down the cost for our potential entrepreneur users worldwide.

He said, "Why not make your system available over the Internet and see if we can drive down the cost?" We spoke to our attorneys and accountants and all agreed we should build Financial Architect®. It has taken over seven years and $700,000 to create and beta test the system. What has been accomplished thus far, is the creation of a premier system that addresses the most important issues needed to complete the process while it affords every entrepreneur a chance at a reasonable cost, both in time and money. The book you are now reading is the first and smallest of three interdependent components of Financial Architect® - the educational

component. You can judge the balance of Financial Architect® based on the entire contents of the Expert Edition of this book.

Because customer requests are vetted and used to shape Financial Architect®, it has become much bigger than us in a collective effort or a consortium of sorts of ourselves, our clients and our customers. It is, in our humble opinion, as good as it gets and gets better everyday, not because of us but because of you.

Although we are former Wall Street financiers, we, too, are entrepreneurs. We saw a need for both sides of the capitalization issue. Entrepreneurs need capital and financial institutions want to invest it, but only into "quality deal flow", which means companies that have a real chance of becoming very large, very soon. The problem is that there is a huge gap between start-up and early-stage companies' need for substantial amounts of capital and the financial institutions' desire to fund quality deal flow. The main mission of Financial Architect® is to revolutionize the way capital is raised by start-up and early-stage companies, not only in the U.S., but around the world.

Financial Architect® is a patent-pending process designed to significantly reduce the cost and time involved in raising *substantial* amounts of capital through the issuance of securities and to do so in meaningful ways.

Financial Architect® is not a business-planning program – although it can be used as one if a business plan has yet to be produced. Financial Architect® evolves a business plan into a very expensive securities offering document, using the deal structuring and securities offering document production software templates, for a mere fraction of the standard cost.

More importantly, Financial Architect® instructs the entrepreneur on how to *legally and effectively* solicit and sell securities in compliance with federal and state(s) securities laws to actually attract investors and raise capital in any market environment, while maintaining voting control and maximum equity ownership of their company.

Financial Architect® has two programs for Operating Companies, which would include retailers, wholesalers, distributors, manufacturers, services companies, or any other type of firm that is not involved in Fund Management. Financial Architect® has four programs for Fund Management, as well.

1.) **Seed Capital Producer™ (for Any Company)**
2.) **Private Placement Producer™ (for Operating Companies)***
    1. **Entrepreneurial**
    2. **Professional**
3.) **Public Placement Producer™ (for Operating Companies)***
4.) **REIT Producer™ (for private Real Estate Funds and publicly traded REITs)**
5.) **Film Producer™ (for private Film Funds and publicly traded closed end Mutual Funds)**
6.) **Oil & Gas Producer™ (for private Oil & Gas Funds and publicly traded closed end Mutual Funds)**
7.) **Venture Producer™ (for private Venture Funds and publicly traded closed end Mutual Funds)**

*Operating Companies would include any for-profit company that is not managing a Fund.

Please see our website for further details. www.CommonwealthCapital.com

Although Financial Architect® evolves over time; it is currently comprised of 3 interdependent components that are designed to be used consecutively to enable one to accomplish the task of raising capital.

The E-Book:

"The Secrets of Wall Street – Raising Capital for Start-up and Early-Stage Companies," is the primary educational piece that is designed to give one the required knowledge to correctly formulate a company's operational and capitalization plan. This component is fundamental in nature and it rarely changes.

Securities Offering Document Production Tools:

- **The Seed Capital Bridge Notes™** module, included in the Private Placement Producer™, contains a securities offering document production template with instructions compliant to claim the accredited investor exemption 4(6) to jump-start the capital-raising process within hours.
- **The Private Placement Producer™ and Public Placement Producer™** catapult the company's larger development and expansion capital-raising effort. The Private Placement Producer™ and Public Placement Producer™ include two interdependent sub-components.

  1) **CapPro™** (and CapPro™ for Funds. – we'll refer to the term CapPro™ to represent both from here on). CapPro™ is the Capitalization Planner and Pro Forma Producer sub-module, which enables one to create a marketable deal structure for a securities offering compliant with GAAP (Generally Accepted Accounting Principles) standards. This sub-module has a complete set of comprehensive instructions and an optional tutorial that are designed to lead one quickly through, what otherwise would be, a rather arduous process.

  - **PPM Producers™.** These second sub-modules are, in addition to other tools, comprised of the securities offering document production text Template(s). These sub-modules have comprehensive instructions and an optional tutorial embedded into the Template documents, which one simply follows as they go through the process of converting their company's business plan into a securities offering document. This component is fairly fundamental in nature; however it does evolve over time, so we update the Financial Architect System™ as necessary.

The Commonwealth Capital Club:

The Commonwealth Capital Club (CCC) is the third and final component. The CCC is a password-protected area on the Company's website, (See Members Only at http://www.CommonwealthCapital.com). The Commonwealth Capital Club contains the critical Compliance Components, Working with Professionals – Attorneys and Accountants, Financial Resource Links, Links to Accredited Investors from around the world who invest start-up and early stage companies, as well as, Securities Selling Techniques. This component is dynamic, fluid and changes often so it is important for a customer to access it regularly.

> ***The Financial Architect® Principle*:** Create highly marketable securities (deal structures); sell them directly to individual (passive) investors through a series of progressively larger offerings; expand your investor contact reach with each offering

through elevated abilities of marketing (from a regulatory and affordability standpoint); and employ the assistance of professionals, your attorney and accountant, as needed, throughout the entire process.

A "Highly Marketable Deal Structure" means that you are going to create a securities offering that mitigates operational risk by re-engineering your company's operations, using GAAP compliant pro forma financial projections. You are also going to mitigate investment risk by offering a hybrid security that changes the risk return continuum for the investor, i.e. the return far out ways the risk involved of the investment. A preferred equity security would accomplish this. Then, you are going to learn how to shift *perceived* investment capital loss into *absolute* investment opportunity loss…making an investment in your company irresistible to any investor.

I can cite many case studies of entrepreneurs who've successfully raised capital using Financial Architect® because these are the fundamental processes used on Wall Street. However, their success may not equate to your success. Without your belief in the logic, dedication and commitment to the process, the case studies are moot.

With that said if you seek case studies, look at the almost 15,000 publicly traded companies listed on the major stock exchanges in the United States. Most have used one or more of the processes described throughout this book. Financial Architect® is a culmination of the most successful processes that have been used by the vast majority of publicly traded companies in their start-up and early stages. This system is not simply a list of processes used by these various publicly traded companies, but a focus on the combination of processes that work best in today's marketplace for start-up and early-stage companies.

As previously mentioned, Financial Architect® has become much bigger than us. We receive many requests by our entrepreneur customers and clients, their attorneys, investment bankers and accountants to add various attributes, improvements and additions to the Financial Architect® programs and the system in general. If these requests will benefit Financial Architect® as a system and product line we happily meet those requests with no charge, as those changes ultimately create a system that quite frankly is unstoppable.

I also mentioned that most publicly traded companies have used one or more of these processes. What about the rest? The rest were most likely funded by venture capitalists, and in the end, the owners retained a very small percentage of the company when it went public or was sold to a strategic buyer. In my opinion, that is not a success by any measure.

To be clear, there is no magic bullet. The process involves education, application, commitment, and follow-through: e.g. "work"! Still, it's by far the most effective means to raise substantial amounts of investment capital while maintaining the vast majority of common equity ownership and voting control.

Anything worth doing involves work, and no one else will do this for you, no one ~ legally that is. That said, you will not be alone because you will be able to hire the right professionals (attorneys and accountants) from the proceeds of the offering. Your attorney and accountant will serve as your primary advisors in this process, but you manage the process with the assistance of Financial Architect®. Properly applied, the knowledge you gain using Financial Architect® will make you extremely powerful in regards not only in raising capital, but in building your company, as well. Investors need to be impressed with your knowledge.

On Wall Street, we were at the top of the proverbial food chain. Although the issuing company (our client firm) hired us to get the capital raised, we had the access to it, the knowledge to get it and the required administrative protocol to comply with federal and state(s) securities laws, so that they could keep it, and we… our commission. Most often, the Wall Street investment bankers determined who would be the clients' legal and audit firms. The point being, you will learn the basics that will enable you to stay at the top of the food chain. Our concern is to make sure you are always in control of the process. Seemingly unimportant when you are just beginning and seeking expertise in the field, first hand knowledge of this process will guard you from the inevitable pitfalls of success. When money starts coming in the door – greed is always present. Without practical knowledge on how to maintain control of many matters, you could get taken down…hard.

Our principal aim, delivered through Financial Architect®, is to give every entrepreneur a chance at building his or her dream company. It is for those who normally could not afford the process, in time or money, to quickly, easily, and inexpensively produce the required documents at a mere fraction of the traditional cost. To further entrepreneurial success in the capital-raising process, Financial Architect® is not designed to be just a securities offering document production program. It is certainly not just a cheap template. On the contrary, anyone can create a securities offering document inexpensively with ineffective securities offering document production templates and/or services available on the Internet. Financial Architect® is a holistic system of education, document production tools, investor contacts, compliance administration and more importantly; effective securities selling techniques to further assure that you do this right the first time. An old Wall Street mentor of mine used to come into my office at E. F. Hutton and say "Hogan…if you don't have time to do it right the first time how much time will you have the second time?" The point was taken. Do it right the first time or not at all.

For those who have tried to raise substantial amounts of capital from (and only to be rejected by) financial institutions, the information in this book may, at first, serve only to remind you of the time, money, and effort you have already wasted. On the other hand, you may be glad to finally know you can control the process from now on. For those who have succeeded in raising substantial amounts of capital from financial institutions, such as venture capital firms, only to be hamstrung by ownership and/or voting dilution, this book will show you a way to get those financial institutions off your back…unless it is simply too late!

Know that it's only too late if you and your management team have lost voting control either through ownership and/or voting dilution or by funding agreements such as term sheets that limit your ability to raise capital or vote. If it's too late, then next time you build a company you will be armed with a new set of strategies that will enable you to dictate the terms of the deal and maintain the vast majority of your equity ownership and voting control.

For those who are just starting out or have bootstrapped their company to the degree that it can no longer grow with internally generated revenue, you may now realize that you must raise capital to continue building the company. If so, the information contained in this book should serve as an excellent guide for maximizing your productivity in this endeavor and to help you avoid many pitfalls you might otherwise encounter.

Raising capital from institutions or from individual investors is the biggest game in town because it involves the ultimate prize in a capitalistic system—the transference and use of "other

peoples' money." Although you may have good or even altruistic intentions for your company, its employees, your community, your industry, your country, or for the world, at "the end of the day", it's all about the money. You can give money to your employees, your community and various other charities later, but for now you need to put your investors' money first by designing a capitalization plan that ensures relative safety and a very good return on their investment.

Now, I am not writing this book to degrade the value of financial institutions. On the contrary, they have their place and serve many valuable functions. I am writing this book to teach for the benefit of your company. Once formidably capitalized through your company's own efforts, you may eventually choose to seek funding from these financial institutions. If so, you will be able to approach them from a relative position of strength that allows you to dictate the terms of the deal.

How do you deal with these financial institutions from a relative position of strength? By being in a position where they need you more than you need them!

Have you ever heard the maxim: "Banks will only lend you money when you don't need it"? In fairness to banks, that's not entirely true. They do lend money to those who need it; it just never seems to be enough.

The maxim should be "Banks will only lend you *substantial amounts* of money when you don't need it." Fine, how do you get to a position where you don't need it from them in the start-up or early stages of a company's existence when revenues, let alone profits, are slim to none? You simply compete for capital from individual *passive* investors just as financial institutions do.

Let's define financial institutions. Those would include traditional banks—commercial, community, or merchant—as well as investment banks, venture capital firms, private equity groups, insurance companies, pension funds, or any other formal institution that has been organized specifically to make investments on behalf of others.

What does "to make investments on behalf of others" really mean? It means that they are chartered through regulatory authority and/or by statute to make investments with funds they raise from individuals for the benefit of those individuals, first and foremost. Being true capitalists, they are allowed to make a profit, or in the case of a non-profit such as a pension fund to create revenue to cover their costs.

These institutions have a fiduciary duty to invest "other peoples' money" in a prudent fashion with the expectation of a return on investment from the efforts of others (primarily from the management of - publicly traded companies, commercial real estate managed by professional property management companies, and so on). The list goes on and on, but I'm sure you get the idea.

The point: All institutions raise capital from individual *passive* investors and your company can as well. At the end of the day, financial institutions do not own any money—people do, through stock ownership in those institutions. Without people, institutions cannot exist. And if the institutions that invest other peoples' money cannot perform to the expectations of the individual investors, (people who ultimately own and control the money) they will move it. They will invest it elsewhere. For many retirees, this is their *new* full time occupation – investing.

So, if individual investors do move it, how can you capture it? By creating and selling securities that meet individual investor demand. More on this in Chapter 10.

Once your company has grown to the point that you have ample capital (either from a securities offering or operational cash flow) and can afford a new management team member, consider creating and staffing a finance department (headed by a VP of Finance) within your company. Hire someone who has investor contacts and the skill sets to perform the tasks of selling securities and administrative compliance. Hiring a Vice President of Finance from the securities industry with the knowledge, skill sets, abilities, and investor contacts can pay huge dividends for your company.

Rarely can a Start-up company use the hiring a V.P. of Finance strategy. In addition, Early to later stage companies should consider this strategy as an option… not a necessity. However, as one moves from start-up to early-stage it should be seriously considered. Normally, this strategy is reserved until the 3rd or 4th round of financing is sought or if one needs to raise large amounts of capital for a Fund. More on this in Chapter 18.

Okay, that's all fine, but how do you pay for all this? You pay for it with the proceeds from your securities offerings, capital on hand and/or current cash flow. How do I know the securities offerings will be successful? You cannot know. It's like deep sea fishing. You know there are fish in the ocean and you know they eat. You just need to be able to give them what they want to eat; have enough time to search for the best spot; and/or hire professionals to assist you in the process. You can only increase the probability to the highest degree possible by training someone within your company (most probably yourself during the start-up stage) to handle the task of raising capital using Financial Architect® or otherwise. You only hire someone new if they have the necessary qualifications and investor connections for the next round of financing. You could hire someone from the securities industry who might have the necessary qualifications and investor connections (with liquid funds for investment in your company) to handle the task. Do they need a securities license? No, as long as they are bona fide employees of your company.

If you would like to save a great deal of time, effort and money you can purchase Financial Architect® from our website to create securities offering documents with marketable deal structures. Alternatively, you can hire a team of individual professionals or Commonwealth Capital Advisors to create your finance department and lead you through the process. In any event, with us it is the same process using the same system.

We, at Commonwealth Capital Advisors, originally conceived our firm to be the source of quality deal flow for Wall Street investment banks. To achieve that task, we had to fly under the radar to avoid competitors, and nurture companies at their very start-up and early stages. Like NFL talent scouts, we needed to go to the freshman and sophomore level of high school as opposed to hanging out at the junior and senior level of college – where all our competition is. We had to take a 5 to 10-year time horizon, as opposed to the 2 to 3 year time horizon. We had to do the unaffordable. We and others have the knowledge and skill sets to assist these young companies in properly preparing for the investment banking or venture capital relationship but we, nor anyone else, has the time to address the sheer demand en masse. We needed to get out of the "judgment game" and give all entrepreneurs a chance at success. We needed to give all entrepreneurs the knowledge and tools to accomplish these tasks and develop the related skills on

their own, hence, the need to write this book and to develop Financial Architect® as a turn-key system.

By enabling start-up and early-stage companies to self incubate their capitalization needs along with developing the organizational and operational structures that make for "quality deal flow" for our Wall Street brethren, we inadvertently became the source for start-up, early-stage and most seasoned privately held companies' capitalization needs, as well.

To further our cause, we had to position our company so as not to compete with other professional service providers, corporate and securities attorneys and accountants, who play a key role in the securities industry. In the natural course of events, we have become a key source of quality deal flow for those professional service providers, as well. Because we teach entrepreneurs to raise sufficient seed capital to employ the services of those professional service providers, these well-prepared and self-incubated entrepreneurs inherently become quality prospective clients for the attorneys and accountants.

We are former Wall Street securities professionals and institutional financiers who have made a 180-degree turn on the securities industry. In the past, it was our job to extract as much flesh (equity ownership) from a company for as little money as possible without killing it. By federal securities law, our fiduciary responsibility rested with the investor side of the deal-making equation.

Now, in sharp contrast, our fiduciary responsibility rests with the entrepreneur's side of the deal-making equation. We have become the proverbial "*guard dogs"* for the entrepreneur.

The true power of Financial Architect® is this: If you can successfully go through this process, you will establish an extremely strong financial structure for your company. This invariably leads to unforeseen competitive advantages. If you can grow your company to what Wall Street considers "Quality Deal Flow", you will have more capital available to you than you'll know what to do with – literally. This means that your ability to buy up your competition will be a real option.

One last comment before we move on. An irony in all this development and testing of Financial Architect® was another stark and shocking discovery to us. From the data we received during the beta testing phase, it showed the percentage of successes higher for Financial Architect® End Users than for our "Start-up" clients engaged through our investment banking advisory services division. Some of our "Start-up" entrepreneurial clients can become too dependent on us. Most "Start-up" clients viewed the process as an event. In hindsight, we where actually doing them a disservice by servicing them. Therefore, we only engage clients in our investment banking advisory services that have experience and are prepared for an Exchange listing. Therefore, the best service we can give to a "Start-up" or early stage client is to enable them you to do the first few initial capital raises themselves through Financial Architect®. *Give a man a fish, he eats for a day. Teach a man to fish, he eats for a lifetime.*

Chapter 2: Raising Capital in the United States

When referring to raising capital, we mean raising *substantial amounts* of capital for the traditional working capital needs of "for-profit" companies. Unless you have really wealthy relatives who really like you a lot, for all practical purposes, there are only two ways to legally raise capital in the United States. Although it is nice if you can get it, we do not consider grant money available from governmental or other organizations a form of working capital for a start-up, early-stage, or even seasoned companies because the availability and the amount of funds is always shifting, the probability of attainment is very low, and it generally comes with strings attached. However, we do encourage pursuing such funds, under the right circumstances, once the company is properly capitalized through traditional means.

In addition, although it lessens the amount of working capital needed,—a very good thing—franchise sales, pre-construction price sales or the sale of other rights, are not considered raising capital because these are booked as sales and are finite in nature. We do consider any commercial lending activity as part of a capitalization plan or deal structure, which would include bank loans and lines of credit—SBA guaranteed or not—factoring of receivables, and purchase order financing. We embrace reasonable amounts of debt as part of the overall capitalization mix once a company has sufficient revenues to support the interest and principal payments, because debt is the least expensive form of financing, if one assumes success. Therefore, before one obtains reasonable amounts of debt financing from banks, one should have substantial amounts of equity raised and or retained earnings from a sustained operating history, which of course, eliminates most start-up and early-stage companies.

To raise capital in the United States legally, you must do one of the following:

1. Produce a business plan and submit it to institutional sources of equity and/or debt capital, such as venture capital firms, commercial banks, private equity firms, and investment banks… then allow them to offer the terms of the financing. When they make the offer of terms by issuing a term sheet to your company and although securities will be involved in the transaction, it is not considered a securities offering because your company is not making the offer,

2. Conduct a securities offering. There are only two ways to legally conduct a securities offering within the United States:
    - Register the securities on the federal and/or state level (very expensive) or
    - Claim (Regulation D) or Qualify (Regulation A) for an exemption from federal and/or state registration. (relatively inexpensive)

As you may or may not know, submitting business plans for *substantial amounts* of funding to institutions (e.g., venture capital firms, commercial banks, investment banks, and private equity groups) simply does not work for most start-up, early-stage or seasoned smaller companies. When it does work for the very few, there is often too much equity and control given up to make the funding worth it. Therefore, we developed a process that enables you to compete directly with those institutions for individual investor capital, until you become the "quality deal flow" they seek. Once you have achieved that goal, you will be able to negotiate from a "relative position of strength," enabling you to dictate the terms of futures rounds of financing.

Capitalizing on the Winds of Change

Now it's time to discover how to gain a substantial edge over all other entrepreneurs seeking capital, by showing you how to issue privately or publicly placed securities that can compete directly with other investments and ultimately with financial institutions.

The really good news is that you have a proverbial "perfect storm" in place for capitalizing your company based on a dramatic shift in the patterns of two closely related segments of the securities industry. The first part of the "perfect storm" is the current state of publicly traded fixed-income (Note, Bond, Preferred Stock, and Certificate of Deposit) markets: the limited availability of high-yielding investments coupled with an insatiable market demand for that type of investment vehicle or security. The second part of the "perfect storm" is the amount of opportunity available in an increasingly shifting economy. Companies, properties and assets are moving at incredible speed. The demographics of the baby boomers nearing retirement are the primary catalyst for this phenomenon. The third part of the "perfect storm" rests in the amount of talent available, already highly trained by the large securities brokerage and investment banking firms, who are finding it more difficult every year to make a decent living in their present positions. Although not a pre-requisite for raising substantial amounts of capital, you'd be surprise how many of these financial professionals would love to work for your company in a senior-management-level capacity and help you succeed.

The first part of the "perfect storm" lies with recognizing that individual investors are feverishly seeking high-yielding cash flow from their investments because they are always in need of additional income to supplement their retirement lifestyle. From the late 1970s throughout most of the 1980s, individual investors invested hundreds of billions of dollars in twenty to thirty-year bonds issued by the United States Treasury, U. S. corporations (for taxable income) and municipalities (for tax-free income). The yields on these bonds at the time of their issuance where at all time highs. US Treasuries sold with 14%, 16%, even up to 17% interest rates; corporations issued bonds at even higher rates. Municipalities issued bonds at 12% to 14% because the interest is not taxable to investors at the federal level and the interest is not taxable to investors at the state level if the investors reside in that state. These bonds are now maturing and being refinanced at substantially lower rates. Investors are receiving very large lump-sum payments of principal due to the maturing of these bonds and are zealously seeking higher yields than are currently available in the marketplace.

Imagine an investor who owned $1,000,000 in tax-free municipal bonds with a 12% coupon or interest rate. The investor was living on $120,000 in annual tax-free income until the bond matured and received the $1,000,000 principal back from the issuer. Now the investor can buy the same bond with the same maturity (thirty years) and with the same quality rating, but only with a 4% coupon. Yes, the investor just took an $80,000 hit on his or her annual tax-free income. This is not a phenomenon; it is just economic reality based on obligations (bonds) that were created twenty to thirty years ago, which are now maturing and will continue to mature for the next several years. By issuing competitive high yielding securities, your company will be able to capitalize on this opportunity now. Knowledge is power. The average entrepreneur has little knowledge about what is happening in these fixed-income markets, but now you do. The question is: what are you going to do about it?

Because the financial institutions have market constraints, they cannot offer 7%, 8%, 9% 10%, or 11% yields on investor funds by issuing notes or bonds. Banks cannot issue five-year CDs with an 8% yield if they are lending at 5.5% on home mortgages or car loans, because they can't make money that way. Publicly traded corporations that are healthy cannot issue 10% bonds when they can issue them at 5%, as the Board of Directors would be in breach of their fiduciary duty to the shareholders. And, guess what, retiring baby boomers will be purchasing more and more of these fixed-income instruments (i.e., bonds, notes, CDs, and preferred stock) to supplement their retirement income stream. When their demand exceeds supply, which is already happening and will continue for some time to come, they will continue to bid up the prices of these fixed-income instruments, thereby inherently lowering the yields.

Because your company is privately held—or even for those that are publicly traded, you have the ability to set the "yield" component on your securities above current market rates, thereby attracting the multitude of investors who are hunting for yield, en masse.

In the not too distant past, if the management team of a start-up and early-stage company attempted to sell and issue these types of fixed income securities, they would be looked at as "needing their collective heads examined." Common equity was the only sensible form of security to be issued. However, when the fixed income markets' demand became insatiable for high yield, issuing common equity (too much -too soon -for too little) became a little ridiculous as it was less attractive to most individual passive investors, henceforth the dynamic shift in what type of securities you should be selling. For example, too many entrepreneurs sell too much of their most precious element – common equity, too soon for too little and they end up running out of it during subsequent rounds. Not only is this scenario defeating the entrepreneur's goal of wealth attainment but it is un-attractive to investors. More on this in Chapter 7.

How does one market these securities? Under Regulation D, you can issue securities through a private placement. The offering must be just that: private. You cannot use the general media or any other marketing efforts that are considered mass marketing, such as; direct mail or email for instance. Depending on how well connected you and your management team are (for later-stage companies, don't forget about your new VP of Finance here), you may be able to raise the required amount for the first round or two.

Most start-up, early stage and later stage privately held companies could use $1,000,000 or less each year, in equity funding. If this is the case for you, consider registering the securities at the state level (SCOR) to attract and build a whole new pool of individual investors. This involves submitting an application for registration with the state(s) regulatory authority where the securities will be solicited. By registering the securities at the state level you will be allowed to advertise your securities offering through the general media. Now you are competing head-to-head with financial institutions for individual investors – based on the ability to provide a higher "current yield" and consistent cash flow to investors. A SCOR Offering enables you to advertise in your regional Wall Street Journal, Investors Business Daily, local newspaper, as well as direct mail and or radio advertising. Imagine investors calling you to inquire about funding your company. This is an extremely important strategy and, except for the Oil & Gas Producer™, all Financial Architect® programs enable you to accomplish this registration process with relative ease and at a fraction of the traditional cost.

Over the next few decades, there are and will continue to be literally millions of investors looking to invest trillions of dollars in the U.S., who are seeking high-yielding investments. Yes, trillions of dollars because, in the mid-1980s, the U. S. budget reached over five trillion in debt, most of which was financed with twenty- to thirty-year treasury bonds that are now coming due. (That figure doesn't include corporate or municipal bonds.).

The second part of the "perfect storm" lies with recognizing that one can find companies, assets, and properties (intellectual and otherwise) to acquire with using your company's securities as currency to purchase these assets, especially if you plan on conducting an exchange listing in the future. More on this later.

ONLY FOR LATER STAGE COMPANIES. The third part of the "perfect storm" (only for later stage companies) lies with recognizing that one can hire, relative to the past, securities professionals who have investor contacts and skills sets to assist you in raising substantial amounts capital for your company. As previously mentioned, this is not a pre-requisite for raising substantial amounts of capital for your company. This part of the process is generally reserved for the third or fourth round of financing for most companies. One should have ample seed or development capital on hand and/or sufficient cash flow from sustained operations before considering this part of the process. Remember, this is an additional option, primarily for early-stage companies, not a requirement of the process. As a rule, this option is rarely used for start-ups, but of course there are exceptions to every rule. More on this in Chapter 18.

There is only one legally viable alternative to submitting business plans to financial institutions and that is to create a securities offering with a "marketable" deal structure and sell it to individual investors in compliance with federal and state(s) securities laws. Financial Architect® simply shows you how.

No matter how you look at it or what route you take, the capital-raising process costs time and money. You may be thinking that it doesn't cost much to send business plans to venture capital firms. However, how much do you think failure to receive the funding costs? Considering that it takes 9 to 15 months, on average, to be turned down and that only 1.5% actually receive funding from these sources, the costs of this route may be extreme. In addition, if you receive funding from these sources, it may be far more costly in the long run if you assume your company becomes a success because the venture capital firm may take more equity than you need to give up.

You may be thinking. "Why does this need to be this complicated?" Federal and state securities regulators are interested in mitigating securities fraud, so they set up hurdles one must go through. Most will not go through this process because they really believe that there is an easier softer way. There's not. Take heart, if this was easy, everyone would be doing it and you would have to work twice as hard for the same result.

I am often asked; "What are the common denominators that differentiate those who succeed in raising capital and those who don't." Ironically, I wrestled with this for some time, but I concluded that dedication, focused concentration and a "take no prisoners" attitude, as well as, a total commitment to the process of a series of securities offerings seems to be the common denominators for those who succeed. Conversely, entrepreneurs who don't know what they're doing; have an entitlement mentality; and expect someone to do this for them are the common denominators for failure – on all fronts, not just securing capital. I say I "*ironically"* wrestled

with that question for some time, because these are exactly the reasons why we created Financial Architect® in the first place.

One last comment before we move on to the mechanics of the process. You only get one first bite at the apple. If you do this without the proper deal structure, the requisite disclosures required within a securities offering document, and the marketing fire power to get the job done, you may ruin any chance you have. Most securities offering documents we see are not only a joke (deal structure wise) but, from a regulatory point of view, potentially illegal. Many of those securities offering documents are simply insufficient to claim and exemption from registration. An investment in time now, making sure you do this right the first time will enable you to take many more bites of the apple over time.

Choose your Financial Architect® program and be prepared for a journey of excellence.

The Seed Capital Producer™ will be the first choice for most!

Chapter 3: The Five Most Important Concepts When Raising Capital

1. **Realize the Relative Ease.** Understanding that raising capital through the issuance of securities, although it may seem difficult and relatively expensive in the beginning, for most start-up, early stage and seasoned privately held companies it is by far quicker, easier, more effective, and less costly than seeking capital from institutional sources of capital, such as; venture capitalists, investment banks, private equity firms, and commercial banks.

2. **View the Effort as a Process, Not an Event.** Understanding that conducting a *series of expanded securities offerings* is a "process and not an event" will increase the probability of raising substantial amounts of capital for start-up and early-stage companies. Most successful capitalization efforts begin with a "seed" or "development" capital offering before seeking development and expansion capital, if needed. Even companies that have been around a while may need the extra funds to build and staff a finance department to register and promote a series of larger securities offerings. Although some of the seed capital should be used to protect intellectual property by registering trademarks and filing patents, securing property, beginning or continuing R&D, paying for executive and staff salaries, hiring and affording required additional management talent, more importantly, the majority of the seed capital should be used to further the company's capitalization effort. Remember, you will need to hire the professionals to assist you as you go. Financial Architect® is simply the spark enabling you to use investor funds (as opposed to your own) from the proceeds of the securities offering.

3. **Sell Securities that are in High Demand.** Thinking of a securities offering as a new product or service launch where a research and development process precedes the actual production of the product, in this case the securities offering document. The individual "passive" investor market is demanding high yield with some upside participation of profits to enhance the yield relative to the risk involved with the security. If you compete based on yield by offering notes, bonds, or preferred stock with higher than average yields you will attract individual investors. This fixed-income market is fifteen times larger than the equity markets. In theory, for every one investor who would buy stock in your company there are fifteen who would buy notes, bonds, or preferred stock in your company.

4. **Changing the Mode of Operation.** Examining, rethinking and then changing the mode of operation that your company will engage to lower the required amount of capital needed to achieve increased revenues and maximize profitability. Ask yourself, should you actually be building a company or should you be licensing or selling your company's technologies? Can you build 100% of your sales force through affiliation networks? Can you build your management team, with real equity partners, by attending the right conferences?

5. **Maintaining Control.** Planning to grow your own private pool of investors, for future rounds of financing. For start-up and early-stage companies, it's usually better and wiser to have many individual *(passive)* investors in your company with relatively small amounts of capital, as opposed to a few professional *(active)* investors with large amounts of capital. By doing so you can control the terms of the deal; maintain voting control of the company; and build a growing pool of investor contacts, which you may need for additional future rounds of financing in the company's early existence. You should always be dealing from a "relative position of strength" when seeking capital. Exercising the first four concepts as your primary discipline will further your company's relative position of strength.

Chapter 4: Rules of the Game

Rule #1: Understand Institutional Sources. For the vast majority of start-up and early-stage companies, which include most firms with less than five years of operating history and less than $5,000,000 in annual sales, substantial amounts of institutional equity or debt capital are generally not available. Institutional equity or debt capital means capital secured primarily through professional investors, such as; venture capital firms (VCs or VC firms), formal angel groups, family offices, private equity investment firms, retirement or pension funds, insurance companies, and capital secured through the sale of securities offered through investment banking firms.

It is a given in the venture capital industry that on an annual average, less than 1.5% of all start-up and early-stage companies searching for capital receive their needed funding through any institutional source, in good times or bad. In good times, there is more money available but there is more quality deal flow. In bad times, there is less money available, but there is less quality deal flow. It's all relative. If your start-up or early-stage company is within the lucky 1.5%, the institutional equity capital source will most likely control the terms of the deal and they will most often demand voting control. You may have to give up substantial equity and upside participation to seal the deal. On average, out of five-hundred-plus deals venture capital firms review each year, they will generally fund two, three, maybe four.

Why do most Venture Capital firms operate this way?

It's true that there is now more venture capital money available than at any other time in history, but it's not being invested due to a lack of quality deal flow. In the VC industry it's called "capital overhang." The VCs cannot lower their investment criteria (funding start-up and early-stage companies) primarily because they have raised capital through a prospectus to individual and institutional investors which limits their flexibility. They have raised capital for their Funds by setting criteria within the prospectus to limit their company selection in which they can invest. They may have stated something like "the Fund will only invest in portfolio companies that are engaged in the medical supply and health care industries; Nano-tech as it relates to medical supplies and surgical application and other related technologies (sector positioning); with a minimum of seven years of operating history; (later stage); annual sales of at least $15,000,000 (size and stage limitation) and the average capital commitment of $20,000,000 (capital commitment limitation)." They have painted themselves into a corner through prospectus limitation. Granted, they believe that this limitation protocol mitigates portfolio risk, which it does to one degree or another – depending of course how one looks at it. But more than that, it mitigates capital-raising risk. What do you think would happen if they took a prospectus to an institution looking to invest a couple hundred million dollars with little or no limitation protocol? They would be laughed out of the room, that's what would happen. It would be commercial suicide to do so.

I only need $500,000, why won't a Venture Capitalist just cut me the check?

Unless they make a radical departure from the "old school" position and protocol of investing and managing "portfolio companies" for their funds, it is a mathematical certainty that they will never be able to afford to do so. Not only is it commercial suicide for a VC to limit investment criteria protocol for attracting capital for their funds, but they couldn't afford to manage the amounts invested in smaller companies. Let's say for instance, a VC was able to

raise $10,000,000 in a new fund just to invest in start-ups. Let's say the average amount to be invested is $500,000 per company and the fund plans on investing in 20 companies this year (for diversification) with the average holding period estimated to be 10 years. After making such investments, the fund has 20 portfolio companies, which need to be looked after. The VC needs to employ professional managers within the VC to look after these companies. How many companies can each manager reasonably look after, 2, 3 or 5? Remember, the VC has a fiduciary duty to its shareholders of the fund, so it can't skimp here. Let's say each manager looks after 5 companies (the high end of the number). In this scenario, the VC needs to employ 4 managers to look after all 20, portfolio companies. How much should the VC pay these managers in annual salaries? Should the VC pay $100,000, $200,000 or $300,000 each? Where's the line to further assure that the fund is hiring competent managers to protect the VC's fiduciary duty? Let's assume that $100,000 is the line (the low end of the cost spectrum). That's an annual cost of $400,000 in salaries alone. Who's going to pay for these? Typically, the portfolio companies need to provide returns to the fund to pay these costs. Most start-ups would be hard pressed to afford annual contributions to the fund of $50,000 each. But let's assume that they can.

After the average holding period of 10 years, the total cost of managing these funds is $4,000,000 in salaries alone. Add an additional $2,000,000 for other costs for a total of $6,000,000 over that 10-year period. Now, the accepted truism in the industry is 80% of these firms will fail and 20% will succeed to a degree that should make up the losses of the other 80% and then some. We had 16 companies fail (80%) for a total capital loss of $8,000,000, plus the additional costs of $2,000,000 that were not funded by the portfolio companies, to total $10,000,000 in net loss – the original total fund value. The other 4 companies with initial investments of $500,000 each need to be liquid with average values of at least $31,250,000 each (assuming an 80% ownership interest acquired in each by the fund – for a $25,000,000 net value to the fund) to meet the risk / return criteria of the fund of 10 times the money in 10 years. (10,000,000 to $100,000,000 – (4 companies x $25,000,000 in fund value each)). That ladies and gentlemen is a far reach. Not only that, if you had a company with the potential to be worth $31,250,000 in ten years would you sell 80% of the ownership for $500,000 today?

The math simply does not make sense for a VC when one assumes the traditional VC fund model would be employed. In addition, it doesn't make much sense for an entrepreneur to sell too much equity too early for too little either.

You may be thinking, "But I read in all the trade magazines that venture capital groups are springing up all over the country and are funding deals left and right." You're reading about the rarities. Remember that the publishers of these magazines need to sell "hopes and dreams" and, ultimately, their publications. Consider the source before you jump to conclusions. They produce good stories that motivate. That's a good thing, but if you want to raise substantial amounts of capital while maintaining the vast majority of ownership control, you should produce securities (and the offering requisite documents) and execute a series of successful securities offerings to spearhead your capital-raising efforts – a much better thing.

You may be thinking, "But we are different because we are being romanced by a couple VC firms right now." Sorry, it may be a false romance. VCs must generate massive deal flow so they can cherry pick. It costs them virtually nothing to keep you and every one else hanging on. You can't blame them; it's the nature of the industry. If they didn't operate this way to one degree or another, they would go out of business.

They are all waiting for the next "big thing," but most of them will not know what the next big thing is until it's too late. Eventually, they will need to adjust their investment criteria or, like any other industry that doesn't change to meet market demands, many will cease to exist.

To hedge your position and to increase the probability of success, you need to compete directly with those institutions to attract capital from individual passive investors. Remember, institutions need to attract capital from individual investors as well. Banks need depositors and venture capitalists need shareholders in their funds. No matter how you look at it, it boils down to attracting individual investors, because they ultimately have and control the money. Business plans and executive summaries do not meet the stringent legal requirements to raise capital from individual investors, only securities offering documents do. However, the production of securities offering documents with "marketable" deal structures was extremely expensive—until the creation of Financial Architect®.

Rule #2: Conduct a Series of Securities Offerings to Raise Capital. What constitutes a securities offering? First, we need to define what constitutes a security. The courts have generally interpreted the statutory definition of a security to include traditional as well as nontraditional forms of investment. Section 2(1) of the Securities Act of 1933, as amended, defines the term "security" to mean "any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest, or participation in any profit-sharing agreement, collateral trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting trust certificate, certificate of deposit for a security, fractional undivided interests in oil, gas, or other mineral rights, any put, call, straddle, option, or privileges (including convertible rights) on any security and any interest or instrument commonly known as a "security" or certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing." See *SEC v. W. J. Howey & Co.* US 293 (1946).

In *Landreth Timber Co. v. Landreth*, 4712 US 681 (1985), the Supreme Court adopted a two-tier analysis that basically further interpreted as follows: "For purposes of securities laws, a security in an investment of money, property or other valuable consideration made in the expectation of receiving a financial return from the efforts of others." To summarize, anything you trade an investor for an investment in your company where the investor expects a return on the investment, is a security.

Now that we have defined what constitutes a security, we need to define what constitutes an "offer" or "offering" of a security. Presenting a business plan (without a specific deal structure) to an institution, such as a venture capital firm, for obtaining capital will *not* constitute a securities offering as long as the financial institution offers the terms of financing. The offer must come from the source of capital to avoid your company inadvertently making an offering of securities. Even before the issuing entity is formed, the regulatory authorities may still consider the distribution of equity or debt before, at, or shortly after the original meeting of incorporators (in the case of a corporate entity being formed); or a meeting of organizers (in the case where an LLC or a partnership is the entity to be formed) as an offering of securities.

When the regulatory authorities consider the distribution of equity or debt a securities offering, (even before the entity actually exists) there are simple intrastate exemptions from registration of those securities available. That is the reason why most start-ups do not necessarily violate securities laws. Some states allow for as little as six and up to fifteen entities, individuals,

or organizations (founders or principals) that reside in that state to form an organization and distribute securities to the founders, without the need to register the securities or qualify for the exemptions from registration.

Every state has its own uniform offering exemption(s) and you must comply with the state's stipulations to qualify for claiming those exemptions. However, you cannot rely on the intrastate exemption if one founder is from another state. In this case, the issuing entity must qualify for federal exemptions from registration under Regulation D or the Accredited Investor Exemption 4(6) (if all founders are accredited) to rely on the Accredited Investor Exemption from registration.

In the past, the production of securities offering documents used to take a great deal of time and effort. No matter who produces the securities offering document, it will take some time and effort on the part of the entrepreneur and/or the company's management team to create an attractive business plan, and to respond accurately and factually to questions regarding disclosures and disclaimers included in the securities offering document. However, Financial Architect® enables anyone to produce securities offering documentation in a fraction of the time, at a fraction of the cost.

Even when dealing with accredited investors only, where technically no documentation is required for conducting a securities offering, (The Accredited Investor Exemption § 4(6) of the Securities Act of 1933, as amended) your offering may still be subject to the no-general-solicitation rules and provide no protection from the antifraud provisions of the Securities Act of 1933 (and amendments thereto), irrespective of the degree of disclosure your documentation contains or lack thereof.

Most successful capital-raising efforts are orchestrated as follows:

1. The process begins with conducting a "seed" capital round, ranging from $200,000 to $1,000,000 or more, using a private placement securities offering under Regulation D. Regulation D enables the management team to raise capital from personal and professional contacts – including any pre-existing relationship (i.e., customers, as well as, from friends, family, business associates and suppliers). An ample amount of seed capital is necessary to launch a successful capital-raising effort. Seed capital is generally raised through the issuance of 1, 2 to 3 year "Seed Capital Convertible Bridge Notes"; "Notes with Equity Kickers"; or "Participating Preferred Stock." Producing these deal structures and the securities offering documents is relatively quick and inexpensive.

2. A portion of the "seed" capital is used to: (a) further the protection of the company's assets, (i.e., intellectual property); (b) expand business operations; (c) provide ample working capital to pay executive and staff compensation and (d) more importantly, to hire or fund a V.P. of Corporate Finance to manage the capital-raising process. Remember, only SEC Registered Broker-dealers and *bona fide* employees can legally solicit and sell your company's securities and you cannot pay a *bona fide* employee a commission from the sale of securities. Financial Architect® can train your V. P. of Corporate Finance to build your Company's finance department as an Issuer Agent, thereby avoiding the need for a broker-dealer until your company is ready.

3. A portion of the seed capital is used to produce the next securities offering document for an Intra-State registered offering known as a SCOR offering – limit $1,000,000 per 12-month period, which enables one to advertise and sell directly to the public within the State. A portion the seed capital could be used to qualify for an SEC exemption from registration under Regulation A and/or CA (1001) for California Companies – limit $5,000,000 per 12-month period, if necessary. (No SEC Reporting or Audited Financials necessary). This enables the company to advertise the securities to compete with financial institutions legally, to attract individual investors locally or, over the Internet.

4. A portion of the seed capital is also used to fund the advertising and promotion of the securities. Advertising a security with a "Marketable" deal structure that meets current investor demand is the key. Advertising common stock simply does not work, unless it has a stated dividend like a Real Estate Investment Trust (REIT). We generally recommend offering a participating preferred stock with a high stated dividend so that the "Yield" can be advertised. This is because the fixed income markets (i.e., Notes, Bonds, and Preferred Stock) are 15 times the size of the equity markets (common stock) and is growing larger every year due to the baby boomer generation entering into retirement and looking to generate income from their investments.

5. If your company has sufficient cash reserves or cash flow, (i.e., "seed" capital), to conduct a development or expansion capital round using Regulation A, consider using a Regulation D offering first. A Regulation D with the same terms as the Regulation A can quickly start the process of the larger Regulation A securities offering, as it is relatively quicker to produce than a Regulation A. This process enables your Management Team to approach their private investor contacts, while you wait for a Regulation A offering to be produced, filed and qualified by the SEC and the State(s), a process that usually takes 2 to 3 months. Also, the amount raised under Regulation D is not necessarily included in the limitation amount of $5,000,000 per 12-month period under Regulation A, so you may be able to raise more than $5,000,000 in the 12-month time period, if necessary. In addition, some or possibly the full amount of the Regulation A offering may need to be escrowed before being released. Not so under Regulation D, which allows the proceeds of securities offering to be used as received.

6. If additional funds are required for future expansion or if the founders are ready to start liquidating some or all of their holdings, you should hire a team of professionals to assist your company's Finance department in the listing of its securities on the over-the-counter bulletin board ("OTCBB"), thereby making the securities liquid or "free trading." SEC reporting and audited financials are necessary to qualify for OTCBB listing. Once your company's securities are listed for trading on the OTCBB, you can simply "float" or sell more securities into the institutional markets to raise capital. Will your company's securities sell? They will if they have a marketable deal structure and you provide a discounted price to the institutions.

Most private or public placements do not sell well because of (1) a bad deal structure (no investor protection components in place); (2) no thorough capitalization planning; (3) no real exit strategy for the investor; (4) no realistic and conservative pro forma financial projections that conform to GAAP (generally accepted accounting principles) standards; (5) no internal rate of return assumptions; and (6) insufficient seed capital to market and sell a series of securities offerings.

Financial Architect® enables you to: (1) determine and create a marketable deal structure; (2) develop a thorough five-year capitalization plan; (3) provide for a real exit strategy for investors; (4) produce pro forma financial projections that conform to GAAP standards; (5) calculate and illustrate internal rate of return assumptions; and (6) create a seed securities offering document with its patent-pending system of interconnected worksheet templates.

Rule #3: Use Hybrid Securities to Maintain Voting Control and Equity Ownership. You can raise sufficient capital without giving up substantial common equity interest through issuance of hybrid securities such as, but certainly not limited to, convertible preferred stock, notes, bonds, non-voting common stock with married put options, participating preferred stock, notes with equity kickers or through issuing royalty financing contracts. In the current market environment, participating preferred stock, with a high stated dividend and generous participation in net income, is very attractive to investors.

Selling common equity in the early stages of the company's existence generally results in selling out the company's most precious element—ownership—for too little, too soon. In the world of finance, there is what is known as "cheap" money and "expensive" money. It's relative and it changes. Bank debt with a high interest rate seems to be expensive money in the beginning. However, if you assume success then bank debt will become cheap money because selling common equity in the early stages of the company's existence will be a mistake because it will be more valuable and inherently become expensive money. For example, if you borrowed $1,000,000 at a 10% interest rate for five years, that's $100,000 a year in interest or $500,000 total. This scenario seems expensive, but if you sold 30% of your company's common stock for $1,000,000 and your company is worth $5,000,000 at the end of the fifth year, that's a value of $1,500,000 or a net expense difference of $1,000,000 (the value of 30% of the company: $1,500,000 less the $500,000 in bank interest = $1,000,000). The common stock is technically lost forever, so the net cost may be more as the company continues to grow. That's expensive money.

If you want to control the terms of the deal, maintain voting control of your company and the vast majority of equity ownership, all while increasing the probability of receiving the funds, then you will need to conduct a securities offering or a series of securities offerings using hybrid securities. Searching for capital in any other fashion generally results in everyone attempting to change the terms of the deal, which results in lost time and money and is extremely frustrating.

Rule #4: Test the Waters. Prior to structuring the deal, producing the proper securities offering documentation, or conducting a full-blown securities offering effort, one could "test the waters" by researching the local geographical area for "angel investor" interest, as well as their own personal market of private investor contacts, with one or two prototype offering structures. This process is known as a "red herring" test. Some states do not allow for a testing of the waters through general solicitation (the media), so you should check with your legal counsel before you engage in this "discovery" activity. *An example of a red herring document is available in the Commonwealth Capital Club. You will receive the User ID and Password for the Commonwealth Capital Club in the instructions to Financial Architect® Module(s).*

There is peril associated with "testing the waters". Although you may think you are saving money by holding off on securities offering document production, if your indications of interest are positive, then you need to be prepared to sell the securities quickly. If your

documents are not completed, it could take too long to finish them and investor interest may change. I prefer to strike when the iron is hot. If you agree, you should have your documents completed and ready for those who have an interest. Otherwise, it may appear that you don't really have your act together: a bad thing when asking investors for money.

Actions to determine indications of interest are used by Wall Street firms, but you can avoid most of the formal research by simply shopping for high-yield investments. What's out there? Check on what the bank is offering for three-, four-, or five-year CDs. Call a stockbroker and find out rates where five-year corporate notes and preferred stocks are trading. Once you've done a cursory investigation, you'll know how to price your company's securities. Just beat the yield and offer upside potential against your deal's risk involved by designing securities that meet investor demand and you will raise capital.

Rule #5: Use Seed Capital to Raise Development/Expansion Capital. There are no guarantees when it comes to raising capital, only degrees of probability. The probabilities increase in direct correlation with the amount of seed capital available to promote expanded capital-raising efforts. The more seed capital you have available, the higher the probability for a successful securities offering. You are simply marketing and selling an intangible asset in a highly competitive and highly regulated environment.

Whether selling private or limited public placements internally or engaging in a FINRA syndicate selling effort, you must have ample funds (seed capital) to support the related sale and marketing efforts. If you do not have a sufficient amount of seed capital, then raise it through a seed capital securities offering first. Depending on your company's situation, $100,000 to $200,000 of seed capital should be sufficient to obtain the larger $1,000,000 to $5,000,000 amounts of start-up, development, or expansion capital.

In a publication called, "Small Business Financing Insights," Richard Wulff, chief of the Office of Small Business at the Securities and Exchange Commission in Washington, DC, was quoted as saying, "If you're trying to raise $5,000,000 in a private offering you've got $100,000 in expenses, printing, lawyers, phone calls, etc." (April 1998). It's much more now!

Rule #6: Minimize Your Capital Requirements. For start-up and early-stage companies, your capitalization plan should seek the minimum amount of capital needed to bring your firm to $5,000,000 in annual sales necessary to engage an investment bank to sell your company's securities. If you need $1,000,000 in development or expansion capital to accomplish that goal, you should consider raising, say, $200,000 to $400,000 in equity capital through a securities offering, and obtain the $800,000 to $600,000 balance with bank debt if your company is considered bankable.

Rule #7: Capitalize to Compete. Most entrepreneurs are under the impression that the technologies, inventions, patents, processes, or trade secrets that make up their company's product or service line(s) offer investors the greatest opportunity ever because nothing like their situation has ever occurred before, and they have a lock on the marketplace. No entrepreneur can predict, with any real accuracy, when or if a competitor will introduce superior products, services, or technologies to the marketplace and so marginalize said entrepreneur's product or service line(s). Most entrepreneurs are also under the impression that the technologies, inventions, patents, processes, or trade secrets that make up their company's product or services will allow for sufficient net operating margins to expand their firm's growth with internally generated funds

after they have received their initial funding. In theory, only a true monopoly can achieve that feat. Any direct or indirect competition will eventually lower those margins. Outside capital must be employed to keep up with the competition, especially if the competition is formidably capitalized (i.e., publicly traded). Be sure to raise sufficient capital through a series of securities offerings so that your company can get and stay ahead of the competition curve.

Rule #8: Create a Finance Department to Compete for Capital. Once you have sufficient "Seed Capital" raised and/or current cash flow permits, form a well-staffed finance department within the company to compete with financial institutions for capital from individual investors. The reason this part of the process sounds obvious to some and strange to others is that most entrepreneurs come from large corporations where the corporation has a marketing department, a human resources department, a production department, an operations department, an administrations department, and so on. Most large corporations do have an accounting department, but it doesn't serve as a finance department because the financing is handled or outsourced to large investment or commercial banks.

If you want to expand your company aggressively through the acquisition of competitors, suppliers, and/or customers, you will need to develop a strategy to become a publicly traded company now or in the immediate future. Did you know that your company could apply to list its securities for free trading on the Over-the-Counter Bulletin Board (OTCBB)? The OTCBB is a limited trading platform that does require the company to become an SEC reporting company, and that does require you to produce audited financial statements, but has less stringent requirements in other areas. Once your securities are listed, they become "currency". You don't necessarily need to sell or "float" a secondary offering of securities into the public markets because you can use your securities as currency to purchase other assets, including other companies.

Note that I did not mention listing common stock on the Over-the-Counter Bulletin Board; I mentioned securities. Let's say that you listed a participating preferred stock on the Board with a high yield relative to all other securities of the same class and quality. Let's say, for example, your preferred stock was listed on the Over-the-Counter Bulletin Board at $100.00 per share and a $9.00 stated dividend. That's a current yield of 9%, and you offer the participation feature. If all other preferred stocks with the same quality are trading at a yield of 8% then you should easily be able to sell additional shares into the market because your company's securities are simply beating the current yield in the market place. As an alternative to selling the shares directly into the market, you could simply offer the same preferred stock to a company that you wish to acquire. I've used the analogy that dealing with liquid securities is like turning a faucet on and off. If you need more capital, then "float" or sell more securities: turn it on. When your capital needs are satisfied: turn it off. Once you understand the process of operating with publicly traded securities, it's not that difficult.

Rule #9: Don't Rely on Others to Raise Capital. Most entrepreneurs believe that raising capital is like selling real estate. They believe there are entities out there that will raise capital for them for a commission. There are — they are called SEC-registered investment banks or broker-dealers, which must also be FINRA Members. However, they do not fund start-ups or early-stage companies. There is very little money in it for them because the deals are too small. Most start-up and early-stage companies are also too risky (history shows that 85% of all start-up and early-stage companies will fail within their first five years, primarily due to the lack of sufficient capital reserves). If your company wants to pursue this route, you should be aware that

your company will also need to invest in marketing support for an engagement contract. The expense associated with the broker-dealer's due diligence is separate. On top of those up-front, out-of-pocket expenses, you will need to pay a generous commission, generally 10% to 12% of monies raised and, depending on the market environment; you also may need to give up some other goodies, like a portion of the company, by issuing warrants to the broker-dealer(s). In addition, you will be doing most of the work of actually selling the securities in any event – through the proverbial "Dog and Pony Shows" – because there is nothing like the enthusiasm of members of the company's management team….hence, the further justification to hire a VP of Finance.

WARNING! HIRING MONEY FINDERS CAN BE EXTREMELY DANGEROUS AND RARELY WORKS. YOU SHOULD NOT PAY ANY UP-FRONT "INVESTOR INTRODUCTORY" FEES AND YOU CANNOT PAY THEM A COMMISSION, PERFORMANCE OR SUCCESS FEE FOR OBTAINING CAPITAL IF AN OFFERING OF SECURITIES IS INVOLVED, IT IS YOUR RESPONSIBILITY TO COMPLY WITH FEDERAL AND STATE SECURITIES LAWS: NOT THE MONEY FINDERS'.

Rule #10: The Key. Raising capital for start-up and early-stage companies in any economic environment can be difficult if not properly orchestrated. In good times, investors can make good returns on their investment in the stock market, where the investment is easily accessible because one can sell (liquidate) their securities at any time. Their resistance is in tying up their money in an illiquid security in a private company. However, that can be overcome with the proper securities marketing and selling techniques. In bad times, investors are always waiting for good times to reappear before they make any changes to the investment portfolio. When you are competing for capital in any market environment you simply need to compete on the basis of immediate return (yield), long-term return (profit participation) and to maximize the number of investors you contact. As with all sales, it's a numbers game. In any market environment, it's far more effective to raise small amounts from many investors by being able to compete directly in the fixed-income securities markets with high-yield securities.

Chapter 5: The Top 15 Reasons Why Entrepreneurs Fail to Raise Capital

The average entrepreneur fails to raise capital for their start-up or early-stage company because:

3. The entrepreneur does not properly assess their personal capital contact environment in the beginning stages to tailor their securities offering to market demand. You and your management team should "test the waters" by contacting only investors with whom you have a pre-existing relationship.

4. The entrepreneur does not start the capital-raising effort early enough. It's better to raise capital in the beginning stages, when you have some of your initial capital to do it right, rather than waiting until you run out of capital.

5. The entrepreneur spends too much time, money, and effort soliciting the wrong sources of capital. In the beginning stages of a company, you have a relative position of strength when soliciting personal and professional contacts who already know and trust in your abilities to get the job done more than any individual or organizational strangers like venture capital or investment banking firms.

6. The entrepreneur seeks too much capital for the project or company. Your operational plan should be geared toward raising the minimum amount of capital necessary for each step in a series of securities offerings. This will accomplish two things: first, it will increase the probability of obtaining the desired capital sought, and second, it will allow you to maintain the maximum amount of equity ownership.

7. The entrepreneur puts the cart before the horse. More often than not entrepreneurs spend too much time building their company or developing their project with little or no capital when they should be concentrating on raising capital.

8. The entrepreneur does not have enough personal capital committed to the project. Most investors want to hear that you have your own money in the deal (a.k.a. "skin in the game"). If you do not, one way to mitigate this is to arrange to have the management team sign personal guarantees for debt financing or bank loans (if the company is bankable), or have friends and family members finance the deal.

9. The entrepreneur does not have a clear picture on the use of proceeds. You need to be very detailed in your use of proceeds statement when conducting a securities offering.

10. The entrepreneur does not have an internal rate of return projected on the investment. Investors already know what the downside is—it's a 100% loss. Most investors want to know

what their internal rate of return on investment will be if things work out as planned. Rarely are these figures provided in most business plans or securities offering documents.

11. The entrepreneur does not provide a forward position on liquidation rights for investors in case of business failure. You need to show investors that if the firm fails, they come first or at least ahead of you and your founders, on liquidation rights on the company's assets, even though the assets may not be worth much.
12. The entrepreneur does not provide a sufficient amount of information in the business plan, which is required for a securities offering. Many very important elements are left out of the average business plan.

13. The entrepreneur does not guarantee an exit strategy for the investor. Although an IPO or an outright sale of the company or its assets may be a nice approach to an exit strategy, it cannot be guaranteed. You need to put a structure in place that will allow the investors to get their principal back in a relatively short period, with a strong probability of occurrence, while enjoying some upside potential over a longer period. For any company, there are no guarantees; just try to get as close to one as you can for the investors.

14. The entrepreneur does not have a solid management team. Do what you can to put together at least a contingent management team if you have not done so already. Include the biographies for each management team member in the business plan or the securities offering document. Be sure you have received signed letters of contingent commitments before you include their backgrounds; otherwise, it could be construed as fraud in a securities offering document ~ a very bad thing.

15. The entrepreneur requires too large of a minimum initial investment. One should allow many investors to get into the deal with small amounts of capital. It is better to have 100 investors in your deal at $5,000 for a $500,000 equity raise than 5 investors in at $100,000.

16. The entrepreneur does not allow ample time for raising capital. Like most things in business, it will take you longer and cost you more than you originally thought. We generally advise our clients to plan on a minimum of six months, and sometimes as long as twelve months, to raise the needed capital.

17. The entrepreneur does not have enough seed capital dedicated to the capital-raising effort. Like a product launch, it takes promotional dollars to raise capital, effectively. You need seed capital to promote the attainment of your development capital. If you do not have it, then raise it through a seed capital securities offering first. Before you decide upon a seed capital offering structure, you should produce your company's development capital offering structure prototype to be sure that each structure fits with the other. The seed capital is riskier by design, so the structure of a first or second lien debt position with a two or three-year maturity should mitigate some of that risk and so attract seed capital.

The bottom line: The vast majority of entrepreneurs do not have the intimate knowledge of how the world of capital works. We believe we have solved that issue through this book and Financial Architect®. The vast majority of the entrepreneurs who contact us either want us to invest or find investors for them. For most start-up and early-stage companies, the probability of that happening is simply not reality. Most don't want to face this fact.

We've built Financial Architect® to serve as the spark to start a process that does work. Simply educate yourself on the process, work it and believe. That's as good as it gets, and, for some, it gets very good, very fast.

Chapter 6: The Four Professional Functions of a Securities Offering

Before examining the mechanics of deal structuring, you need understand how investment banks, the "players" in larger capital markets, work. Once you understand how the investment banking divisions of Wall Street firms work, you will be better able to relate their capital-raising techniques to your company's capital-raising efforts. This is part of building a functional finance department within your company.

There are four fundamental professional functions used by Wall Street firms in the process of raising capital in the United States:

1. **The first function** is that of the **accountant** in the production of pro forma financial projections. These projections analyze potential future sources of revenue, operational expenses, net income potential, tax liability, cash flow, and capital budgets. The "sources and uses statement" is also part of the projections. In the case of an existing company, the accountant would also produce compiled financial statements, audited if necessary.
2. **The second function** is that of the **investment banker.** The investment banker analyzes the company's future valuation, establishes the current price of the company's securities based on estimated rate of return and structures the capitalization plan or "deal structure" so that it is accepted by, or fits the demand of, various private or public capital markets (individual investors). Then the investment banker tailors the securities offerings to meet or exceed market demand.
3. **The third function** is that of the **attorney** in the production of the legal documentation of the securities offering to comply with the various federal and state securities laws, rules, and regulations. The attorney is generally hired to handle the administrative compliance follow-up after the sale of securities as well.
4. **The fourth function** is that of the **stockbroker** in the legal execution of the solicitation and sales of securities to raise capital for the client firm.

All four functions are managed by the investment banking divisions of Wall Street firms. Most securities attorneys cater only to publicly traded or larger privately held companies because that is where the money is. Most accountants can produce pro forma financial projections, but rarely are able to determine and formulate a marketable deal structure for a securities offering. Most investment bankers can determine and formulate a marketable deal structure because they are in touch with the private and public securities markets on a daily basis. However, like securities attorneys, investment bankers deal primarily with larger companies because it generally requires less time to place $100,000,000 in securities for a well-seasoned company than it does to place $1,000,000 in securities for a start-up or early-stage company. Once again, they go where the money is. Most stockbrokers can sell securities to raise capital, but they generally will not do so for start-up or early-stage companies because they do not want to risk losing their clients' money.

By the end of this book, you should have an in-depth understanding of all four professional functions, to the degree necessary to determine a proper deal structure for your company securities offerings, price the securities, and complete a securities offering document for issuance and or legal counsel review and effectively sell the securities to raise capital for your company.

Chapter 7: Organizational Structures

There are three basic types of organizational structure in which you can sell an ownership interest: a partnership, an LLC (limited liability company), or a corporation. In a partnership (general or limited), you can sell general or limited partnership interests. In an LLC, you can sell membership interests or other securities, such as preferred stocks/membership interests or convertible notes/bonds. But if you want to add hybrid securities to your firm's capitalization structure you may need to amend your articles of organization for an LLC, partnership agreement for a partnership, and articles of incorporation for corporations at the state level to authorize specifically the type and amount of securities authorized for sale.

With corporations, there are two basic types of corporate tax structures. One has an S election tax status; the other is a C election or a full corporate tax status. To avoid unnecessary double taxation for a corporation, we generally recommend filing as an S election corporate tax structure at the early-stage of a company's existence. If you have not already done so, or if you have not incorporated a company yourself in the past, you should hire an attorney to incorporate your business. Make sure that there are no more than one hundred shareholders. Otherwise, your company will not qualify for the nontaxable status of an S corporation. If your company is a start-up:

- Have your attorney file your company's articles of incorporation with the state that you have chosen to incorporate.
- When the state sends back a "filed date" copy of your articles of incorporation, get a copy of Form SS-4 from your accountant.
- In the early stages of a corporation, you must file Form SS-4, Application for Employer Identification Number with the IRS as per those instructions.
- After you receive your employer identification number from the IRS, it is wise to file Form 2553, Election by a Small Business Corporation for S corporation tax status with the IRS. (There are time limits on these various procedures, so be aware that this process is time sensitive.)

You will also need to register for a state tax number with your state's Department of Treasury. Most states adopt the IRS's tax ID number assigned to your company. (See "Links" for these forms in the Commonwealth Capital Club.) There is no federal corporate income tax on S corporations.

Technically, the S corporation can only issue one class of stock (disregarding differences in voting rights). To maintain the single taxation status, an S corporation is only allowed two classes of stock, class A voting common stock and class B non-voting common stock. If your company issues any other type of equity security or a security convertible into equity, it will lose its non-taxable S corporation status. Therefore, most S corporations will choose class-A voting or class-B non-voting common stock, notes, bonds, or royalty-financing contracts. If you wish to maintain your company's S election tax status, then do not sell preferred stock or convertible securities (including warrants, rights, options, convertible notes and subordinated debentures) as they constitute a third class of stock or equity.

If you elect to conduct a preferred stock offering, then you will need to form a C corporation. If you plan on growing your company very quickly and are planning to conduct an initial public offering (IPO) soon, it is best to form a C corporation (currently, LLCs cannot trade

in the public markets). To establish a C corporation, simply do not file a Form 2553 with the IRS. An S corporation will automatically become a C corporation once a security has been issued that constitutes a third class of stock or equity or when you exceed the one hundred -shareholder limit. Incidentally, the one hundred-shareholder limit may change from time to time, so be sure to check the current rules with your accountant or attorney.

NOTE: Only individuals and qualified S trusts can own *class A and B common stock shares* in an S corporation. You can sell royalty financing contracts, notes, or bonds of an S corporation to any entity. If any other entity, such as an LLC or other corporation, S or C, purchases *common stock* in your S corporation, the corporation will automatically become a C corporation. In addition, S corporations cannot be held in qualified retirement accounts such as IRAs, SEPs, Keogh plans, etc.

Although attorneys and CPAs generally recommend setting up an LLC for most new small businesses, you will see later why you will just have to change it later if your company's plan is to grow quickly to go public, through either an IPO or a reverse merger into a public shell, within five years. However, there is value in setting up your organization as an LLC, partnership, or S corporation due to the distribution of losses, which pass through to the individual investors. You will need to discuss this strategy with your accountant.

It may be easier to attract capital by selling shares in a corporation than by selling membership interests in an LLC, or partnership interests in a limited partnership, because the term "membership interest" may remind most investors of the term "limited partnership interests*."* The large stock-brokerage firms in the mid 1980s to the late 1990s sold vast amounts of limited partnership interests. Some of those limited partnerships were grossly mismanaged, and in some cases, fraud was committed. Bankruptcies were declared, and investors lost fortunes. As a result, the term "membership interests" is now closely associated with the term "limited partnership interests," which is associated with a bad situation, and we would recommend it not be used, if possible.

One way to circumvent this issue is to amend your LLC's operating agreement or partnership's partnership agreement to substitute the terms "interests" or "units," to the term "shares." This one change should allow you to avoid any explanations in the future.

We had to pick a name for a prototype company for Financial Architect® templates. As you will see, we used "XYZ Company, Inc." The model shown here is for corporations. Because more companies are choosing a limited liability company (LLC) as their organizational form, we have included templates for LLCs as well as for corporations in Financial Architect® modules. If you have or want to form a partnership (general or limited), simply substitute the terms "member" and "membership" for "partner" and "partnership" within the LLC templates.

The company and the names of any personnel used throughout the templates are fictitious in nature and shall be considered to bear no resemblance to any actual company or personnel. If any similar names should arise, the information contained herein shall not be construed as in any way a reference to those names.

Generally, there are only a few changes one need make to transform a corporation securities offering document into a securities offering document for LLCs or partnerships; therefore, you may start with either form and change it if you like. However, we strongly

recommend users of Financial Architect® start with Financial Architect® templates that are relevant to your company's organizational structure. For example, open and use only the folder entitled "Corporation Templates" contained within Financial Architect System™ if your company is a corporation, and open and use only the folder entitled "LLC & Partnership Templates" if your company is a limited liability company or a partnership.

For your information, an LLC differs in form from a corporation because it is technically a partnership, which is managed either by managers or by members. In addition, an LLC differs because of its limited ability as determined by the state, what type of securities it can issue. (Limited partnerships are managed by the general partner, and general partnerships are managed by the general manager). In general, if the LLC is managed by managers, the majority of members must vote for the manager(s) according to the LLC's operating agreement. Operating agreements can allow each member to have one vote per member or many votes based on their capital contribution to the LLC. If a member has one vote, irrespective of that member's capital contribution, it will differ substantially from the organizational structure of a corporation. Corporations must allow one vote per share of its class A voting common stock. Therefore, those investors who contribute the most amount of capital technically control the corporation. It is extremely difficult to raise capital for LLCs that do not allow voting control to be established by the majority of those who contributed the capital. Therefore, we strongly recommend that if you have yet to establish an LLC, make sure the LLC's operating agreement allows for a majority of ownership interest to control the company.

If you already have an LLC that allows each member to have one vote per member, irrespective of that member's capital contribution to the LLC, we recommend that you amend the LLC's operating agreement to reflect that the ownership control is constituted by a majority of ownership ***percentage*** interest in the company. In addition, some LLCs are managed by its members, which are like class A voting common stock shareholders in a corporation. If you will have many members (after the sale of securities), more than five or seven, you should amend the LLC's operating agreement to allow the company to be managed by managers as opposed to the members, because you do not want "too many cooks in the kitchen."

Corporations are controlled by Officers elected by its Board of Directors who are, in turn, elected by a majority vote of its class A voting common stock shareholders. That is why LLCs should be set up, through the operating agreement, to be controlled by managers elected by members, based on a percentage of their capital contribution.

The following is for your information only and does not require your immediate attention, as Financial Architect® templates are already formatted with the correct terminology germane to your company's organization form. However, this body of knowledge is still important for you to understand. The terminology changes are as follows:

- **Corporations** have "Articles of Incorporation."
- **Limited Liability Companies** have "Articles of Organization."

- **Corporations** have "By-Laws."
- **Limited Liability Companies** have an Operating Agreement."

- **Corporations** have "Officers & Directors."
- **Limited Liability Companies** have "Managers."

- **Corporations** have "Shareholders," who own shares of stock.
- **Limited Liability Companies** have "Members," who own Ownership Interests.

- **Corporations** have unlimited life spans.
- **Limited Liability Companies**, like partnerships, may have a pre-determined life span according to the operating or partnership agreement.

- **Limited Liability Companies**, have Admissions Agreements, like Partnerships, which have Partnership Agreements.

- **Corporations**, **Limited Liability Companies and Partnerships** have "subscription agreements" for the purchase of securities.

LLCs ownership interests are denoted as "membership interests." Membership interests can be broken into differing percentages of the company's total ownership, which could be confusing to some investors and may make it difficult for you to calculate the estimated annualized rate of return on a particular security. In addition, those membership interests are usually expressed as "units" so, as with partnership interests, that term will become confusing if you decide to use one of the most popular deal structures, "Notes with Equity Kickers/Components."

The Notes with equity Kicker/Component deal structure includes a security that is a combination of notes with equity (membership interests for LLCs or common stock for corporations), and that security is expressed as a unit. Therefore, we strongly recommend that if your company is an LLC or a partnership, you amend your LLC's operating agreement or your partnership's partnership agreement to express membership and partnership interests or units as "shares." Making this one change will make developing your securities offering documents far simpler to produce and potentially less confusing to potential investors. However, only do this with a Regulation D offering. If your LLC or a partnership will be filing for a Regulation A offering at the federal level or registering for a SCOR or a CA (1001) for California companies, offering at the state level, use the term membership and partnership interests, as the regulators may not understand what you are trying to convey with the term that is foreign to the entity.

You may have up to 499 investors in any type of organizational structure without the need to become an SEC reporting company. SEC reporting companies have an additional blanket of compliance and regulatory responsibility to include the need to produce audited quarterly financial statements. It's not a bad thing, just another expensive, ongoing process. Therefore, if you have more than 499 investors, just understand what it entails and be prepared to deal with it.

Chapter 8: Deal Structuring

The philosophy behind creating a marketable deal structure, also known as a "transaction" structure, primarily concerns the priority afforded investors' interests with respect to the return of principal and profit.

Please keep in mind that the following examples represent a philosophy of deal structuring rather than the actual mechanics of the deal-structuring process. The mechanics of deal structuring is included in the Financial Architect® End User Instructions manual included with the Private Placement Producer™ and the Public Placement Producer™. Due to standards within the industry, Fund Producers™ is designed with a fairly closed deal structuring architectural format, making it far easier to build a deal structure and the required documents.

To produce a marketable deal structure, you should understand how different deal structures interact with each other within your company's capitalization planning for your securities offering. You need to know how much leverage (debt) can be or should be used as part of the overall capitalization plan, as well as the different rights and obligations that different types of securities hold. The deal structure that your company should use will be dependent on a few variables, such as how long your company has been in operation, the value of its assets, and the size and makeup of your company's management team. These are just a few of the many possible variables that will determine your company's relative position of strength, which will ultimately determine the amount of equity that must be relinquished, if any, relative to the capital obtained, to arrive at a marketable deal structure.

To arrive at a marketable deal structure, the very first question I generally ask a new client is akin to asking a child, "What do you want to be when you grow up?" This is because the wrong course of action now will result in the wrong outcome later. Backing up and making changes to your organizational structure, mode of operation, and five-year capitalization plan is not only expensive, but most often it is cost prohibitive to change later on. I ask the client, "What do you want your life to be like in seven to ten years from now?" Do you want to own 100% of a $5,000,000 company or 50% of a $100,000,000 company, or something in between?

Taking your company public with an initial public offering (IPO) seems to be the way to get rich quick. Ask yourself one question: "Is wealth or freedom more important to me?" They are not necessarily the same thing nor do they go hand in hand. You will lose freedom by taking your company public, but you may gain more wealth. Going public may mean that your competitors can review your audited financial statements with ease. If so, they can tell where your last year's capital expenditures went, what your company's advertising and promotional budgets as a percentage of gross revenues are, and they may be able to decipher executive compensation to compete for your executive talent. Maybe remaining privately held will give you more freedom with a respectable amount of wealth. Those are personal decisions that only you and your management team can make. You will have options as your company grows, so take the best course of action based on your knowledge and experience now and you can change it later, if necessary.

After we complete the assessment of the client's wishes, we will have indications of the preferred mode of operation, and only then can we start formulating potential deal structures. "Once the mode of operation is decided upon, we can then run numbers to see what the entrepreneur can offer to prospective investors necessary to attract capital.

In most cases, we tend to eliminate (or at least limit) common stock (equity) offerings at the early stage of the capital-raising process. We do so because common stock equity is the most precious element of any company's financial structure and we don't want you to "sell out" the most precious element of the company too early for too little. Instead, we'll typically recommend our clients wait a few years before they offer any common stock. However, the entrepreneur's private capital market contacts may demand a portion of equity as part of the capitalization plan. Therefore, as part of Financial Architect®, we have provided four securities offering document production templates that include common stock for corporations or membership interest shares for LLCs: one represents 100% equity; one represents a debt and equity mix; one represents a 100% note (debt or bond) with an equity kicker; and one represents participating preferred shares.

As a side note, we use common stock shares as equity in most illustrations for two reasons: First, it is easier to understand when calculating values and, second, reference to shares makes selling securities much easier because most people own stock that's publicly traded and are used to hearing the term. If you have an LLC or partnership, simply adjust member or partner interests accordingly or amend your company's operating or partnership agreements to reflect "shares" as being the term your company will use to identify ownership. You can simply amend your operating agreement to reflect that "interests" are denoted and termed "shares." You will see that we have used the terminology of membership interests "shares" as opposed to "units" in the templates for LLCs and partnerships. Therefore, if you do not change the terms "interests" or "units" in your company's operating agreement to "shares," you will need to search and replace the term "shares" with "units" in the templates.

The next step in the process of raising capital starts with designing the capitalization plan and deal structures for a series of securities offerings.

Running the numbers to decide on a particular deal structure is only part of the deal-structuring process. The company's history and current financial position are of primary importance to determine the company's relative position of strength. We're going to make this easy, as most start-up and early-stage companies have a relatively low position of strength, so we will make that assumption right now. If you feel your company has a high relative position of strength, then you may be able to skip the first of this two-step process.

Step One involves raising sufficient seed capital from friends and family to enable you to compete with financial institutions, such as banks, insurance companies, mutual funds, etc., based on a current rate of return or "yield." Raising sufficient seed capital is generally done by selling notes with equity kickers/components to friends and family. Think of it this way: they loan your company money for a short time period, get a decent yield on the loan, and get an equity kicker/component to increase their overall return in the event of success. They get all this for taking on the elevated risk by investing in a new company early on. By offering this type of deal structure, you place them in the first or second (determined by you and your bank if your company is bankable) lien position on assets (you're putting everything you have invested in your company on the table) and, more important, you return their principal within a few years, as determined by the length of time you need the loan (i.e., generally only two or three years).

Step Two involves raising sufficient development or expansion capital by creating a securities offering with which you can legally solicit the sale of the securities through the general media and, therefore, compete with financial institutions based on yield. Most start-up, early

stage and later stage privately held companies could use $1,000,000 or less each year, in equity funding. If this is the case for you, consider registering the securities at the state level (SCOR) to attract and build a whole new pool of individual investors. This involves submitting an application for registration with the state(s) regulatory authority where the securities will be solicited. By registering the securities at the state level you will be allowed to advertise your securities offering through the general media. Now you are competing head-to-head with financial institutions for individual investors – based on the ability to provide a higher "current yield" and consistent cash flow to investors. A SCOR Offering enables you to advertise in your regional Wall Street Journal, Investors Business Daily, local newspaper, as well as direct mail and or radio advertising. Imagine investors calling you to inquire about funding your company. This is an extremely important strategy and, except for the Oil & Gas Producer™, all Financial Architect® programs enable you to accomplish this registration process with relative ease and at a fraction of the traditional cost.

Raising sufficient development or expansion capital is generally done by selling participating preferred shares to new investors in your local community by advertising the securities in the local newspaper or through a direct mail campaign. Before the information highway—the Internet—was built, advertising the securities in the local newspaper with "Tombstone" ads, was the way Wall Street investment banks notified potential individual as well as institutional investors. Think of it this way: they invest in your company because you are offering a higher current yield on the investment by creating a stated dividend on the preferred shares and you are offering a participation of the profits to increase their overall return in the event of success. Investors get all this for taking on the elevated risk by investing in a new company in its early stage. By offering this type of deal structure, you place them in the first (once you pay off the notes) or second (if you don't pay off the notes) lien position on assets (you're putting everything you have invested in your company on the table again) and, more important, you are not giving up any permanent equity, as the preferred shares may be "called." You may decide to pay off or "Call" the preferred shares with a combination of retained earnings and/or bank debt, if your company becomes bankable.

Step Three (optional) involves raising *substantial amounts* of development and or expansion capital by the continued selling of preferred equity through broker dealers. To gain interest from broker dealers you must be willing to list the preferred securities on a publicly traded stock exchange. By creating a Private Placement that will use the proceeds from the offering sold through a broker dealer, you have budgeted for the necessary costs involved in creating a listing on a publicly traded securities exchange. By listing these securities on an exchange your options for raising capital and or using these securities as "currency" to acquire assets; such as, other companies, will be dramatically improved. This is not a Do-it-Yourself process, so it's beyond the scope of Financial Architect®, but you must plan for this during the production of your financial projections.

Now that you have these three basic securities offerings in mind, you will need to run the numbers (producing pro forma financial projections) to figure out how much equity or participation you need to give up for each structure. The goal here is to limit the issuance of common equity as much as possible.

First, we use CapPro™ to run the numbers. You'll want to pay special attention to the example given as the program's default setting, as it lays out an attractive return for a series of securities offerings using hybrid securities and traditional bank financing. As you will see in the

examples given within CapPro™ each progressive securities offering provides for lower Internal Rates of Returns (IRRs), because each offering is to be issued in different years. As time goes by, the risk of investing in the company should decrease and therefore so should the IRRs.

We run the numbers in our CapPro™ because it automatically calculates the IRR on the other deal structures, giving us a clear indication on the appropriate deal structure on different securities offerings. These sets of numbers are the basis of forming your "prototypes," which will lead to the creation of your company's "red herring" document, if you choose to test the waters, or your company's securities offering document, if not.

Running the numbers means producing realistic and conservative pro forma financial projections compliant with GAAP (generally accepted accounting principles) standards. Such projections will include gross revenue growth assumptions, cost of goods sold assumptions, general and administrative expense assumptions, interest expense assumptions, and finally capital budget assumptions, which will ultimately calculate the estimated net income, cash flow analysis, cash distributions, and company and stock valuation in a private or public market. The time horizon generally runs five years for those types of financial projections. Most accountants agree that one should not produce pro forma financial projections past five years because the longer the time horizon, the more difficult it is to predict financial and economic factors with any real accuracy.

We recommend using hybrid securities for start-up, early-stage companies, and later stage privately held companies for a number of reasons. One particular reason we recommend hybrid securities for most companies is that the estimated internal rate of return of a *particular hybrid security* will only be partially dependent on the estimated net earnings growth rate.

For example, let us say that your company has 100,000 shares authorized for issuance. Twenty thousand shares are available through a common stock offering, and the value of common stock of the company should grow from its initial price of $50.00 per share to $100.00 per share over a five-year period, equating to a $10,000,000 company valuation at the end of the 5-year period. That would constitute an estimated internal rate of return of 14.87%. Not bad, but if you are looking to sell 20% of your company for $1,000,000 through a common stock offering, you may run into the dilution problem, from an investor's perspective. Unless there are substantial liquid assets already owned by the company, the value of the investor's investment will be diluted by 80%. For example, let us say that there are no other tangible liquid assets in the company, like the entrepreneur's cash. A sophisticated investor would realize that, by investing, he or she would immediately lose 80% of their $1,000,000 investment due to the outstanding stock's total dilution factor. Once deposited, the $1,000,000 is now owned 80% by the other shareholders in the company and 20% by the investor, by the design of that structure. Yes, the investor just lost $800,000. Obviously, this is not a safe situation for the investor and therefore this deal structure will deter any knowledgeable investor.

As an alternative, let us say that you conducted and sold a note offering, with a 10% coupon that has a five-year maturity with an equity kicker/component that represented 20% common stock equity in your company. Your investors put up the $1,000,000 and in five years they receive $500,000 in total interest, their original $1,000,000 in principal, and the value of their equity kicker/component of $2,000,000 calculated from the $10,000,000 valuation after five years. That deal structure would return an estimated internal rate of return of 28.47%; almost double the original common stock offering rate of return with no dilution for the investor. This

type of deal structure would put the investors in a first or at least forward lien position ahead of common stock holders, thereby eliminating the original problem of too much dilution.

The point is, be conservative in your estimated revenue and net earnings growth rates, and especially so for the gross and net operating margins. You should keep the net operating margins low to reflect a realistic scenario. As you may have just realized, you can create and use hybrid securities to formulate the deal structure and the securities offering to produce the desired estimated *internal rate of return on the actual securities* issued as opposed to being too concerned about the company's overall rate of growth.

The ability to raise private equity capital provides a certain relative position of strength for you when you approach the bank for the balance of debt capital, if needed. Remember, traditional debt capital is the least inexpensive form of capital when it comes to funding for a start-up or early-stage company, if of course you assume success. Therefore, you may want the debt portion to be the larger percentage of your total capitalization plan.

Deal Structures for Funds

Most of our clients have enjoyed success as: hedge fund managers; film producers, oil & gas producers; and real estate developers, agents, property managers and managers of projects capitalized with their own money and limited outside investor funds. Many see a need to re-organize their financial and operational structures as the administrative burdens of managing multiple projects with differing sets of investors are becoming too complicated. Most have now come to the juncture where their track records are very good, and **they have earned the right to manage large pools of assets - cash and property with full discretionary authority.** Many are ready to set-up an operation where they can access pools of equity capital quickly to take advantage of opportunities as they arise. Having immediate access to large pools of equity capital relieves the problem of feeling the pressure of missing out on great opportunities, because of the need to arrange the financing for each deal separately, as they arise; or worse, invest for the sake of investing or just because there's too much cash setting idle, which eventually affects the rates of return performance. If any of these aspects sound like your company's situation, then we have the expertise to assist you in solving this problem and achieving your goals.

Most start-up or early stage Funds organize and capitalize a Management Company first. Some may elect to keep their current management company intact and use current cash flow and or capital to start this process. Others elect to start fresh and form a new management company to specifically become the Fund management company, exclusively. The decision on which course to choose is generally based on a handful of factors. The primary factor being the ability to either fund internally - one would keep the existing company and evolve it or the need to fund from investors known personally - one could offer participating preferred shares (or units for an LLC) that are callable and or convertible into the management company's common shares (or units for an LLC) at a later date.

Depending on the current size of the operation, the Management Company then sets up a Private Fund to either remain private or build into a publicly traded Fund. For most start-up or early stage management companies, it makes sense to start with a Private Fund as an LLC and grow its investor base to 100 or more before registering as an actual publicly traded Fund or Real Estate Investment Trust (REIT). REITs technically need to be formed as a corporation (it is easy to convert an LLC into a corp.), have at least 100 investors (with no one investor owning more

than 9.9% (the 5-50 test) and then file **Form 1120** with the IRS to avoid the double taxation of a corporation. Whether your fund remains private as a FUND or you choose to go public as a REIT, we'll continue to use the term REIT to include both types of Real Estate Funds for simplicity's sake.

To get your head around how to properly structure one or more Funds, simply imagine one relatively small Management Company above one or more Funds to be capitalized with $1,000,000 to $5,000,000 to enable it to: 1.) Hire the proper management team members to carry out the task initial Fund capitalization then the Funds' day-to-day operations; and 2.) afford the professionals; attorneys, accountants, broker dealers, financial advisors, R&D consultants, etc.

Then imagine one or more Fund(s) being created and capitalized simultaneously along with the capitalization of the Management Company.

The following structure is designed for all types of Funds. Here we'll use the example of a Real Estate Fund that plans on issuing its Funds' shares through a broker dealer for eventual listing on a securities (stock) exchange, also known as a Real Estate Investment Trust of REIT.

More often than not, the Management Company will offer participating convertible preferred equity to achieve the goal of raising $1,000,000 to $5,000,000 in Seed Capital.

The Fund(s) will issue only common class A voting equity for cash and or assets, such as; real estate for REITs or Real Estate Funds; film titles or other rights for Film Funds; oil & gas leases, properties or other rights for Oil & Gas Funds and securities or other related assets for Venture / Hedge Funds. No matter what one decides the percentage of debt to be used leverage, the Fund(s) only issue common class -A- voting equity.

Once the REIT has been formed, the management company may then contract with each REIT that it creates, to manage the assets of the REIT(s). Generally, raising $1,000,000 to $5,000,000 in seed capital for the Management Company is sufficient to market and sell the shares of a REIT or two. The seed capital amount is normally dependent on the size of the REIT (s) and should represent no less than 2% of the REIT s' proposed raise. Need $200,000,000 for

your REIT? Consider raising $5,000,000 in seed capital for the Management Company. The Management Company then "Lends" the REIT a portion of the seed capital, to enable the REIT to establish itself as an entity that can qualify for raising capital through the issuance of securities. The Management Company contracts with the REIT(s) for an annual Management Fee of 1% to 3% with a percentage share in the gross income and net capital gains from portfolio properties, as well as, a real estate brokerage commission, if the Mgmt. Co. a licensed real estate brokerage firm. Once the REIT is capitalized, the Management Company is paid back the loan plus any accrued Fees it may incur. The fee structure to the management company for managing the REIT can be a combination of any number of various factors, but the industry norm is as previously mentioned.

Our position is based on a fundamental philosophy of capitalizing a Management Company first to afford the process of going after larger sums of capital for one or more Funds. This moves the entrepreneur to a higher level and enables them to raise substantial amounts of capital so that they have access to these funds with full discretionary authority thereby eliminating the need to keep going back to the "investor well"… so to speak.

Also, to satisfy a broker-dealer's concerns about the risk of any investment, especially private investments, it's normally wise to offer to list the securities subject for sale on a publicly traded stock exchange. Otherwise, the likelihood of getting any broker-dealer to participate in the offering is very low. The same goes for the individual accredited investor. Without a "Liquidity Event" such as an exchange listing or an out right-sale option, the probability of getting any investor interest is very low.

When an exchange listing is budgeted for within the "Use of Proceeds" statement from the offering, it relieves the burden of cost from the entrepreneur to the new investor pool. Simply put, investors and broker-dealers are more than willing to shoulder the expense of creating the liquidity event, in this case the exchange listing.

The true value of a "Tenants In Common" (TIC) deal structure is the availability of the 1031 Tax Deferred Exchange. The 1031 Tax Deferred Exchange holds up if 1.) One property is registered as Tenants In Common; and 2.) That property is held by one entity, regardless if owned by one investor or a pool of investors. Although the interests and distributions are prorated to capital contribution amounts of each investor, the property registered as Tenants In Common is treated as held by one entity for tax purposes, including the 1031 Tax Deferred Exchange. In addition, TICs are professionally managed, generally by a Property or Real Estate Management Company.

A pool of properties on the other hand, such as a REIT or Real Estate Fund, will not qualify for the 1031 Tax Deferred Exchange, but using the Financial Architect® - **REIT Producer™** *will* work for producing TIC Investment Deals, as long as one uses either the Growth or Income REIT Template to purchase only One (1) property and register each share or interest-holder as "Tenants In Common." The Management Company Templates will work like a charm as well, as most entrepreneurs will invariably need to form and or capitalize a Management Company to handle the volume of administrative work that will be involved in managing "One Property Portfolios" or TICs.

So, if you have a serious interest in building one or a portfolio of TICs to manage, we suggest you purchase and slightly modify the REIT Producer™ to build the required securities offering documents needed to pool investor capital.

Suffice it to say, there is an unlimited number of ways to seek capital. However, there are only a few ways to capitalize a Private Fund with substantial amounts of capital, while maintaining the vast majority of common equity ownership and voting control of the management company of the Fund, as well as, management control over one or a series of Funds. Clearly, we cannot design or illustrate an optimum capitalization plan for your Fund(s) in a dissertation in a book, however, whether you have been through the capital raising process or not, we are sure that you will appreciate our process.

To increase the likelihood of obtaining enough assets and or cash to make the effort a success, one would be wise to consider listing the Fund shares on a publicly traded stock exchange within a year to enable investors to realize liquidity and to attract broker dealer interest. Without this liquidity event, investor have no incentive for swapping their titles for shares and the probability of getting broker dealers to participate in selling the offering for a commission, is very low. Suffice it to say, if you can raise the money and or assets for the Fund privately with your personal investor contacts, then an exchange listing is not necessary…otherwise it is.

Now for the piece ‘de resistance.

In general, most investment portfolios of the wealthy are allocated toward two primary classes of investment. The first is known as “safe” money investments, such as; Certificates of Deposits, U. S. Treasury, Municipal and Corporate Bonds and Notes, low leveraged Real Estate and Oil and Gas Interests. The second portion is know as “risk capital.” This portion of the portfolio is generally invested in stocks, high leveraged real estate, speculative oil & gas interests, and other “alternative assets”, such as; precious metals, private placements, commodities, etc. Safe money normally makes up 70 to 90% of most portfolios, on average. Risk capital makes up the balance.

Imagine conducting two securities offering simultaneously not only to attract the risk capital portion of their investment portfolio, but more importantly to attract their larger “safe” money portion of their portfolio. The offering of the Management Company securities is to attract their risk capital and the offering of the Funds’ equity is to attract their safe money. The interesting thing here is that the Management Company securities are formulated to mitigate risk and therefore, should be position as the safest part of the risk capital. What...a risk capital investment with little relative risk? Wow, that’s attractive. A low leveraged deal structure, which means the reduction or outright elimination of debt, further mitigates risk for the Fund, as well.

Now imagine that you offer the first set of investors the ability to transfer their real estate titles into the fund at there original cost basis. That’s right you are using the shares or equity units of a privately held real estate or any other type of Fund as currency to attract and purchase the actual assets to go into the Fund. You don’t need cash if you will be listing those securities on a publicly traded stock exchange, because those shares will become liquid and hence – can easily be converted into cash with a sell order to the investor’s stockbroker.

REIT Producer™; Venture Producer™; Film Producer™; and Oil & Gas Producer™ are already styled with this ultimate deal structure, as I've explained above.

Chapter 9: Investment Risk vs. Return

You need to view your securities offering from the perspective of the investor. To do so, you need to know about investment risk vs. return. Every investment has some form of risk. Federally insured certificates of deposits and interest-bearing bank savings accounts have risk. Not necessarily principal or interest payment risk, but inflationary risk. If you are receiving 3% on your money in a two-year CD at the bank and you are in a combined state and federal marginal tax bracket of 33%, then you are netting out about 2% after tax. If inflation were to rise to 5%, you would actually be losing 3% on your money in the form of purchasing power.

Swinging the pendulum back, one may view lower-priced publicly traded stocks (penny stocks) on the Over-the-Counter Bulletin Board as a high-risk, high-return investment. These investments generally have a higher principal risk but also have higher return potential. In general, risk and potential return go hand-in-hand. The higher the risk one takes on in an investment, the higher the potential return should be.

Your new company or project will generally be viewed as very high risk by most savvy investors; therefore, a very high return potential must accompany that risk, but not too high, otherwise it becomes unbelievable or a "too good to be true" scenario. The trick to attracting capital for start-up and early-stage companies is using differing deal structures to *reduce the risk components of the securities being offered* for the investor while maintaining the high return potential.

The two most popular deal structures do just that. They slightly change the risk return continuum for the benefit of the investor. These deal structures allow for maximum upside while minimizing the downside. You can get creative with these structures by themselves or in combinations with each other.

Simply think of yourself as an investor. How would you like to invest $100,000 in a new company or project in the following manner? You buy 20% of the company and lose 80 you're your investment immediately due to dilution or you purchase a $100,000 senior secured note, with 10% interest rate, a first lien position on 100% of the assets of the company and a 5% equity kicker with no dilution? Once the notes are ready to mature, you roll over the $100,000 into a participating preferred stock being offered by the company that returns 10% in stated dividends and participates in 20% of net profits of the company. By selecting this combination as your company's deal structure, you would have reduced risk while maintaining a high potential return.

The basic premise is to keep it simple and use a systematic approach to develop a comprehensive capitalization plan, which illustrates a series of securities offerings that provide for realistic exit strategies. Properly done, this strategy should recycle previous investment into subsequent rounds.

Chapter 10: The Two Most Popular Deal Structures for Private or (Limited) Public Placements

Preferred Equity

A preferred stock or preferred membership unit for an LLC, with the additional features listed below becomes as close to a perfect security as one can create, from both the entrepreneur's and investor's viewpoint. It's truly a win / win deal structure, as you will shortly realize. Actually, the default deal structure within Financial Architect® is engineered for and termed as a "Participating, Convertible, Cumulative and Callable Preferred Stock." For simplicity's sake, I'll keep it termed as the Preferred Stock for this explanation.

In General.

The preferred stock as a deal structure works well for seed, first, second & third stage development or expansion capital securities offerings, especially if your new company or project *is* bankable. From an accounting perspective, preferred stock is considered equity and is reflected that way on your company's balance sheet, which further enables you to acquire bank debt, if necessary.

A preferred stock is a hybrid security, which is placed between common stock equity and debt in the form of bank loans, notes or bonds, in regards to liquidation preference. Upon liquidation preferred stock shares are paid off only up to their par value or original issue price (same thing) plus any accrued dividends / cash distributions held in arrears, before common stock shares receive any payment. But preferred shares are subordinate to any debtors; this means they hold a liquidation position behind general creditors, i.e; note-holders, bond-holders, vendors, banks, are paid first. For simple valuation purposes, preferred stock shares are valued at "par value" or at "conversion value" (the value they would be if fully converted into common stock), whichever is higher. Most start-up and early stage companies should seriously consider issuing enough preferred stock to eliminate all current debt and remain debt free, thereby making this security a first lien position on the company's assets. By doing so, you further increase the probability of funding.

More importantly, one can attach different attributes, known as "provisions" to create different types of preferred stock. This means one can easily engineer a preferred stock to meet all the demands on the individual investor market, while maintaining the maximum common equity ownership and voting control.

In addition, you may create a Class B non-voting Membership Interest within an LLC's organizational structure, termed "Preferred Unit," to serve the same functions for a partnership or an LLC as a preferred stock does for corporations.

No Dilution.

Issuing preferred stock does not create a dilution of asset for the investor or dilution of votes for the entrepreneur. By its very nature, preferred stock holds a forward position on liquidation rights over any common stock, and therefore there is no dilution of assets for the

preferred shareholders. For instance, if one were to sell 30% of the common equity ownership in the company to investors for $1,000,000, with little or no tangible assets prior to its issuance-including cash, the investors net assets per share would be diluted by 70% or the balance between 100% ownership and the 30% they do own. This means that they invest $1,000,000 and end up with only 30% of the company with current assets of essentially only $1,000,000, which would mean they now own only 30% of the $1,000,000 in cash they just invested. They immediately loose $700,000 or 70% of their assets. Not so if your company issues and those investors purchase preferred stock. Because the preferred shareholders' assets are forward to common stock on liquidation, they inherently still retain $1,000,000 in net assets value on their preferred shares.

Another benefit for company issuing a preferred stock is that the preferred stockholders generally have no "operational" voting rights, so control of the company can further remain in the hands of the founding principals.

Cumulative Stated Dividends.

Preferred stock not only has limited voting rights and a forward lien position ahead of your company's common stock on assets, it generally has a stated dividend. What that means is that the preferred stock may "state" a dividend. For example, a preferred stock could state in its indenture (the language on the actual preferred stock certificate) that it carries a $7.00 per year dividend on a par value preferred stock of $100.00 per share. That stated dividend represents a 7% annual yield or return, normally paid quarterly, and is due and payable whether the company has net earnings or not, if cumulative and declared by management. We suggest that the stated dividend for your participating preferred shares be cumulative. That means no dividends can be paid to the common stockholders until all dividends held in arrears (past dividends that are due but not yet paid) are paid to the preferred stockholders. The dividends accumulate (accrue on the balance sheet as a liability) if not paid on schedule. Some capitalization plans may actually illustrate accumulating the dividend for one or two years before payments begin. This helps the company's cash flow stay as positive as possible during the early years of its existence.

In addition, unlike general creditors like banks, note or bondholders, preferred stockholders cannot force your company into bankruptcy or liquidation for defaulting on dividend payments, especially if those payments are cumulative. However, it is normally wise to overcapitalize the company and pay these important dividends on time, because this current yield or cash flow is the main demand factor of the passive individual investor.

The Participating Dividend

A participating preferred stock has more return potential because it "participates" in a small percentage, generally 10%, 15%, 20%, 25%, or possibly as high as 50% of net earnings of the company. If your company's capitalization plan requires that you raise a large amount of equity, say one to three million dollars, to secure a larger amount of debt, say two to five million dollars, we would run the numbers on a preferred stock offering, maybe two scenarios of two different types of the participating preferred stock. The first set of numbers would illustrate a high stated dividend with a low percentage of participation on net earnings. For the second scenario, we would illustrate selling a preferred stock with a lower stated dividend with a higher percentage

of participation on earnings. For the first scenario, we might illustrate a stated dividend of 12% with a participation of 10% of the company's net earnings. For the second scenario, we might illustrate a stated dividend of 7% with a participation rate on the company's net earnings of 20%.

The first example provides less risk for an investor by putting out a higher stated dividend, an obligation regardless of realized earnings if cumulative, coupled with a lower total return potential because of the lesser percentage of participation on earnings. Under both scenarios, we would make the adjustments on the dividend rate or the participation percentage, or both, to reflect the risks involved. If the first scenario had a total return potential of 18% per year, the second scenario would need to produce a total return of 24% to 27%, due to its relatively higher risk by having the lower stated dividend. In addition, if your capitalization plan calls for issuing a series -A- preferred stock in year 2 and a series -B- preferred stock in year 3, the IRR on the series -B- would not need to be as high as the series -A- because the risk would be lessen, not only by the extra year of survival, but primarily due to your ability to raise capital. The ability to raise capital inherently lowers risk.

The "Call" feature.

The preferred stock can include what is termed a "Call" feature, allowing you to call (or buy back) the preferred shares back from those preferred stock shareholders after a certain period of time (known as the call protection date) and at a certain price, generally at a slight premium above its par value or issued price.

You can "Call" the preferred shares anytime after the call date, as the call provision is at the pleasure of the issuing company. Technically speaking, the call date is known as the "call protection date," as it protects the investor from being forced to sell his or her preferred shares back to the company in the case of falling interest rates – whereby the issuer could re-finance with bank debt to lower the carrying cost – the stated dividend and eliminate any participation or conversion. If the call date is five years out, the investor knows that they have locked in a certain rate of return expectation for five years, because the issuing company cannot force the investor to sell their preferred shares back to the company for five years. Therefore, the issuing company can call the stock anytime after the call protection date. By stating a Call date, your company as the issuer has the option to make the preferred stock temporary or permanent equity, as opposed to only permanent equity, as would be the case if you issued common stock / membership interests.

Let's say that in year four your net ending cash balances are projected to be $1,400,000. You would then be able to formulate a buy back of your preferred stock shares to coincide with a call date at the end of year four to be called at 110% of par or face value. Let us say you sold $5,000,000 worth of the series -A- preferred stock. To call the series -A- preferred stock, you would now need to pay $5,500,000 (110% of par) to buy it back from those series -A- preferred stock shareholders. You would need to either borrow funds from a bank and/or raise additional equity (common or a series -B- preferred) to pay off the series -A- preferred stock. You would need enough capital for a sufficient net ending cash balance for that fourth year, as well. Although considered equity on your balance sheet, which is attractive to the bank when seeking debt capital in the form of a bank loan, the capital obtained from the issuance of preferred stock, participating or not, is not necessarily permanent capital if a call feature is included as part of the preferred stock's features. "Call provisions" allow you to replace expensive financing with less expensive financing, such as bank debt or another series of preferred stock with a lower stated dividend and/or participation rate.

That is only one of the reasons why it is so important to be realistic and conservative in your financial projections. You will need to predict net ending cash balances (consolidate statement of cash flows) conservatively before you set the call date and the call price for the issuance of those shares, so that your company can illustrate its ability to afford the exercise of the call feature. However, you can illustrate in your pro formas obtaining bank debt to buy back the preferred shares, as well. Preferred shares with a call provision can be called anytime after the call protection date, so you don't have a firm deadline on that provisional date.

Legal Preparation.

Before issuing any preferred shares, you must amend your company's articles of incorporation for corporations or articles of organization for an LLC, to reflect the total amount of preferred stock that you want authorized and the provisions to be included in the preferred shares. Be sure to conduct a shareholders or directors' meeting to approve the issuance of *any* security before its issuance. Even if you own a controlling interest (51% or more of the voting equity), you need to have a meeting in accordance with your by-laws or operating agreement with yourself and enter it in the minutes. It may be wise to have a shareholders' meeting and discuss the deal structure(s) you're considering, for two reasons: (1) to get feedback, which may be helpful as a preliminary testing of the waters and (2) to get political support (i.e., referrals from your current investors, if any).

Remember, preferred stockholders generally have no "operational" voting rights, so control of the company can further remain in the hands of the founding principals. However, according to many states' laws preferred stockholders generally have a "provisional" voting right. This means any preferred shareholder could possibly change the original provisions of the preferred shares, i.e. its "attributes." Such radical changes generally require a unanimous vote of existing preferred shareholders, though. Individual state statutes mandate this rule for entities organized in that state. So you will need to check with your legal counsel before even considering a change to any attributes of the preferred stock after its issuance. To easily block any attempt to change the attributes or provisions within the preferred stock issue by unanimous vote, it may be wise to personally purchase at least one share of the preferred stock, if the unanimous vote rule exists in the state where your organization filed its Articles of Incorporation or Organization.

Tax Advantages.

Currently, 70% of any dividend payments from any form of stock, including the preferred stock's stated and participating dividends, made to C corporations (as corporate or strategic investors) are excluded from the holder's taxable income. This is known as the "Dividend Exclusion Allowance." This tax advantage encourages larger companies to invest in smaller companies to help them get started. Both the stated and participating dividends should qualify for the tax exemption. Of course, tax law can change, so be sure to double check with your accountant before you make that claim, if at all. (It may be wise to say it in a sales presentation, rather than to put it into a securities offering document.) Keep this in mind when seeking a strategic alliance (other corporations) to invest in your start-up or early-stage company. Always be sure to check with your tax advisor before making any such claims in your securities offering documents.

The Conversion Option.

The preferred stock may be convertible into common class A voting or common class B non-voting stock. The participating preferred stock may be convertible, but does not necessarily need to be. The participating preferred stock is generally attractive enough for investors when dealing with start-up, early-stage, and seasoned companies, however, the conversion feature is especially attractive to investors if the prospects of an aggressive buyout of the issuing company through merger or acquisition is a very real possibility. Anytime up and until the conversion date expires, normally conversion date expiration coincides with the Call Protection date to seemingly force conversion, the investor has the option but not the obligation to convert into a pre-determined amount of common stock, known as the "conversion ratio." If the company where to receive an unusually high buyout offer, normally the preferred stockholders would simply receive the par value or original purchase price and any accumulated dividends for their preferred stock. If, on the other hand, there is a conversion option as part of that preferred stock issuance, the preferred stockholders could elect to convert their preferred stock into common stock shares and receive a capital gain on their investment, as well as the dividends received.

Obviously, in the above scenario, the buyout price would need to be high enough to warrant conversion into the pre-determined amount of common shares.

As the last comment to be made, the participating preferred stock is probably the most valuable tool in your arsenal to attract capital. It fulfills the needs of both the entrepreneur and investor alike.

Why issue preferred shares? Most start-up and early-stage companies would do well by choosing to issue Preferred Stock / Units, with all the aforementioned attributes for their equity capitalization needs prior to an initial public offering, because preferred stock, properly engineered, can meet the demands and expectations of both the entrepreneur and the investor.

The Seed Capital Convertible Bridge Note™

This security was created specifically to meet an unusual demand by our entrepreneurial prospects and clients. On occasion, some of these folks would call and say: "I have these investors standing around my office trying to invest in my company but I don't know what to do; how much of the company to give them; and how to legally take their checks. Can you help?" One Wall St. "rule of thumb" is, "Take the Money". But do it legally so you don't have to give it back.

A Seed Capital Convertible Bridge Note *Offering* becomes as close to a perfect security *Short-Term Offering* as one can create, from both the entrepreneur's and investor's viewpoint. You can create this document within hours and legally sell it to a limited class and number of accredited investors for no more than $5,000,000 in a 12-month period. It's truly a win / win deal structure, but for only the short-term solution, as you will shortly realize, you'll need to take the time to produce a fully compliant Regulation D PPM, (Most probably for a Participating Preferred Stock Offering to provide for conversion and your regulatory safety and compliance.

In General

This structure works well for seed as well as first-stage development capital securities offerings, especially if your new company or project is *not* bankable, because the notes replace the first lien position of bank debt. If your company or project is bankable (i.e., the plan includes the purchase of real estate and/or real property, machinery and equipment, or your company has current receivables and marketable inventory), then you could still use this structure for a seed capital offering, and use bank debt later to pay off your seed capital investors (note-holders) or to keep them in the deal if the investors do not mind taking a second or third position on liquidation rights. Typically, to obtain substantial amounts of bank financing you will need to raise equity capital through the issuance of common or preferred stock first, and then you will have the equity required to secure the debt component through bank loans.

The 4 (6) Exemption for Registration

Our approach to the issuance of Seed Capital Convertible Bridge Notes™ by claiming the Accredited Investor Exemption 4(6) is a "little known" secret technique, which will enable you to move forward quickly, inexpensively and legally with your overall capital-raising efforts.

Included with Financial Architect®, the Seed Capital Convertible Bridge Notes™ Module, includes the 4 templates needed to properly execute the offering and are as follows:

1. Introductory Statement, Executive Summary (of your company's business plan) and the Terms of the Offering;
2. Note Indenture (which is the text and the body of the actual security);
3. Security Agreement (which is the terms of the security or lien on assets); and
4. Subscription Agreement (which investors sign, you accept or reject, and is meant to protect both parties – but primarily the issuing company).

Once you have constructed these template to produce a valid security (Note(s) – with the changes you make) **these securities can then be offered to Accredited Investors only**, by claiming the Accredited Investor Exemption 4(6) under the Securities Act of 1933. Click here for the Accredited Investor Exemption Model. Incidentally, although the Accredited Investor Exemption Model above indicates a right to advertise the securities, you must first get approval from the SEC and the state(s). Getting approval is close to impossible, expensive and is generally considered by most a waster of time. This Accredited Investor Exemption 4(6) is for soliciting and selling securities to wealthy individuals and institutions – i. e., **Accredited Investors Only.**

Please remember, one either needs to register securities for an offering (very expensive); qualify for an exemption with pre-filings under federal and/or state guidelines Regulation A or SCOR (expensive); claim an exemption from registration on Regulation D (inexpensive); or claim an exemption under the Accredited Investor Exemption 4(6) (least expensive).

Issuing securities under the Accredited Investor Exemption 4(6) is the least expensive way to issue securities, but it can be a very dangerous exemption if not properly handled. To further the proper handling of this Accredited Investor Exemption 4(6), we suggest issuing short-term Seed Capital Convertible Bridge Notes™ in the form of Senior Secured, Asset Specific, or Subordinated Notes. The reason the Accredit Investor Exemption 4(6) can be a very dangerous exemption if not properly handled is because issuing any other type of security can inadvertently leave the door open to a valid claim of fraud.

To mitigate or eliminate this potential claim of fraud, the Accredited Investor Exemption 4(6) should only be used for attracting temporary capital (short-term notes: 1 to 2 year maturities or less) so that one can afford the process of raising substantial amounts of capital under Regulation D, SCOR, Regulation A, or by an exchange listing. By issuing and paying off (or converting into another security with the proper documentation), the short-term Notes issues under the Accredited Investor Exemption 4(6) you can close the door to a valid claim of fraud. Once paid off, the Note-holders cannot effectively claim fraud.

Therefore, one should only use this Accredited Investor Exemption 4(6) for issuing temporary securities because there are no anti-fraud protections available without the distribution of the requisite securities offering documents during solicitation, i. e., a securities offering document written to the disclose degree of Regulation D, §506. To further protect an issuing company from claims of fraud, one should produce and distribute the required documents and issue securities under Regulation D, SCOR, Regulation A, or, otherwise, as a continuation of a capitalization plan or effort. Raising capital off pay off those Notes by distributing the required documents, which include the necessary disclosures and disclaimers and along with filing FORM-D: Notice of Sales filings with the SEC and the State(s) post sale(s) where sales occur, further protects the firm from the anti-fraud provisions of the Securities Act of 1933, as amended.

Although most issuers never intend to commit fraud, securities offerings, by their very nature, can easily lead to fraud claims – whether the claim has merit or not. Claims of fraud are easy to make and can really damage all hope of raising capital for any company or entrepreneur now and in the future. More often than not, it's not the initial investors that make that claim, but their heirs and spouses (estranged or not).

In addition, if you think promissory notes, loans, or revenue-sharing contracts or any other novel way to attract money from investors do not constitute a security and that you do not need to comply with federal and/or state securities laws, you would be mistaken. You should read "The Secrets of Wall Street: Raising Capital for Start-Up and Early-Stage Companies," Chapter 4, Rules of the Game, "Rule #2" for a Supreme Court Ruling on what constitutes a security.

Let's say you need $200,000 in seed capital. You could issue two- or three-year Seed Capital Convertible Bridge Notes™ and plan on paying off those notes with the proceeds from or conversion into subsequent securities offerings; from retained earnings; refinancing with bank debt, or a combination of all. When your company's pro forma financial projections illustrate that you have other options to pay off the notes (i.e., a series of securities offerings), it tends to kick-start a seed capital offering. Alternatively, let us say you have decided that your numbers support the issuance of $1,000,000 in a five-year senior secured note at 12% interest with a conversion rate into an equity ownership stake of 20% of the company. No Pro Forma financial projections are necessary or suggested, no matter what you decide the conversion rate should be. You can leave the default conversion rate of the Seed Capital Convertible Bridge Notes™ as a dollar-for-dollar conversion rate. The choice is yours, but we suggest the dollar-for-dollar conversion rate default.

For the most part, time is of the essence for start-up and early-stage companies seeking capital. Because of that fact, it may be better to cut the best deal with this structure, produce the securities offering document, and get on to selling the securities. Sometimes testing the waters does take too much time and, even worse, you may get too many varying opinions on the deal structure you've chosen. You don't really know what's going to sell until you try.

Once again, the Seed Capital Convertible Bridge Notes™ should only be used a short-term solution, enabling one to produce the document quickly to raise seed capital for conversion into a more permanent security, in relatively short order.

Chapter 11: The R&D of Debt Capital

If debt will be part of the company's capitalization plan, you should consider getting in touch with a few banks and/or leasing companies before you contact any potential investors. Contact those institutions with a loan or lease proposal outlining your company's basic business plan, which should include the pro forma financial projections that you will use for your securities offering. You will need to present a deal structure that uses equity and debt as the main components of your company's capitalization plan. The reason for this important step is to gain indications of interest from the debt side of the capital equation. Obtaining a conditional letter of commitment from a bank and adding that letter to your company's securities offering document or "red herring" document will carry significant weight in your prototype proposal. Incidentally, a "red herring" document is generally used by larger publicly traded companies to detect market interests of a potential type of securities offering – and is rarely used by younger companies, due to the impracticality of the time it takes.

Let's say the bank requires that you raise more equity as a percentage of total capital on the table. Fine, you simply rework the numbers to accommodate the bank's request and resubmit that proposal. Let's say that you are looking for $1,000,000 in total capital. If you go to the bank and say, "If I raise $500,000 in equity capital will you loan me the balance", the banker may say, "Your company or project would be considered generally un-bankable, but if you raise $700,000 in equity we will loan you the $300,000 in debt." Simply get the conditional letter of commitment *in writing* and then rework your pro forma financial projections to reflect that 30/70 debt to equity (ratio) deal structure.

I cannot emphasize enough the importance of obtaining that *written and signed letter of commitment*. If bank debt will be a large part of your capitalization plan, I would not proceed without one. In an investor's mind, a letter of commitment from a bank generally gives the equity proposal increased validity and further assurance of a successful project. This will greatly increase the response rate from your investor pool and ultimately increase the probability of obtaining the full capitalization amount.

Remember, we did not say you could not move forward without a conditional letter of commitment. If you cannot get one, you may want to raise the equity capital first, deposit it into an escrow account held at the bank, and then when you have cash on deposit at the bank, and ask for the loan. Remember, banks want to lend money to those who do not need it. By having a rather large deposit in the bank you may be perceived by the bank as not needing any large amounts of additional debt capital. That is when you can start to negotiate from a relative position of strength.

The key here is that most banks want to help you in your quest for debt capital, especially if you are successful in raising equity capital. Ask a commercial loan officer to forward an application for an SBA loan to you. Once your securities offering document or red herring document is complete, you could use the existing information from your financial projections to accommodate the information needed for the loan application. Be sure to fill out the application and supplement it with your securities offering document or red herring document. Why send along your securities offering document or red herring document? It may carry some major weight in the bank's decision-making process. If, for some reason, you are unable to get any interest from any bank on your capitalization proposal, you may want to test the waters by adding

a Note or Bond offering in a marketing "red herring" research letter to gauge individual investor interest.

Maybe a four-year senior secured note at 12% interest with a small equity kicker/component would be attractive. If you file a qualification for an exemption from registration under Regulation A with the SEC and the state(s); a SCOR offering in the states, where solicitation will occur; or a CA (1001) for California companies you can advertise the interest rate in the local newspaper. If the bank sees that you are advertising and competing for lenders (the bank's depositors) they may lend you the money, especially if you are viewed as a threat to bankers' efforts in raising deposits for the bank. I would use this tactic as a last resort though, as you will want your banker to support all your efforts. Commercial bankers can become your friends, especially when you can raise equity capital or garner affluent co-signers.

Previously I mentioned the maxim, "Banks will only lend money to you if you don't need it." In a perfect world, a banker would lend money only to the very wealthy or those who don't need a loan. By doing so, they eliminate repayment risk. However, in the real world banks must lend money to those who need it because they don't have enough of it to build their company. What if you could convince your banker to introduce or refer you to a few wealthy customers of the bank to obtain a co-signer on a loan to receive some carried interest and/or an equity kicker/component for their co-signature? The banker gets what he or she wants, they get to loan money to those who don't need it, and you get what you want—a loan—but more important, a relationship with one or more "angel" investors. We have done a few deals that involved the bank in this manner and the bank inadvertently became the primary investor referral source. It is one of the most successful capital-raising strategies available for start-up, early-stage, and seasoned companies.

Remember, in this phase of the process, your job is to research the different local and national avenues of debt capital.

Chapter 12: The R&D of Equity Capital

This exercise should be considered the production and distribution of a "red herring" document to gain indications of interest from the equity side of the capital equation. A red herring document is an executive summary to test the waters for indications of interest for a securities offering. Please realize that testing of the waters takes time and may not be appropriate for your company's situation, due to the nature of capital needs and the essence of time for most small companies. So, take all this with a "grain of salt." It may take too much time, considering the construction of a complete PPM for a securities offering that's ready to collect funds, takes just a little more time.

The executive summary should explain:

2) The industry in which your company will engage and compete;
3) The problems or changes within that industry that provide the opportunity to sell your company's product and/or service line(s);
4) The solutions your company's product and/or service line(s) shall provide to solve those problems or address those changes;
5) The opportunity to the investor in terms of rate of return projections by investing in the securities to be offered by your company; and
6) The exit strategy.

After securing a conditional letter of commitment from the bank, if appropriate, we would advise that you send the red herring document to your management team's personal and professional prospective investor contacts that may have an interest in investing in your company. We would recommend that you use a limited number of securities offering scenarios (1 or 2), to limit any confusion. Be sure the scenarios are germane to the stage your company is in (i.e., debt with equity kicker/component for seed capital).

Include any officers and/or directors' professional biographies, with no more than thirty to forty words for each team member. If you can, add an advisory board to strengthen the experience factor of your project or company. You may find that most professionals will *not* want to be a member of your board of directors because that position carries fiduciary responsibilities to your shareholder base that could create a direct liability against their personal assets if the management's actions breach that fiduciary duty. That is why an advisory board, which has no actual power to vote on any action of the company, which relieves the members of the advisory board from that fiduciary duty and, therefore, is considered more attractive to most professionals. Surrounding yourself with those who have in-depth experience in your industry or in management in general will elevate your relative position of strength. Be sure to get permission from each advisory board member in writing before you add his or her biography to your red herring document.

A red herring document is used to test the waters for indications of interest of a proposed securities offering. It can consist of a simple letter stating your intentions and the proposed capitalization plan and potential securities offered. It generally includes an executive summary and a summary of the proposed securities to be offered. Make sure you include the following disclaimer on each page of your red herring document if securities are involved:

"This correspondence does not include an offer or a solicitation of an offering to sell securities. An offering of securities is made by Private Placement Memorandum only." **(Font size: 10 pt. minimum).**

Remember, only bona fide employees, primarily the officers and directors (managers for an LLC) of your company can legally solicit and sell securities in the company in a private offering if you cannot engage an investment bank to sell your company's securities. If you can engage an investment bank to sell your company's securities, both your officers and directors (managers for an LLC) and the stockbrokers of the investment bank's selling group can sell. However, be careful not to directly or indirectly compensate any employee, officer, or director for the sales of privately placed securities. In a private or public offering, it is against the law to do so.

Request in the red herring "testing" letter that the prospective investor, if interested in a particular securities offering scenario, simply ask the investor to contact you to set up a time when it would be convenient to discuss the investment opportunity. Try a lunch meeting. Remember, there's nothing like a face-to-face meeting to start building the trust relationship.

When approaching investors, always exude confidence and a subtle professional attitude that you are going to move forward and succeed, with or without them.

Under Regulation A, a limited federal and state(s) qualification for an exemption from registration, a SCOR offering or a CA (1001) for California companies, one can submit a tombstone advertisement (see the Commonwealth Capital Club on the CCA website) for publication in a local newspaper to gain indications of interest, only after the advertisement has been submitted to the SEC for the SEC review and comment for (Regulation A); to the states where registration will be made for (SCOR) or to the California Commissioner of Securities for CA (1001) for California companies, review and comment. The North American State Administrators' Association (NASAA, the state regulators) has adopted a uniform offering exemption, allowing companies that are soliciting and selling securities to accredited investors only, to advertise in the general media to seek indications of interest of a securities offering.

WARNING: SOME STATES DO NOT ALLOW A PUBLIC TESTING OF THE WATERS, through the general media, even though Registration A is a "qualification" of an exemption from federal registration.

For all practical purposes, testing of the waters should be done for the private placement of seed capital to pre-existing investor contacts (friends and family). Attempting to conduct a public testing of the waters can take a prohibitive amount of time and you should realize that by contacting accredited investors in this manner, you are still starting from scratch. Just because you're ready to sell them doesn't mean they're ready to buy. Your response rate is going to be between 1% and 2% if you're lucky. I have only disclosed this process because it may be available in your state.

Throughout all of your company's present and future capital-raising efforts, you must always deal from a relative position of strength if you are going to dictate the terms of the deal. Positioning yourself and your company from a relative position of strength begins with contacting your own personal and professional capital contacts in the early stages of the capital-raising effort. You should already have a relative position of strength when dealing with those who know and trust you.

If you researched any Fortune 1000 company, you would find that the vast majority, over 95% of them, started raising capital from friends and family before they were able to raise capital from an institutional source or directly from individual investors on a mass scale. You may be thinking that it is too politically sensitive to ask friends and family for capital. As an investor, I would ask myself the question, "If you don't have enough confidence in your company's ability to succeed, to raise capital from friends and family, then why should I invest my money in your company?"

By completing the production of your company's securities offering document you should increase your relative position of strength from your personal contacts' perspective as well. Once they see your securities offering document and realize that you wrote it and you're serious about building a quality company, they should not only trust in your character but, more important, they should further trust in your abilities to handle the task of building a profitable enterprise.

When you have reached $5,000,000 or so in annual sales, you can approach strategic alliances to sell them securities in your company. With that relative position of strength, you should receive a warm reception. This does not necessarily work in the start-up or early-stage phases though because, more often than not, they tend to take too long to make a decision and they will most likely want to dictate the terms of the deal if they do choose to move forward and invest. However, when you have $5,000,000 or more in annual sales you will be dealing from a relative position of strength, with strategic alliances that are two or three times the size of your company. Be mindful that when dealing with any larger strategic alliances you will start to lose your relative position of strength. (It's relative!) In addition, by letting these potential strategic alliances know that you are shopping their competitors, it may increase your relative position of strength and they may move a lot quicker in their decision-making process than they otherwise would.

When searching for capital through strategic alliances (businesses or professions that understand what your company does to make money and would inherently benefit from your company's existence or expansion), look for an "inherent benefit" opportunity for the capital contact base. You should ask yourself the question, "Who or what company would *inherently benefit* from my project or company's existence over and above the benefit of having an investment in the project or company?"

This book is geared specifically to enable the entrepreneur to raise capital and maintain control of their company. Many times a strategic alliance will make a counter offer and fund the entire operation. However, they will most likely take control of the operation and give you some equity, maybe 10%, and some cash, then build the company on their own terms and conditions. Depending of course on who the strategic alliance is, you may want to accept the deal. If a company with worldwide distribution channels, production facilities, and the marketing budget to turn your company into a two-billion-dollar company within five years wants control of the company, it may be wiser to take that deal than to compete in the marketplace with them as a potential competitor. It would be worth more by accepting less, than it would be by going it alone.

This inherent benefit position goes further toward the "dealing with like minds" concept of solicitation and sales of securities. If you have a product or a service, like a real estate agent referral network system driven by a special software program, real estate agents may be interested

in investing in your company because the product would directly influence their day-to-day sales volume. The agents can more easily relate to its value than other potential investors would, especially if they use and love the software.

In other words, by positioning your company, its product and service lines, and your securities offering to those who would inherently benefit from your company's existence (suppliers and customers), you could build a network of investors and prospective customers with the sales effort. For instance, you could design a multi-media presentation on CD or DVD that includes the company's story, product or service presentations, as well as, an investment opportunity presentation all embedded in the same CD or DVD. This network may feed you leads for other investors. Trying to sell securities in a software company to a farmer is the opposite of the "dealing with like minds" concept unless, of course, the software increases milk production for a dairy farmer. The point being, approach and deal with those who at least understand and/or will directly benefit from your company's new project or product line, when prospecting for capital.

What we are doing at this stage is conducting a private testing of the waters to find indications of interest for a private offering of equity or debt securities. "Why a private offering?" Because a private offering is easier, quicker, and less expensive than conducting a registered public offering. In the start-up or early-stage phase of your company, if you can't raise it privately you certainly will have a difficult time raising it publicly. This is the general rule.

This is the very first step in the R&D of equity section of capitalization planning. Developing a securities offering is very much like developing a product offering. You research your private capital market before finalizing your securities offering structure and document. Although the concept of R&D for a securities offering is very much the same as R&D for a product or service launch, the approach and process of a securities offering is *highly regulated.* We've already streamlined the process with Financial Architect®.

Since a lot of the R&D of equity involves actually soliciting for indications of interest on a "Marketable" deal structure and because you can produce an actual securities offering document, quickly, easily and inexpensively with Financial Architect®, you may choose to forget the red herring exercise. If so, simply put together a great deal structure with a generous IRR on the security and sell it the best you can. Sometimes a red herring can backfire, because if you do get positive indications of interest, you may take too long to get the actual securities offering document produced.

Chapter 13: Making Structural Changes

Making structural changes means changing the deal structure of a securities offering. Let's say you receive a positive indication of interest on one or more of the "red herring" scenarios. If one scenario is superior for both the company and the shareholders, then your direction is clear. Produce your securities offering documents to those indications of interest and send it to those potential investors. Be sure to follow up with these investors within a week or two of delivery.

If the responses for the prototypes are equal across the board, you may need to refine your red herring document. You will need to figure out what securities scenario you want to sell to capitalize your company. You may need to call some of these potential investors and ask them if another scenario appealed to them as well. You may also want to ask them, "In a perfect world, what kind of investment would you be interested in?" In fact, from the very beginning of your research and development of the equity process in the capitalization plan, you may want to tell a dozen or so wealthy individuals, whom you know personally, how you plan to proceed in your research and ask them for their wise counsel. Why? If you allow them to help map out the deal structure in the beginning stages, they most often will feel they are the ones who will make your success happen and may feel more inclined to invest and provide you with referrals from their friends. Be sure to ask them, "What terms would you be interested in seeing in an investment? What stimulates your interest and why?" "Do you know anyone else who may have an interest in an investment in the company?"

Reworking your securities' features and benefits will be relatively easy once you have entered the financial assumptions into the CapPro™. You can easily run different "what if" scenarios. Maybe a participating preferred stock offering that has a dividend of 14% with 20% participation for a total annual return potential of 34%, with a ten-year call at 130% of par value, as opposed to the 110% in the previous example, is more appealing for the investors. That is the beauty of running the numbers in the first place — you will know what you can afford to give up and how to structure the deal so that it sells to your private market or into the public markets.

Notice that with the two most popular deal structures for private or public placements, very little of the voting common stock equity was relinquished. The voting control of the company remained in the entrepreneur's hands. Sometimes that is unrealistic, especially if the entrepreneur has little or no money in the company.

A prudent investor's biggest fear is losing their investment. One way to circumvent this fear for a potential investor base is to indicate in your red herring research letter or PPM that you will escrow the money so that unless 100% of the funds are secured, including the bank loan, if appropriate, their entire investment will be returned to them. Indicate that the money will be safe and will only become an investment "if and when," *all* of the funds have been secured. If 100% of the capital cannot be secured then the funds will be returned to the investors with bank interest. That approach should calm or mitigate some fears. Once again, it really goes back to the entrepreneur's personal and professional contacts. Maybe a minimum investment amount that you indicated in your research letter was $25,000 and no one in your circle of influence can obtain that amount of cash. Maybe a $5,000 minimum amount would have a greater acceptance rate. Remember, you are trying to attract investors' risk capital.

Maybe the annualized rate of return seems too high because the revenue assumptions are perceived too aggressive or because there is too much debt (leverage) in the capitalization plan. You may simply need to increase the equity portion of the capitalization plan or produce an "all equity" plan. Maybe you could get someone close to you to sign a personal guarantee with the bank so that you can obtain a line of credit. (Even SBA backed credit facilities frequently require personal guarantees and their likelihood of approval by SBA is enhanced with same.).

Note: to induce the co-signor/guarantor, you might have to give the co-signer some carried interest plus some equity. Incidentally, "carried" interest is the interest you pay the co-signer, over and above the bank's interest rate of 9% (for example), for taking on the risk. You may pay them 4% (for example) for a total interest rate on the loan of 13%. If so, that may constitutes a securities offering and a document may need to be produced and regulations followed.

There can be many capital plan combinations. Remember, there is an unlimited number of ways to structure a deal and formulate a securities offering, but try to keep it simple. Once you get some cash flowing into the company from sales, your company may become bankable on its own merits for other product and/or service development.

It may be wiser to have many investors investing in your company with very small amounts of capital, as opposed to a few investors with large amounts of capital. This concept not only lessens the probability of a lawsuit if things don't work out, but it also enables you to create a growing pool of private capital contacts to whom you might return in connection with future securities offerings. The more investors you have, the higher the probability of actually raising the capital sought, round after round. By cultivating a large investor pool, you also increase the probability of getting additional investor referrals as well.

An alternative scenario may be that you get no response from your red herring test, even after you've reworked the deal structure. If you have done a comprehensive job of listing all personal and professional contacts of your management team and sent them your company's red herring document and your response was weak or nonexistent, then you will need to consider registering your securities offering to conduct what is known as a "direct public offering." Under Regulation D 504, also known as a SCOR (small company offering registration) offering, you can sell securities to raise capital up to $1,000,000 in one year in the state where the offering is registered (Most do, but some states do not allow SCOR Offerings; check with your state securities bureau). As of 1994, a new SEC rule CA (1001) for California companies only, exempts from the registration requirements of the Securities Act offers and sales up to $5 million that are exempt from state qualification under paragraph (n) of Section 25102 of the California Corporations Code. Under Regulation A you can sell securities to raise capital up to $5,000,000 in one year. Such procedures are beyond the scope of this book, but are incorporated within Financial Architect®. (See the related links area in the Commonwealth Capital Club.) The SCOR registration and CA (1001) is at the state level, while the Regulation A is at the federal level. Each document can cost quite a bit of money.

A SCOR offering can cost between $25,000 and $50,000, CA (1001) for California exemption from state qualification under paragraph (n) of Section 25102, $45,000 to $65,000 and a Regulation A offering can cost as high as $50,000 to $100,000, depending on the professionals you hire to produce the documentation and do the filings. That's why it's important to have sufficient seed capital or raise seed capital in a first round and then engage in a registered or

qualified exempted offering in a second round, so you can advertise the securities in the local newspaper or any other form of general media.

Once again, you need sufficient seed capital to go after larger amounts of development or expansion capital. If you need over one million dollars in development capital, raise a couple of hundred thousand from friends and family. Then use some of that money to register the offering so you can advertise a "qualified" offering. The sad fact is that if you want to raise substantial amounts of capital, more often than not, you have to invest time and money in the process. If after you have tested the waters in a public forum, and you are still unsuccessful in garnering sufficient indications of interest for your proposed securities offering, then you may need to either rework your offering structure (i.e., your securities' features and benefits that were offered) and/or rethink your mode of operation.

Chapter 14: Changing the Mode of Operation

Maybe your company's mode of operation is the real problem. It could be time to rethink your company's entire mode of operation, which inherently determines its capitalization needs. Let us say the current mode of operation requires $2,000,000 in total capitalization to get off the ground; that amount may simply be too much money in the eyes of your potential investors. Far too many times our clients have grandiose, unrealistic plans that require millions and millions of dollars. After testing their private (prospective investors: family, friends and professional contacts) market, they soon discover that rethinking their mode of operation for a reduced initial capital requirement greatly increased their probability of being funded. Most often, they actually do receive the funding after this conclusion has been reached because they have adapted and reduced their capitalization plan to meet the demand of their private capital market.

Let us say that the original $2,000,000 capital sought was to buy land, building, and equipment to produce your product or service. Could you lease the plant or equipment? Would that bring your capital needs to a total of $400,000? If so, maybe you need to raise only $300,000 in equity and obtain an SBA backed "fast track" loan from the bank for another $100,000. You can buy the plant and equipment later, after your company has a few more years of operating history.

Can you rely on independent manufacturer representatives to sell your product or service line(s), as opposed to hiring an in-house sales force, at least for the first few years? Can you adjust your marketing and sales strategy to be primarily commission oriented? Read up on your industry's trends and figure out where you can gain strategic marketing alliances. Think about economies of scale. How can you get more for less? This is known as "bootstrapping."

Should you actually be trying to build a company, or would licensing your company's technology to a strategic alliance require less capital and have a better chance of creating profitability? If so, maybe you only need to raise $100,000 in equity and $100,000 in bank debt, to be spent on legal fees to put together your licensing agreement, travel, lodging, printing, and your salary. Yes, you can have a reasonable salary as long as it's disclosed in your company's securities offering document.

If you can raise equity capital, raising debt capital is much easier. The point is, you can easily increase the probability of raising equity by minimizing your overall capital needs in the beginning and then raise more capital as time goes by. More often than not, most start-up companies require very little capital to get up and running. Once your company is up and running and you can prove that there is in fact a market for your product and/or service lines(s), you will further assure a successful placement of equity and/or debt-related securities for further development and expansion. More often than not, investors want to see a "proven economic model" before they commit to invest substantial amounts of their cash.

Before you do anything else, you should reevaluate your mode of operation as best you can. For the next week, ask yourself, "How can I make this happen with the least amount of money, the fewest employees, and the lowest overhead?" Then design your capitalization plan around that new set of plans and assumptions.

Chapter 15: Instructions to Producing Pro Forma Financial Projections

Due to the changing nature of the securities markets, financial reporting, and disclosure requirements, we have provided a set of pro forma financial projections in the Pro Forma Producer™ program and securities offering document templates in the Private Placement Producer™ and the Public Placement Producer™ programs. We have designed the programs to be timeless in nature. These are the fundamental elements of deal structuring and securities offering document production, which probably will not change much. However, we do update Capitalization Planner™, Pro Forma Producer™, Private Placement Producer™, and the Public Placement Producer™ from time to time, as changes occur concerning federal and state tax and securities laws, rules, and regulations and GAAP standard changes. To be safe and because of the low relative cost involved, we recommend that every time you prepare a securities offering document you purchase a new set of Financial Architect® program modules, which are continually updated to be the latest edition. Complete instructions are included with each program.

Some projects may require seven to ten years to realize their maximum net operating margins; this is especially true for real estate or oil and gas projects. We have illustrated the pro forma financial projections template files over a five-year time horizon. However, please keep in mind that five years of pro formas are standard for operating companies because it is very difficult to project revenues and expenses beyond that period.

In our examples, we have used 100,000 class A voting common stock shares as the common denominator for the total authorized class A voting common stock shares in a corporation. One share, therefore, represents 1/1000th of 1%. One would need to own 1,000 shares of class A voting common stock to own 1% of the company. If your company is an LLC, I suggest that you amend your company's operating agreement to reflect that percentage as well (i.e., one membership interest share represents 1/1000th, or 1%). We do not reference any class B non-voting common stock in the illustration or in the templates. You could use class B non-voting common stock, but just realize that it is treated, for dilution purposes, the same as the class A voting common stock. For ease of illustration in regard to this instruction manual, and not because we are lazy, the terms "common stock," and "shares" shall mean class A voting common stock and membership or partnership interests as well.

I realize that, for early- or later-stage companies that already have investors and established total authorized shares, these changes may not be possible without obtaining a majority of ownership vote, which could be difficult as it may produce dilution. Simply keep in mind that we have used a simple way to calculate the percentage of ownership one would have by purchasing a certain amount of shares. If you feel that making changes to the total authorized shares or interests would cause you political problems throughout your company's current investor base, then simply use your current total authorized shares or interests as the base point of your calculations. You will simply enter that number into the various areas within the worksheets and the notes to pro forma financial projections to arrive at the proper calculations. If you are using a partnership as your organizational form, then use the LLC templates and make terminology adjustments that coincide with your partnership agreement and state filings.

Chapter 16: Company Valuation and Securities Pricing

The most frequently used method of determining a company's current and future value is based on P/E Ratio. The P/E Ratio stands for Price-Earnings Ratio. To arrive at a value, you simply multiply the earnings per share by the P/E Ratio to determine the value of a single share. If your company has 100,000 shares outstanding and the total net earnings are $200,000 then the earnings per share is $2.00. If you establish a P/E Ratio of five (5) then the earnings per share is multiplied by five (5) to arrive at the price of the common stock. In this case, you would price the common stock at $10.00 per share. The P/E Ratio is very important when conducting a securities offering because it is the way Wall Street valuates companies. Although there are many ways to valuate a company, we believe that most would agree that the value of anything is what someone else will actually pay for it. That is why the auction market of publicly traded securities, which represents a liquid market, is the purest and most correct company valuation and securities pricing method available. This type of valuation is known as the "efficient market theory." The theory assumes that all buyers and sellers know the same facts about the company, its securities, industry risks, etc. and are inherently establishing the price of a security based on supply and demand. The buy and sell decisions are based on the best available information, making this pricing model as good as any may ever be. Many valuation experts may disagree with the P/E ratio valuation model, but until they can convince the publicly traded securities markets (Wall Street) of a better way, it's all academic. That is why we only use the Wall Street company valuation and securities pricing model: it's reality.

The valuation of your company, using the Wall Street pricing model, utilizes the P/E ratio as its core-pricing component. That component is determined primarily by the estimated annual earnings growth rate. Once again, although illustrating a healthy annual earnings growth rate is important, it is more important that the growth rate be as realistic and conservative as possible. You should not be concerned when calculating the revenue growth rate, which would ultimately lead to the net earnings growth rate, about how a slow conservative growth rate may relate to the estimated internal rate of return of a particular security.

The Fundamentals of Pricing Securities

Although the dynamics of the various publicly traded securities markets are far more complicated than the examples given in this book, we are pricing privately held securities and these pricing models are acceptable from the private and public markets' standpoint. In the venture capital industry, annual sales volume is an indication of the company's value. For example, you can assume if your company is grossing $5,000,000 in annual revenue that the company is worth $5,000,000. However, that pricing model is a little too simplistic for the purposes of pricing a securities offering.

I specifically intended to divert from the examples of the Capitalization Planner™ and the Pro Forma Producer™ in this section. Therefore, this section is conceptual in nature and is dedicated to helping you further develop a clear understanding of the nature of company capitalization and how the issuance of different types of securities relate to that effort.

Let us assume an exercise of company valuation and the pricing of common stock included selling 40% of the company (40,000 shares from the 100,000 total authorized shares). Actually, conducting an offering of that nature may not be wise unless your capitalization effort is project specific. In other words, you may be developing a real estate or oil and gas project, which

may only need a one-time capitalization effort. However, if you are building an operating company, you should consider giving up as little common stock equity in the first couple of rounds, as you would need that equity for further rounds and possibly for an IPO in the future. Simply keep that in mind as you develop your capitalization efforts. Remember, it is not only all right to illustrate additional rounds of capitalization throughout the remaining years in your pro forma financial projections, it is highly recommended.

Let us now review some different types of securities that can be used for capitalizing start-up, early-stage, or seasoned companies.

The Common Stock:

Common stock is the only security that is priced based primarily on its future potential value. For instance, let us say that you are using a P/E ratio (a "multiple") in a private market of five (5). You estimate that your company earning $20.00 per share at the end of the fifth year. With a multiple of five, you would price the common stock at $100.00 per share at the end of fifth year. Incidentally, a P/E Ratio of five is a reasonable earnings multiple for a privately held company.

You would then price the common stock, currently, to reflect a reasonable return for the risk involved in owning that security over that period. If you priced the common stock at $10.00 per share now and it is conservatively estimated to be worth $100.00 per share at the end of the fifth year, you could illustrate a 58.49% Internal Rate of Return (IRR) for an investment in the common stock. (The IRR calculation formula is available in MS Excel and is automatically calculating with CapPro™

If you established the current price of the stock at $20.00 per share, as opposed to the $10.00, the internal rate of return would be 37.97%. If that price and that rate of return were acceptable to your private capital market, then that would constitute the current value of the stock.

If you established the current price of the stock at $30.00 per share, as opposed to the $10.00, the internal rate of return would be 27.23%. If that price and that rate of return were acceptable to your private capital market, then that would constitute the current value of the stock.

Are you beginning to understand the fundamentals of pricing the common stock? One bases its current value on its potential future value. After having conservatively estimated the future value of the common stock shares at the end of a period, one simply adjusts the current price to reflect an acceptable rate of return to one's private capital contacts. This is the basis of a common stock offering.

Remember, you base the value of anything on what someone else is willing to pay for it. How would you know what someone else would be willing to pay for it? You test the waters for an indication of interest. You could test the price of the common stock at any one of the estimated internal rate of return scenarios as described above. Certainly, in this example, an investor would rather pay $10.00 per share than $30.00 per share. Therefore, you should consider an offering of common stock at maybe $20.00 per share, along with two other deal structures that would provide a similar or greater estimated internal rate of return along with no dilution, a maturity

date, a forward lien position on assets, plus current cash flow as with a note with equity kicker/component deal structure.

The Preferred Stock:

You price the preferred stock somewhat like a bond or note. It has a par or face value upon its issuance, which matters very little when you analyze the internal rate of return. There is not much difference between a par value (original issue price) of $10.00, $100.00, or $1000.00 when it comes down to pricing this type of security. What matters most is the stated dividend and, in the case of a participating preferred stock, the stated dividend plus the percentage of net earnings that the preferred stock will participate in. Let us just focus on a regular preferred stock scenario for now. You simply price the stated dividend as an annual yield or rate of return component not the share price of the preferred share.

If you decide that 14% is the annual yield or rate of return that is acceptable to your private capital market, then that would establish the stated dividend of the preferred stock. A stated annual dividend of $1.40 on a preferred stock with a $10.00 par value and issuance price represents a 14% annual yield or rate of return, as is a stated annual dividend of $14.00 on a preferred stock with a $100.00 par and issuance price. The 14% annual yield is the same. Most preferred stock is priced at $100.00 per share also known as "Par" value. In this case, you would need to establish a stated dividend of $14.00 per share to arrive at the 14% annual yield. That is why the par value has very little meaning, because you price the stated dividend, not necessarily the par or face value of the preferred stock shares. However, a preferred share with a par value, which is generally its issuance price, of $100 is most common.

It is very much the same way when pricing a bond or note. The difference between the preferred stock and the bond (or note) is generally the function of the safety. With a bond or note you own a debt instrument with a Security Agreement (see the template) and pre-defined maturity date, as opposed to owning a security that represents a permanent or temporary form of equity capital, as with a preferred stock. The bond or note is a security with less risk than a preferred stock, which has less risk than a common stock. Therefore, when pricing securities you can provide a lower rate of return the safer the security is relative to all other securities. By the way, the shorter the maturity date, the less risk for the bond or note. In any event, with both types of securities you price the annual return, not the price of the security itself.: in the case of a preferred stock, the stated dividend: and in the case of a debt instrument, such as a note or bond, the annual interest rate known as the coupon.

Incidentally, the difference between a bond and a note is the length of its maturity date from the date of its issuance. One would generally issue corporate notes with maturity dates ranging from ninety days to five years, and corporate bonds from five to thirty years. Typically, one would issue notes and bonds in increments of $5,000, but can be any increment of $5,000, such as $10,000, $25,000, $50,000, etc.

The Participating Preferred Stock:

When pricing the participating preferred stock, one analyzes the stated dividend and participation cash flow over a specified period, say at the end of the fifth year, to arrive at total cumulative cash flow. That total cumulative cash flow plus the par value of the participating

preferred stock would produce an "aggregate end-value." That aggregate end value compared with the beginning value, the original issue price, will determine the internal rate of return. If you priced and issued the preferred stock at a $100.00 par value per share and the aggregate end value per share was $1,000.00, which included the principal paid back to the investors, by the exercise of a call feature provision at the end of five years, the estimated internal rate of return would be 58.49%. If that rate of return were acceptable to the management team's private capital contacts for the risk involved in holding that illiquid security over that period, then that would constitute the price. Since there is less risk with the ownership of a preferred stock than a common stock, maybe a lower-stated and/or participation percentage that illustrates an estimated internal rate of return of 37.97% would be acceptable.

You can only estimate the internal rate of return using the above formula if the participating preferred stock has a call date at the end of the period and your pro forma financial projections illustrate buying back those shares by exercising the call feature. You need to disclose that the exercise of the call provision is *"planned"* by the company, because the call provision of the preferred stock is the option of the issuer, not the shareholder, so the preferred shareholder cannot assume that the principal will be returned.

If you do not exercise the call feature, then you would only use the total cumulative cash flow, leaving out the return of principal amount, to arrive at the aggregate end value, which would greatly reduce the estimated "realized" internal rate of return figure. If you do not illustrate a call date in the pro forma financial projections, part of the IRR technically becomes "unrealized," which gets confusing to investors. Remember, you can "Call" the preferred shares anytime after the call date, as the call provision is at the pleasure of the issuing company. Technically speaking, the call date is known as the "call protection date," as it protects the investor from being forced to sell his or her preferred shares back to the company in the case of falling interest rates. If the call date is five years out, the investor knows that they have locked in a certain rate of return expectation for five years, because the issuing company cannot force the investor to sell their preferred shares back to the company for five years.

Debt or Notes with an Equity Kicker:

When pricing the debt or notes with an equity kicker, one should analyze three components. You should add the coupon or annual interest rate as the cumulative cash flow over a specified period, say at the end of the five years; the principal of the note to be received by the investor at maturity; and the value of the equity kicker/component at the end of that period, to arrive at a total cumulative aggregate end value.

That total cumulative aggregate end value compared with the beginning value or face of that note will determine the estimated internal rate of return. If you priced and issued the notes at $5,000 face or par value and the aggregate value per note, with its accompanying equity kicker/component and cumulative interest, was estimated to be worth $50,000 at the end of the fifth year, the estimated internal rate of return would be 58.49%. If that is acceptable to your private capital contacts for the risk involved in holding that type of security over that period, then that would constitute the price. Since there is less risk with owning a note than even a preferred stock, maybe a price of $10,000 per note with a rate of return of 37.97% would be acceptable.

Chapter 17: Securities Offering Document Production

We assume that your company has already produced a written business plan in MS Word® format or at least convertible into the MS Word® format. If not, the following information should serve as a guideline of what you will need to produce a complete business plan to be copied and pasted into the templates, which is the first step in the production of your company's securities offering document. If you do have a business plan, please review the following to make sure that you will have the information necessary to convert it into a securities offering document. We have embedded text needed for compliance into Financial Architect® templates.

For some entrepreneurs, the "red herring" document will be the first document to be produced to seek indications of interest. A red herring document is a summary of a securities offering document, as explained in a previous chapter and contains an executive summary as laid out in the Private Placement Memorandum (PPM) together with the pro forma financial projections and notes thereto as exhibits. You will need to add and insert some disclaimers into the red herring, specifying that it is not an offer, nor a solicitation of an offer, to sell securities. Simply add this disclaimer to the bottom of each page of a Red Herring, in the color red: "This correspondence does not constitute an offer or a solicitation of an offer to solicit or sell securities."

If you have not already done so, you will need to convert the existing text writing style in your company's business plan to third-party prose. If you have not, wait, as we will instruct you on how to do that in the Document Production section of this chapter.

When producing your documentation, keep in mind that most investors want answers to, among other things, seven basic questions about your company, its capitalization plan, and the securities offering deal structure. If you cannot answer these questions, in a credible and professionally written manner within the proper securities offering documentation, the probability of you and your management team raising capital for your company will be very low. Some of this information is being repeated and some of it is new.

1. What does your company do and why is it different from the competition?

You can easily answer this question by inserting the correct components of your company's business plan into Financial Architect® templates or by developing the correct response from your company's product and/or service line(s) marketing materials.

2. Who are you?

This question refers to who the members of the management team are. You can answer this question by including your management team's background in the business plan or securities offering document. Obviously, the more experienced management teams have a greater probability of raising the needed capital, due to the nature of their personal and professional capital contacts. Do what you can to form an experienced board of directors, executive officer staff, and an advisory board. Choose a well "networked" team, not only to assist you in building the company but to raise capital, as well. *Be careful not to compensate them for directly selling securities though, because it is illegal to do so*. That means no payments should be made as a commission or bonus related to the effort involving a securities offering. They can be

compensated for other duties and responsibilities, but the function of soliciting and selling securities must be incidental to their other duties, unless your VP of Finance's primary job is raising capital. If that is the case, the VP of Finance cannot be compensated with a percentage of capital raised; otherwise the compensation is considered a commission, which is illegal unless the sales effort is run through the books of an SEC-registered broker-dealer/securities firm. Even then, the VP of Finance would need to be licensed with that firm and working for your company as a VP of Finance, which, for all practical purposes, would not be allowed because the broker-dealer/securities firm must make sure the VP of Finance's compensation does not violate FINRA rules of fair practice. In other words, a FINRA member firm is not going to allow it, because, from a FINRA compliance standpoint, it is too cumbersome.

3. What will you do with my investment?

To answer this question, a detailed "sources and uses" statement and an "estimated use of proceeds" statement should be included in the business plan and *must* be included in a securities offering document. The sources and uses statement serves as your detailed estimated use of proceeds statement, which is a required disclosure in a securities offering document. A statement that the money will be used for "general working capital" is not sufficient. You must give details and the more details the better. The pro forma financial projections that you will have produced using Financial Architect® contain that sources and uses statement. You will also need a detailed sources and uses statement to complete the "notice of sales" federal and state filings requirement after each sale of your company's securities.

4. How safe is my investment?

This question is generally difficult to answer. More often than not, entrepreneurs will attempt to sell less than a controlling interest in their firm for a substantial amount of equity capital. For instance, management may attempt to sell 20% of the equity interest in a start-up or early-stage company for a certain amount of capital; for illustrative purposes, let us say $1,000,000. Generally, there are no other tangible assets in the company, including the entrepreneur's cash. A sophisticated investor would realize that, by investing, he or she would immediately lose 80% of their $1,000,000 investment due to the outstanding stock's total dilution factor.

The two most popular deal structures, illustrated herein and included in Financial Architect® templates, provide for additional elements of safety. Remember, the sooner you can return your investors' capital contribution(s), the safer the illiquid investment becomes. In addition, the faster the company's product and/or service line(s) are accepted into the marketplace (the degree of actual sales revenues growth), the quicker a "proven economic model" has been established, which leads to higher degrees of safety in an investment.

5. How do I get my investment back?

Exit strategies generally need to be rather quick. Although IPOs or outright sales of the entire company may seem attractive for exit strategies, those strategies cannot be guaranteed or further assured. Therefore, those exit strategies are not taken too seriously by a knowledgeable investor.

The two most popular deal structures (Notes with Equity Kicker and Participating Preferred Stock) provide for realistic exit strategies for potential investors. You may be able to

attract the interest of strategic alliances, other businesses in your industry that would inherently benefit from your company's existence and so may provide the required equity and/or debt capital. A favorable exit strategy with a non-diluted equity position would be attractive to most strategic alliance candidates as well as individual investors.

6. If the firm fails, what are my liquidation rights and lien position on assets?

The deal structure of your company's securities offering should provide a forward position or lien on assets for investors and subordinate you and your management team's equity in case of liquidation. In the mind of an investor, this type of deal structure further justifies taking on the risk of an investment in an illiquid security. All start-up and early-stage companies are risky in the mind of the informed investor. They know that, on average, 85% of all start-up and early-stage companies fail within the first five years of their existence and 60% of the remaining firms merely survive, providing little or no return. Therefore, you need to mitigate an investor's risk through the issuance of non-subordinated securities and proper capitalization structuring.

7. If things go as planned, what will be my rate of return on investment?

Most business plans and securities offering documents do not include rate of return projections for the purchase of securities and/or a current company valuation based on reasonable future financial projections, which is a major mistake. You will need to determine your company's current value based on realistic future financial projections and then calculate the internal rate of return potential for an investment in your company's securities. Once you have produced the pro forma financial projections, you may find that the percentage of equity you are willing to relinquish may be too much or too little for the capital sought.

Most securities attorneys would prefer that you *not* project a rate of return on the securities that your company is offering, primarily because they fear it would increase the probability of you and your company being sued if the company does not meet its financial projections. That is a legitimate concern; however, Financial Architect® is based on, and distinguished by, the internal rate of return projection because in most investor's minds that is the bottom line. The securities offering document templates have disclaimers that should warrant sufficient protection against litigation for not meeting those financial projections. In reality, if you do not provide an internal rate of return estimation, the likelihood of attracting capitals is virtually non-existent, which makes any increased probability of being sued "moot".

Document Production

By perusing the Internet you can find securities offering documents (PPMs) to use as models for your securities offering documents however, they may not be updated to current regulatory requirements. So, be sure to check with an attorney when you're done.

From here forward, I'll just give you a brief summary of our process for producing a securities offering document using Financial Architect®. Full instructions are included with Financial Architect®.

The securities offering document that you are about to create will be comprised of two different documents, which are to be combined by copying and pasting Excel pro forma statements and notes thereto into a MS Word text template to form one securities offering

document. Each completed securities offering document is comprised of: (1) the Private Placement Memorandum (PPM) Text Template, which will include the main text body and the Exhibits section with page numbers at the bottom of each page; and (2) the pro forma financial projection statements produced by CapPro™, which create your company's and or fund(s)' pro forma financial projections and the notes to pro forma financial projections that are to be copied and pasted in Exhibit A within the (PPM) Text Template.

Under the Securities Act disclaimer sections in the Private Placement Producer™ templates, you *will not* need to decide under what sub-section of Regulation D you are claiming an exemption because you can claim multiple exemptions, and the PPM templates were designed to blanket all of the available exemptions from registration. However, you should know that:

1. Regulation D §504 allows $1,000,000 to be raised in a twelve-month period and **does not** need to have an audited balance sheet. Up to 35 non-accredited investors are allowed in the deal.
2. Regulation D §505 allows $5,000,000 to be raised in a twelve-month period and **does** need to have an audited balance sheet, **if** your company has any operating history and **if** you will be allowing non-accredited investors in the deal. Up to 35 non-accredited investors are allowed in the deal.
3. Regulation D §506 allows unlimited dollar amounts to be raised in a twelve-month period and **does** need to have an audited balance sheet, **if** your company has any operating history and **if** you will be allowing non-accredited investors in the deal. Up to 35 non-accredited investors allowed in the deal.
4. The audited balance sheets must not be older than 120 days, so keep that in mind when you establish the expiration date of the PPM. Once the balance sheet is older than 120 days the document will not qualify for exemption from registration. You will need to make the same changes in different areas throughout the PPM that reference these regulations.

Making a decision on what type of securities offering your company should choose (registered, or claiming or qualifying for an exemption from registration ~ not the deal structure) should be relatively easy at this point. Remember, when thinking of pre-existing prospective investor relationships; do not forget friends, family, customers, suppliers, professional advisors or any other pre-existing personal relationships of the members of the company's management team. Under Regulation D, soliciting and selling only to pre-existing relationships further your claim from registration.

Exemption Decision Matrix

~Exemption from Registration ~	*SCOR	*Reg D. 504	^Reg. D 505	^Reg. D 506	~CA (1001)	Reg. A	4(6) Accredited Investor Exemption
Minimum Amount?	No	No	No	No	No	No	No
Maximum Amount $1,000,000	Yes	Yes	No	No	No	No	No
Maximum Amount $5,000,000	No	No	Yes	No	Yes	Yes	Yes
Maximum Amount Unlimited	No	No	No	Yes	No	No	No
Notice of Sales Required?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Auditing Financial Statements Required?	No	No	^Yes/No	^Yes/No	No	No	No
Pre-Filing with SEC Required?	No	No	No	No	No	Yes	No
Pre-Filing with the State(s) Required?	Yes	No	No	No	Yes	Yes	No
Do all States recognize this Exemption?	No	Yes	Yes	Yes	No	No	Yes
General Solicitation - Advertising Allowed?	Yes	No	No	No	Yes	Yes	No

^ IF you solicit and sell the securities only to accredited investors under Reg. D 506, you will not need audited balance sheets. Under all Reg. D Exemptions, you may solicit and sell up to 35 non-accredited

investors, however, if you do not limit the total amount to $1,000,000 and claim Regulation D 504, as the exemption, you will need to provide at least an audited balance sheet that is no older than 120 days.
*Reg. D 504 may be eligible for a SCOR offering, which is registered at the state level as an Intrastate offering. If registered at the state level you may be able to advertise through general solicitation depending on the state. Can be registered in more than one state, but the $1,000,000 total amount, stays.
~ For California Companies or companies that are registered do business in California with certain restrictions.

For $1,000,000 or less in capital over a 12-month period:

Regulation D §504 – No Audited Financials Required.

If your company is at the point where:

- you need to allow non-accredited investors in the deal;
- you do not need to advertise your company's securities, because you may have ample personal and professional investor contacts;
- you are not willing to spend the money on creating audited financial statements at this juncture, and;
- your company's securities offering will be for less than or equal to $1,000,000 then Regulation D §504 would be the exemption you would claim.

Small Company Offering Registration (SCOR) – No Audited Financials Required.

If your company is at the point where:

- you need to allow non-accredited investors in the deal;
- you need to advertise your company's securities, because you do not have ample personal and professional investor contacts;
- you are not willing to spend the money on creating audited financial statements at this juncture, and;
- your company's securities offering will be for less than or equal to $1,000,000 then Small Company Offering Registration would be the exemption you would pre-file with the state(s), where the securities are to be solicited and sold, to "qualify" for the exemption from registration.

For $1,000,000 to $5,000,000 in capital over a 12-month period:

Regulation D §506 or 4(6) – No Audited Financials Required.

If your company is at the point where:

- you allow only accredited investors in the deal;
- you do not need to advertise your company's securities, because you may have ample personal and professional investor contacts;
- you are not willing to spend the money on creating audited financial statements at this juncture, and;
- your company's securities offering will be for more than $1,000,000 but less than $5,000,000 then Regulation D §506 or 4(6) the Accredit Investor Exemption would be the exemption you would claim, because §505 is rarely used.

NOTE: One can use just the 4(6) exemption, but one is not defended against the anti-fraud provisions of the Securities Act of 1933, as amended. That is why one uses Regulation D §506 in conjunction with the 4(6) exemption for capital raises up to $5,000,000. In addition, the individual states have more authority over 4(6) than Regulation D §506 because Regulation D §506 is a federally covered transaction.

Regulation A. and/or CA (1001) – No Audited Financials Required.

If your company is at the point where:

- you need to allow non-accredited investors in the deal;
- you need to advertise your company's securities, because you do not have ample personal and professional investor contacts;
- you are not willing to spend the money on creating audited financial statements at this juncture, and;
- your company's securities offering will be for less than or equal to $5,000,000 then Regulation A would be the exemption you would pre-file with the SEC and state(s), where the securities are allowed under Regulation A and to be solicited and sold, to "qualify" for the exemption from registration.

For $5,000,000 to an unlimited amount of capital over a 12-month period.

Regulation D. §506 – No Audited Financials Required.

If your company is at the point where:

- you allow only accredited investors in the deal;
- you do not need to advertise your company's securities, because you may have ample personal and professional investor contacts;
- you are not willing to spend the money on creating audited financial statements at this juncture, and;
- your company's securities offering will be for more than $5,000,000 then Regulation D §506 would be the exemption you would claim, because §505 is rarely used.

Regulation D. §506 – Audited Financials Required.

If your company is at the point where:

- you need to allow non-accredited investors in the deal;
- you do not need to advertise your company's securities, because you may have ample personal and professional have contacts;
- you are willing to spend the money on creating or already have audited financial statements at this juncture, and;
- your company's securities offering will be for more than $5,000,000 then Regulation D §506 would be the exemption you would claim, because §505 is rarely used.

SB-2 – Audited Financials Required.

If your company is at the point where:

- you need to allow non-accredited investors in the deal;
- you need to advertise your company's securities, because you do not have ample personal and professional investor contacts;
- you are willing to spend the money on creating or already have audited financial statements at this juncture, and;
- your company's securities offering will be for more than $5,000,000 then SB-2 would be the registration statement you would file with the SEC and the state(s) where solicitation and sales would occur.

U.S. Securities Laws

The following is a summarization of basic US securities laws, rules, and regulations however, though we have made Regulation A available through Financial Architect®, to go further than a private placement under Regulation D, you really should hire a team of professionals who understand what they are doing.

To conduct a securities offering in the United States, legally, you must:

a. Produce and pre-file a registration statement with the Securities and Exchange Commission (SEC) and up to 50 state(s). This is considered a "Registered Offering", such as an SB-2 for an "Initial Pubic Offering" (IPO), which is expensive, but you may raise an unlimited amount of capital, you may advertise the securities (with certain content constraints) and the securities will be freely-traded on a securities exchange) or;

b. Produce and pre-file form 1-A under Regulation A and CA (1001) with the Securities and Exchange Commission (SEC) and with the state of California, which allows Regulation A securities to be sold in their state. This is considered a "qualification" for an exemption from registration under Regulation A, CA (1001) and the California Corporations Code 25102. This is much less expensive than pre-filing a registration statement with the Securities and Exchange Commission (SEC) and up to 50 state(s). It has a $5,000,000 maximum limitation within a 12-month period, you may advertise the securities (with certain content constraints) the securities may be freely traded on a securities exchange – subject to additional constraints) and the investor qualifications are less stringent that Reg. A, Reg. D or SCOR;

c. Produce and pre-file form U-7 under the Small Corporate Offering Registration (SCOR) with the state(s), which allow SCOR and where the securities will be solicited and sold. This is considered a "qualification" for an exemption from registration under the Small Corporate Offering Registration (SCOR). This is much less expensive than pre-filing form 1-A Regulation A and CA (1001) statement with the Securities and Exchange Commission (SEC) and any of the 50 state(s). It has a $1,000,000 maximum limitation within a 12-month period, you may advertise the securities (with certain content constraints) and the securities may be freely-traded on a securities exchange – subject to additional constraints) or;

d. Produce a Private Placement Memorandum (PPM aka an Offering Circular), which "claims" an exemption from registration under Regulation D (private placement: relatively inexpensive), but no general solicitation or advertising is allowed. The private placement of securities under Regulation D, subsections 504, 505, or 506 4(2) and/or 4(6) of the Securities Act of 1933 cannot be advertised to the general public through general solicitation, but will generally be exempt from registration if the document provides for sufficient disclosures and disclaimers, and where compliance requirements for "Notice of Sales" filings requirements are met. Both offerings must be accompanied by a securities offering document, which complies with the various federal and state laws, rules, and regulations. Both

offerings can be sold by your management team or through FINRA member (stockbrokerage) firms.

Let's make this part of the decision making process as simple as can be.

The vast majority of early-stage or seed capital securities offerings are conducted by:

1. Limiting the maximum dollar amount to $1,000,000 for the first (seed capital) round;
2. Allowing 35 non- accredited investors and an unlimited amount of accredited investors in the offering;
3. Not needing the company's financial statements to be audited, and;
4. Claiming Regulation D § 504 as the exemption from registration.

The second round is most often conducted by:

1. Not limiting the total dollar amount;
2. Not allowing any non- accredited investors and an unlimited amount of accredited investors in the offering;
3. Not needing the company's financial statements to be audited, and;
4. Claiming Regulation D § 506 as the exemption from registration.

After those rounds, one should hire a team of professionals to handle future securities offerings, because structured correctly your options increase and written incorrectly, your options decrease.

Be sure to check with your attorney before conducting the actual offering of securities, as securities, organizational structures, tax, and procedural laws, rules and regulations can change at any time.

Chapter 18: Soliciting & Selling Securities to Raise Capital

If you have completed the following four items, then you are ready to raise capital through the selling and issuance of securities.

1. Decided on a deal structure;
2. Produced the appropriate securities offering document;
3. Checked the Compliance section in the Commonwealth Capital Club to make sure any additional requirements have been met to complete the document;
4. Had your company's final securities offering documentation reviewed by your attorney;

If you have completed the above steps, then you may be one of a very few individuals who will succeed in raising capital for your start-up or early-stage company! You have come a long way, but you still need to sell the securities, in a highly regulated environment, to raise capital.

This book is not a course on selling. Advanced "Solicitation and Selling Techniques" are included in the Commonwealth Capital Club, as part of Financial Architect®. Although we have outlined the techniques of selling securities in a highly regulated environment, one must understand the fundamentals of basic selling first. There are quite a few selling courses available. Zig Zigler and Dale Carnegie come to mind. Og Mandino's book *The Greatest Salesman in the World* is a must for those who want to perfect their selling skills. Neil Rackham's *SPIN Selling* and Tom Hopkins's *How to Master the Art of Selling* are two more. I'm sure there are many more excellent programs and books available; I suggest that you learn from them if you're not used to selling. If you are the "selling type", you may want to review those selling courses to get refreshed and energized because this is "show time." Arm yourself with basic selling abilities and skills. Once you feel confident with the basic selling skills, employ the following techniques outlined here and in the Commonwealth Capital Club to sell your company's securities. In addition, to keep "pumped up" through this process, I would recommend a classic book by Dr. Norman Vincent Peale: *The Power of Positive Thinking.*

Everyone sells all the time. Some are simply better at it than others are. You have been selling yourself and your abilities all your life. Most investors like to be sold. Most knowledgeable investors know that a CEO and his or her management team had better be able to sell everything in sight. You and your management team need to be able to sell your company's products and/or services into distribution channels. You also need to be able to sell your company's corporate culture to the potential talented employees that you want working for your company and not your competitors. In addition, you and your management team need to be able to sell the banker on providing the bank loan after the equity is raised, sell the FDA, FCC, OSHA, or any other regulatory authority that the company must deal with, that it does in fact comply with the various regulations. More important, you and your management team need to be able to sell securities to raise capital for your company, even if you engage an SEC registered broker-dealer to act as an underwriter.

Some folks are more successful at selling because of their inherent personalities. If you have a real problem with the concept of selling intangible assets, such as securities to capitalize your company, then you may want to rethink your mode of operation one more time and attempt to raise enough capital to license and place your inventions, products, or services with a potential strategic alliance, as opposed to building a business.

Better yet, hire someone from the securities industry, (your new V. P. of Finance), who is ready, willing, and able to sell your companies securities as part of your senior management team.

The Key Points to Selling a Private Placement of Securities:

1. In the beginning of this book I recommended that you test the waters of your private capital market for indications of interest. This means finding out what others want in an investment and tailoring your securities offering to meet that demand. Your success in your capital-raising efforts will be in direct relation to how well you have attempted to serve the needs of others. Remember that I suggested you ask a few wealthy folks you may know to help you in your quest to formulate your investment or securities offering? If you had put together your prototypes and asked these folks for their honest opinion on the deal structure, you would have gotten back a feeling for where your private market is, as far as their desire for a particular deal structure. It is as if you went to them, with hat in hand, and asked them for their wisdom, sagely advice, and help. By finding out their level of interest, you were able to customize a securities offering that fit the demand. Many times, when an investor says he or she will like this or that, they are giving you their honest opinion. They are investors. They invest money all the time. There are many folks out there with lots of money to invest. I've read estimates that over 60 billion dollars was invested in start-up and early-stage companies in the year 2000, even after the dot-com collapse. It is simply up to you to draw upon these investors. Do you realize that 1/10th of that figure is 6 billion, 1/100th of that figure is 600 million, 1/1,000th of that figure is 60 million, 1/10,000th of that amount is 6 million and 1/100,000th of that is $600,000? All you have to do is attract 1/100,000th of that amount for $600,000 in start-up equity capital! Use that amount of equity capital to convince the bank to loan your company $400,000. Now you have $1,000,000 in capital.

2. You are selling an intangible asset. Attempt to make the buying experience for the investor as *tangible* as possible. If you have developed a prototype product, make sure the prospective investor(s) get their hands on it and see it work. If you provide a service, make sure your prospective investors get their hands on it to see it work. If you provide a service, make sure your prospective investors can somehow experience the value of that service.

3. You are selling a high-risk/return potential security. Sell it for what it is. Tell the prospective investor that you've attempted to take as much risk out of the security as possible through the structure you've formulated. You have put them first and yourself behind them in all manners of safety and return.

4. Soliciting and selling securities is a numbers game that is highly regulated. You can solicit and sell securities to up to thirty-five non-accredited investors (under most circumstances) and an unlimited number of accredited investors under the three subsections of Regulation D. *If you can, I suggest that you solicit and sell to accredited investors only.* By doing so, you will further remove yourself and your company from inadvertently violating any rules of the Regulation D exemptions from registration.
5. The key to successfully raising capital is to start building trust relationships with potential investors. You must meet four key elements for a prospective investor to actually invest in your company:

- They must believe in you and your business opportunity;
- They must understand what your company does;
- They must trust you and your ability to make them a profit; and
- More than anything else—they must like you. (I know that sounds a bit corny, but if they don't like you, do you think they're going to cut you a check?)

How Stockbrokers Sell Securities

Who are the only professionals that can legally raise capital for other companies in the United States? They are stockbrokers, also known as "financial advisors" (when technically they are "registered representatives" of SEC Registered broker-dealers / FINRA Member firms). Most stockbrokers are now called "financial advisors" or "financial consultants" by their employing firms.

All stockbrokers have restrictions on the way they prospect for new clients. They are highly-regulated by a number of regulatory authorities. Actually, over sixty regulatory authorities in the United Sates regulate how they operate. However, they can sell investments to just about anyone, as long as the investment is suitable. If the investment is not suitable, the stockbrokers can get fined heavily, possibly lose their licenses, and/or, in extreme cases, serve jail time. They may advertise anywhere and everywhere under certain content restrictions, as long as it does not involve a private placement of securities. You have restrictions on the way you can prospect for new investors when engaged in a private placement as well. You may not use a general form of advertising unless you have registered your company's securities at the state and/or federal levels or have qualified for an exemption, thereof. For a private placement, you must keep the solicitation and sales effort private or directed to accredited investors only, with no use of general solicitation, not even direct mail, email, or even a password-protected area on your company's website, unless certain regulatory protocols are complied with. This may seem like a disadvantage, but it is a blessing in disguise. General advertising doesn't work for most start-up and early-stage companies unless you can advertise a relatively safe security like a note or a preferred stock with a high yield in the newspaper to generate investor leads. A private deal has the element of secrecy. You have absolute exclusivity to your securities offering unless, of course, you are engaged with a FINRA member syndicated selling group. Even then, you still have relative exclusivity. You are different and should command an investor's attention if you approach them correctly.

Accredited investors are bombarded by stockbrokers every day. For the most part, these stockbrokers are selling the same old stuff. Any broker can sell a bond, a publicly traded stock, a mutual fund or a professionally managed fee based account to an investor. They're all fishing from the same public pond. Even new municipal bonds are priced to the market, so the exclusivity one broker has over the other, for all intent and purpose, is meaningless because all bonds are priced the same according to coupon rate, maturity, and safety. That becomes a bit boring. Most accredited investors like to review special and exclusive deals with exit strategies and real upside potential.

Most stockbrokers sell securities that are publicly traded and, therefore, liquid. Investors can buy and sell them all day long. This seems to be an advantage if you look at it that way. First, the stock, being liquid, has already gone through its initial public offering (IPO). It is already priced to the publicly traded market, or where it should be priced. The entire bang for the investment buck is gone! The greatest amount of upside potential in most stocks is getting in

BEFORE the IPO. Hot IPOs can go up ten times their original offering price after going public. Moreover, some have done it in less than a year. What about the returns to the original investors that got in at maybe one-tenth or one-twentieth of the original IPO offering price? Those returns are huge. Now that is upside potential, and that is what you are offering investors if your company's plan is to go public someday. You can list your hybrid securities on a public exchange as well.

In bull markets (markets increasing in value) investors can make this argument: "Why should I take on the risk of a start-up or early-stage venture when my mutual fund has been returning 22% a year for the past few years?" Your comeback could be: "Do you think that'll last over the next year or two?" and/or "Why don't you start paring back by selling some of those shares to raise some cash to take advantage of the next market downturn?" or "Why don't you take 10% or 20% of that cash and invest it in our company?"

In bear markets (markets decreasing in value) investors want to hold on to the ever-fleeting hope that their stocks will rebound and they will regain their lost profit or at least break even on their principal amount. More often than not, the likelihood of that happening anytime soon is highly unlikely. In bear markets, even after suffering paper losses, investors will eventually become inpatient and will look for high-yielding, cash-flow-producing investments. *This is where your company's hybrid securities can compete.*

Overall, I believe that you or your VP of Finance have a distinct advantage over the average stockbroker. You do not need administrative support, research, or the regulatory compliance costs associated with running a typical broker-dealer. You can prospect actively in person, which is the most effective way. You have an exclusive offer that is pre-IPO with huge upside potential. Indeed, you now have a real fighting chance!

Getting the Message Through

You need to get the message of your securities offering through to all of your prospects in the most productive manner possible. Productivity here means spending your time efficiently and not wasting theirs. I have found that when talking to investors about a particular securities offering, the average attention span is limited to about 10 to 15 seconds maximum, unless, of course, they express real interest, simply move on.

Productive Prospecting

Okay, now you know about your competition. It is time to make contact with investors. You have your current private, personal, and professional contacts. These are your most valuable contacts and they should not be approached until later. You cannot afford to fail with these folks. You should adopt an old stockbroker's trick. Develop the quick thirty-second to one-minute sales presentation known as the "elevator pitch." Practice the elevator pitch on colleagues and advisors before you present to friends, family and personal investor contacts. This way you're refining your presentation on prospects that you don't expect will invest, before you go to those who you do expect will invest. Who knows, you just may get lucky and be surprised when these folks do invest as well.

The Seminar Approach

The seminar approach is a leveraged way to get out your message.

For Private Offerings: Consider mailing a seminar presentation invitation to all of the management team's personal and professional contacts and selected company clients or customers – if appropriate. If you use the procedures under Regulation A, SCOR or CA (1001) you may be able to find investors for the seminar through general solicitation, like mass mailing a letter to accredited investors in and around your geographical area. In addition, for some limited private offerings you should check with your state's securities regulatory office, as some states allow you to test the waters intrastate (within the state only). If so, you may rent a mailing list of those accredited investors in your area and invite them to a very exclusive and private seminar.

Most marketing or mailing list companies have access to mailing lists for accredited investors. If you would like to know what an accredited investor is, you can easily find out by visiting the SEC's website: www.sec.gov.

You will need to give the marketing company or the mailing list company your criteria for accredited investor selection. The accredited investors must have a certain annual income level and/or have a total minimum net worth. Simply look up a few marketing companies in the yellow pages or on the Internet. You will have costs associated for renting the mailing list, mailing to accredited investor prospects, and for the hotel conference room to hold the seminar. *Remember, with a private placement you cannot advertise the seminar using the general media.*

To get more bang for your invitation dollar, offer a series of dates and times, for example, 10:00–11:00 a.m. and 1:00–2:00 p.m. each on Friday and Saturday for the next two weeks. (You do not want to open the window of opportunity too wide with additional weeks.)

If you decide on an evening seminar format, these seminars should be scheduled as follows: 5:30-6:15 for Cocktails and from 6:15-7:00 p.m. for the Presentation. The presentation should last only ten minutes and the time limits should be highlighted in the invitation. Allow an additional ten minutes for Q&As. Cut it off at that point; make them want to know more on a private basis. Arrange for appoinments to meet with these prospects in the near future. Be brief and to the point on each section of your seminar.

Present the Story: In 2 short, 5 minute Steps.

1. Explain the "world" as it exists within your industry.
2. Explain the "problems" that exist in that world.
3. Explain the "solution(s)" to those "problem(s)" and how the solution(s) relate to your company making money.
4. Explain the "investment opportunity" that now exists by purchasing securities in your company.

These four sections make up the introduction, the body, and the conclusion of your seminar and your sales presentation to be used over the phone, on the golf course, or at the tennis club.

The first problem that you'll probably meet when attempting to conduct seminars is that everyone has an excuse for not attending the seminar. The holidays, tax time, kids are out of

school, etc. It is now time to start spending some of that seed capital. I would only invite the elite of your management team's contacts or selected accredited investors to the following events.

When weather permits, consider a golf outing for attracting your best personal contacts and accredited investors. Make it on a weekday, preferably in the midmorning on a Tuesday or Wednesday (a lot of doctors and dentists take Wednesdays off). Ask the golf course professional if you can have a 10:00–10:30 a.m. "shotgun start" with an hour lunch scheduled for 12:00 noon or 12:30 p.m. (In a "shotgun start" everyone goes out to different tees around the course and all start at the sound of a shotgun going off at the clubhouse; thereby everyone starts at the same time and everyone finishes at the same time.)

Make sure your invitations are golf-oriented. For instance: "You are invited to the XYZ Widget Co. 1st Annual Golf Classic." Make sure that your guests know there is ***no charge*** for them and that their green and cart fees have be taken care of, compliments of XYZ Widget Co. In addition, be sure to inform your guests of the special investment presentation to be held at lunch. Be upfront about your intentions to conduct an investment opportunity presentation during lunch. If you are not upfront about your motives, you will be wasting your money. Investors do not like to be tricked into a sales presentation and most will resent you for it. In all aspects of business, but especially when raising capital, honesty is not only the "Best" policy, it is the ONLY policy.

Nine holes should take about two hours to play. After the first nine holes are played, you will want everyone in the clubhouse at the same time for lunch so that you and your management team can give the sales presentation. You want another "shotgun start" after lunch so that people won't start leaving the clubhouse right after they've eaten and will take the time to hear your company's story.

In different parts of the country, golf courses have seasonal and non-seasonal rates. I've seen entrepreneurs drop $5,000 to close the course to the public for the day. I think that is one of the most professional ways to attract seminar prospects. Make sure there are complimentary cocktails and hors d'oeuvres, as well as door prizes after the outing, all compliments of your company. You will want a little personal conversation time with your guests after the outing. Be sure that you and your management team members "work the room." That means they should be talking to investor prospects, not each other.

You should have 18 foursomes, which equates to 72 potential investors, participating in the Golf outing. However, husbands and wives sometimes play golf together (although rarely in an outing), so they would be considered one investor. The actual amount of investors should be between 36 and 72. If it ends up that your turnout represents an average of 54 investors (actual investors as an average: not couples), that is a rather productive way to spend your day. If your cost is $5,000 for the outing and you conduct five outings you should attract 270 investors on average, for a total investment of $25,000 for the course and $5,000 in mailing, door prizes, etc. If you have your sales skills mastered, you should be able to get half, or 135, of them to invest at least $10,000 each. That's $1,350,000. If you are conducting an equity offering, you may be able to secure an additional $1,650,000 in debt from your bank for a total capitalization amount of $3,000,000. Not bad for a week's work and a $30,000 investment!

You also may want to consider a day or weekend cruise. It is the same basic invitation as the golf outing; however, it is a cruise with gambling or some other type of activity. One of our clients spent almost $12,000 on an afternoon cruise for about fifty doctors and their wives. Just

over $600,000 in capital was raised over the next six weeks, primarily from the connections they made on that cruise.

If you can afford ($10,000 to $15,000) to give your presentation with multimedia, we STRONGLY suggest you do so. With a pre-edited electronic presentation burnt to a CD-ROM (CD) or DVD, you can perfect your securities sales presentation. You will want your presentation to be perfect. You cannot afford to make any mistakes because you are spending your seed capital for this sales effort and you won't get a second chance to make a first impression. Besides, you could have your presentation running again in a more private room, off the main clubroom, after the outing and during the cocktail time. Give out the CDs that contain the multimedia presentation to everyone who attends.

Allow those prospective investors to get a securities offering document during the event. Most multimedia pieces that we have had produced for our clients contain the private or public placement memorandum (PPM) embedded in the CD. This not only is a very simple and productive way to deliver the "sizzle" with the steak, but it will cut down on hard copy document printing costs as well. Also, remember to send a securities offering document (multimedia or otherwise) to prospective investors if they cannot attend your function.

This is the first step in reestablishing a trust relationship with your personal and professional contacts, as well as establishing new trust relationships with freshly acquainted accredited investors in your community. These are simply examples of how you can "capture" your seminar audience. You should tailor your creative ideas for a seminar to your particular region and/or situation.

Proactive Prospecting

For most forms of solicitation, the least expensive contact method usually results in the least effective process of producing qualified investor prospects, which in turn lead to a lower sales / closing ratio. Email Spam is the least expensive way to reach a mass audience and is, basically, a waste of time, along with being a nuisance and in most circumstances illegal when offering securities. Next is newspaper advertising; this is another avenue to reach a mass audience and generally results in a respectable response rate. Direct mail is probably the next least expensive and the response rate starts to improve.

If any of the foregoing are employed in context of a securities offering and the securities are not registered or qualified under Regulation A, Regulation A, SCOR or CA (1001), the above techniques will violate securities laws. However, once qualified under Regulation A, Regulation A, SCOR or CA (1001) you can clearly target your mailing to those accredited investors who invest primarily in fixed-income securities.

Face-to-face is the most expensive form of solicitation and the response rate starts to improve greatly. The face-to-face cold call can be used for the solicitation and sales of registered securities or securities that have been qualified for an exemption from registration (i.e., Regulation A, SCOR or CA (1001)). The very first face-to-face cold call is obviously the most difficult because you are dealing with the unknown. Dealing with the unknown creates fear as a normal human reaction. You need to ask, "What's the worst that could happen?" Although very rare, probably the worst that could happen is that some angry business owner would say, "Get out of my office and don't come back." When you think about it, would you really want this person

as one of your investors? Not likely. So if you get a nasty rejection, be thankful that your time is not being wasted and just move on.

Here are a few techniques to clear through the clutter. First, if the prospective investor has a securities brokerage account, ask them what they like or dislike about some of their investments. Listen carefully to how they respond. You should be able to pick up an indication as to whether they are trustworthy or not, just from this part of the conversation. Make the general assumption that they may be exaggerating. On the follow-up process it's three strikes and you are out; if they cannot commit to your company's securities offering by the third contact then move on and never look back. By doing so, you will avoid passing up investor prospects that will commit their funds to your company. Remember, it's a numbers game.

After establishing that the prospective investor is "real" and has interest in your company's securities offering, simply give them your sales presentation and hand them a PPM. Remember, the distribution of a PPM is a legal requirement and not necessarily the ultimate sales tool. Although Financial Architect® securities offering document templates are written in the fashion of a sales tool, ultimately you and your management team must sell the deal.

Prospecting in Every Day Life

In everyday life, you are going to want to be able to give your "elevator pitch" to create curiosity as quickly as possible. Develop a twenty- to thirty-second sales presentation that can be followed up with a five- to seven-minute sales presentation (something that you can use on the phone or on the golf course). Pitch the sizzle of the company's story, not the securities offering. Once someone says "Wow" about the story, say something like, "You know, we are accepting investors on this opportunity now before we go public" (of course only if an IPO is in the plan). Pitch it and drop it. Create some mystery here. Remember, you are offering an exclusive opportunity. Keep the mindset that you will choose whom you will let in the deal and not the other way around.

There are billions of dollars out there looking for good opportunities. Sometimes people want what they cannot have; keep that concept in mind as well. Productive prospecting and good selling techniques are based on asking questions and listening. You have one mouth and two ears, so let the ears do twice the work. The questions you ask should relate to your efforts in seeking an indication of interest in your company's securities offering.

The Follow Up

Everybody hates the follow-up. This is where rejection happens. Fear not…for the deal structure contained in your company's securities offering documents you have created should sell itself. If your sales presentation can include an indication that you are also at risk, like "If this project fails I lose not only my money, but my house as well," investors will feel much better about cutting a check or signing a personal guarantee on a bank loan.

Ask for the money. I know that is obvious to some, but most never have the guts to ask. There are many closing techniques for this. However, remember that you're not selling used cars. Your approach should be soft and slow. "What level of financial commitment do you feel most comfortable with? $25,000 or $50,000? No . . . Would $10,000 be more comfortable?" If your prospect's response is a flat no, don't say, "Why not?" Just say in an inquiring tone, "Oh?" You

want to ask questions that are more open-ended. You want to find out what the real objection is. You will not know unless you persist.

Don't say, "When can I come by to pick up the check?" This makes you seem too eager and is likely to make the prospect reluctant to invest. Rephrase it in a softer, sophisticated tone. "Would you like me to stop by this afternoon to pick up your investment?" Don't say, "Why don't we have lunch next Tuesday and we'll complete the transaction then." Start it off with, "Would you like . . ." "Would you like to have lunch next Tuesday and we'll complete the transaction then?" By taking this stance you're at his or her service in a very professional manner. "Would you like to put this investment in your self-directed IRA to avoid a potentially large capital gains tax?"

Incidentally, some people do not think of their IRA as money; they think of it as an asset, a long-term investment. This is because, more often than not, they were sold the investments within the IRA as such. Sometimes they don't know that those investments can be sold to produce the cash available for an investment in your company's securities. (See the Commonwealth Capital Club on techniques and procedures to attract qualified plan funds, such as IRAs, SEPs, and Keoghs, to capitalize your company.)

In the follow-up call, you need a reason to call. Don't just say, "I'm calling to just follow up and see if you have any questions about our securities offering." That is an incredibly unprofessional remark. **Don't call until there's a reason.** Reasons would constitute reaching certain milestones in your project or in the capital-raising effort itself. Let us say that you were raising $300,000 in equity and there's only $150,000 left. That would constitute a reason to call. Let's say that your prototype product has a newly developed technology or application added to the product. That would also constitute a reason to call. You want to keep your very best prospective investor(s) informed. You should call or contact them by mail or email every thirty or sixty days just on a friendly "Thought I would let you know how the company is progressing …" kind of call. Investors appreciate this. You are letting them know that you are still around and that you are truly committed to the process and moving in a positive direction. Only create a sense of urgency and a "call to action" or commitment if it feels right during the conversation.

Electronic Posting on Various Websites

The Commonwealth Capital Club has links to various websites where you can post your completed securities offering document electronically or digitally. We provide this as a valuable tool to enable you to access many accredited investors inexpensively. However, as with most things in the business world, you get what you pay for. Posting your completed securities offering document electronically or digitally, while very inexpensive, yields mixed results at best, however, sales is a numbers game and you just find a nest of angel investors who are familiar with your company's business through electronic posting. Still, there's nothing like a face-to-face meeting to get the trust relationship started.

Where's the Money?

Most entrepreneurs are under the illusion that, due to the advent of the Internet, they can reach a mass audience of potential investors with relative ease, which they may – in time. However, there are more reasons why they may not. As previously mentioned, we do provide links to Internet portals of accredited investor contacts within the Commonwealth Capital Club

(the private password protected area on the website). The reason we have done this is that it *is* a very inexpensive way to reach an audience of potential investors, broken down by areas of interest. However, most start-up and early-stage companies need to solicit and sell securities, first to the management team's personal and professional contacts, and then reaching outward in a geographical sense. By advertising the securities locally, you will be able to meet personally with potential investors, but more importantly, they will be able to meet with you – a critical element in developing the trust relationship. Without establishing a trust relationship, you simply will not receive funds.

Hiring a VP of Finance.

ONLY FOR LATER STAGE COMPANIES. The third part of the "perfect storm" (only for later stage companies) lies with recognizing that one can hire, relative to the past, securities professionals who have investor contacts and skills sets to assist you in raising substantial amounts capital for your company. As previously mentioned, this is not a pre-requisite for raising substantial amounts of capital for your company. This part of the process is generally reserved for the third or fourth round of financing for most companies. One should have ample seed or development capital on hand and/or sufficient cash flow from sustained operations before considering this part of the process. Remember, this is an additional option, primarily for early-stage companies, not a requirement of the process. As a rule, this option is rarely used for start-ups, but of course there are exceptions to every rule.

The securities industry has become, and continues to be, commoditized. This means that the cost of the process, product or service is being brought down to its lowest level possible, because the process, product or service is standardized and automated, to the greatest degrees possible…at the time. Because of the advent of online trading, investment portfolio management, and information available on the Internet, those investors who have the time, can easily learn how to manage their investment funds online over the Internet without the need for professional advice. As a result, firms in the securities industry have been cutting costs to compete for the "hands on" advisory business that still is available. Services are being increased and prices decreased. That's good news for the average investor but bad news for the industry, and especially for the financial advisor profession. Most investment portfolios are managed in "fee based accounts" that started out with annual fees of 2% to 3% in the 1990s, are now down to as low as 0.25% to 1%, and could continue to move lower.

Let's analyze this further. Let's say the fee for the average account size under management is 1%. The average commission payout to the financial advisor at most investment firms is 35%. Therefore, a new financial advisor will need to attract and raise a lot of capital just to eat. To be fair, most firms will pay a salary for one or two years for the "Financial Advisor Trainee," but if the commission payout doesn't warrant the salary paid to the financial advisor, then he or she is let go.

Let's say a financial advisor can raise $20,000,000 in the first two years of employment. Assuming the 1% fee with the 35% commission payout, the financial advisor will start the third year off at $70,000 in income. The financial advisor had to raise only $192,307 a week on average (52 weeks per year times two years with no time off) for an annual income of $70,000 in the third year. What's the big deal, right? Imagine having to sell securities at a rate of $200,000 a week with nothing special or different to sell! The financial advisor is selling the same

commoditized services as everyone else in the industry. They're all fishing in the same publicly traded pond. No one has an edge over anyone else, so as an informed investor why would I want to move my funds from one firm to another? In addition, what happens to our friendly financial advisor when markets crash? Investors move into other things, like real estate and private placements of new companies. What happens when markets rise? Investors don't move from one brokerage house to another for no reason. However, they do feel wealthier when markets rise, so it is easier to get them to invest a small amount of their total portfolio in riskier ventures. Money doesn't disappear, it moves. Get ahead of the movement with a securities-offering that will attract it.

It's common knowledge in the securities industry that 82% of all new trainees leave the industry after their twenty-fourth month. As a licensed professional in the securities industry for over twenty-two years, I saw these trends coming some time ago; that is why I decided to get out – ahead of that wind of change. The point is financial advisors now have to kill themselves to eke out a living within the framework of the securities industry. The average cold call quota for the major Wall Street firms is two hundred a day—a thousand a week—and it's closely monitored. Can you imagine what kind of degrading work that must be? Fail to make the calls? You're fired, period. Make sure your desk is cleaned out by close of business. And, oh by the way, thanks for opening accounts for all your friends and family members.

What does this mean for you concerning raising capital for your company? I think you can answer that yourself. Do you think these financial advisors would like to be part of your company's senior management team, starting out with a respectable base salary, not to mention some semblance of self-respect for their intellect and investor contacts, or continue to slug it out over the phone like dogs fighting over a bone? Do you think they may know individual investors who would be interested in investing in your company? Do you think they have the selling skills and compliance knowledge to handle the task? Could you afford one or two if they each raised $200,000 a week, a month or a quarter for your company?

The fact is that most of these young professionals are caught in proverbial high-end sweatshops; they are looking for a way to use their knowledge; and most would jump at the chance to come in as a part of the senior management team of a promising start-up or early-stage company. Most have the selling skills to sell securities and handle the administrative compliance to get the job done. And better yet, there are many "seasoned" former professionals from the securities industry that have huge contacts (for capital and otherwise) who are just itching to get back in the game – part time of course. Imagine having one or more of these heavy hitters on your board of directors or board of advisors fulfilling the need of high-level introductions to your firm. Get creative here!

How do you hire one or two of these highly trained professionals who have investor contacts? Put an advertisement in your local newspaper or use any other familiar method you have used when seeking talented employees. This is not rocket science; it's what Wall Street firms do every day. If you believe hiring a VP of Finance is appropriate for your company at this stage, then once you have started the securities offering document production process, you should immediately start the hiring process by placing advertisements in the employment section of your local newspaper. Alternatively, if you're in a small city, consider placing one in the newspaper of the closest large city. Collect resumes for a week or two, set up and conduct interviews in weeks three and four. By the time the interviewing process begins, your securities offering document draft should be completed and you can show a prospective VP of Finance what he or she will be

expected to sell. If hired, be sure to add their biography to the Management team in the securities offering document.

What happens to your new VP of Finance once the capital is raised? First of all, many entrepreneurs feel that they only need to raise a certain dollar amount of capital and the business will then fund its own growth. Rarely, is that the case. Typically, to grow a company to its full potential, there is a consistent need for additional capital. You will need your VP of Finance to plan, prepare and oversee you company's ongoing financial needs and capital-raising efforts, as well as handle administrative compliance duties of any securities offerings. The VP of Finance does not replace a Chief Financial Officer (CFO). A CFO is generally someone versed in accounting practices, such as a CPA who "accounts" for all the financial transactions of the company. The VP of Finance, on the other hand, plans for future capital needs, researching what capital and financial structures are best suited for the company to meet its goals. The VP of Finance will generally oversee all securities offerings, refinancing efforts, leasing arrangements, and franchise sales if applicable. The point is, the VP of Finance's work is rarely done and if your company grows, affording the VP of Finance is never a problem. Your Finance Department may just be the cornerstone of your company's success, not a beast of burden.

This second part of the "perfect storm" simply recognizes that you can hire former (early retirees from the securities industry) or current Financial Advisors away from Wall Street firms in any town, city, or village that has a branch office of investment firms, for a reasonable base salary and benefits.

Current securities laws state that there are only two ways to legally raise capital for your company: produce a business plan and send it to financial institutions (for a 1.5% probability of funding). Or, after creating the required securities offering document, sell securities *directly* to individual investors, in compliance with federal and state securities laws (for a much higher probability of funding) or engage an SEC registered investment bank / NASD member broker-dealer to sell the securities on your company's behalf. Only SEC-registered investment banks/securities broker-dealers (investment firms) or bona fide employees of the issuing company can legally solicit and sell your company's securities. Reputable broker-dealers will not engage a start-up or a very early-stage (generally defined a companies with revenue less than $5,000,000 annually) company. Therefore, if you do not have a qualified person to handle these tasks already, you may need to hire a qualified bona fide employee to become your company's VP of Finance, away from a broker-dealer or better yet, one that has recently left the industry to search for new opportunities or is getting a little bored with early retirement. If a financial advisor applying for the position of VP of Finance can't raise money then you shouldn't hire him or her. Hire those who are willing, ready, and able to handle the task of raising capital for your company. It's that simple.

We know exactly what most entrepreneurs want and expect. They want and expect someone or some entity to raise the capital for their company on a straight commission basis with no up-front fees and they need the money within 30 to 60 days. Most think selling securities to raise capital is like listing property with a real estate brokerage firm. Nothing is farther from the truth for a start-up or early-stage company. The problem: only SEC Registered Broker-dealers can legally solicit and sell your company's securities for a commission. SEC Registered Broker-dealers charge prospective companies between $25,000 to $100,000 up-front in due diligence fees (depending on the complexity of the deal) before they commit to an engagement, and most will not engage start-up and early-stage companies under any circumstance. Even if the company

qualifies for an engagement with a SEC Registered Broker-dealer, the due diligence process can be 60 to 90 days and one should not expect the money within the aforementioned time constraints. The 60 to 90 days is needed just to make a decision whether or not to engage your firm in a securities underwriting agreement. Once that has been accomplished, then the securities offering documents must be prepared – which can take another 60 days and cost anywhere from $30,000 to $50,000 for a private placement memorandum to $250,000 or more for an exchange listing. The point being, this is not a real estate listing arrangement, its serious business and the real players know it. Now, you do too.

If you produce securities and the requisite documents with competitive yield and income participation components (we'll get there soon enough) that meet investor demand relative to the risk, you can attract some of the massive amounts of capital available from maturing bonds. You'll be amazed at how easy it is once you have learned the process and have built an effective finance department.

A prominent securities attorney recently asked me why entrepreneurs on the east and west coasts of the US, are so much more likely to attract and raise risk capital. I said, "It's simply cultural. Do you think it is easier to raise money in New York or New Guinea, San Diego or Sudan? If investors are not in your backyard, you need a new backyard." Remember, there's noting like a face-to-face meeting with those who have the money to risk.

Now and over the next twenty years, the baby boomer generation will inherit a massive amount of wealth; in fact, the largest transfer of assets ever in the U.S. Those known as the "world's greatest generation" (as coined by Tom Brokaw of NBC), the current owners of that wealth, have a risk-averse savings mentality ("tight" money) because most of this population grew up during the Great Depression. Now there is and will continue to be a massive shift from "tight" money to "loose" money. The individuals who comprise the baby boomer generation through Generation X have much more of a risk-taking mentality. These are your prospective investors, as opposed to institutions such as banks and venture capital firms. The reason for their elevated tolerance for risk is that most start planning for retirement as soon as they enter the job market and feel that any excess is available to take on higher risk for higher returns.

In addition — and more important — today's working society has and continues to invest billions of dollars into individual retirement accounts (IRAs) because of the tax benefits associated with these types of accounts. With the right institution as custodian of your company's securities for qualified retirement plans, such as, IRAs, a portion of these dollars can now be invested in your company's privately or publicly placed securities, which furthers the success of your capital-raising efforts. There are billions of dollars sitting in these IRAs looking to be invested in companies like yours. To learn how this is done, log on to the Commonwealth Capital Club, a members-only area requiring a user ID and password, reserved for purchasers of Financial Architect® Private or Public Placement Producers™ or for our Investment Banking Advisory Services clientele. Different deal structures sell in different economic environments, so to keep you informed on what's selling and what's not we developed the Commonwealth Capital Club, which contains up-to-date selling techniques and strategies to further your probability of success.

The information contained in the Commonwealth Capital Club is secretive, dynamic and changes often. The information in this book is fundamental and rarely changes.

Chapter 19: Compliance with Federal and State Securities Laws

The critical compliance component is included and summarized only in the Commonwealth Capital Club. You become a Member of the Commonwealth Capital Club when you purchase a Financial Architect System™ module. Additional compliance information may obtain at www.sec.gov and www.nasaa.org, as well. You should not attempt to issue securities without reviewing that critical information.

Peruse the links to the various regulatory authorities to keep updated on any changes in federal and state securities laws, which may change from time to time. We decided to keep the Compliance section of Financial Architect® separate from this book, so that we may send out compliance notifications or new compliance files to the members of the Commonwealth Capital Club, when necessary.

Once again, to further mitigate risk it may be wise to check with your attorney before conducting the actual offering of securities, as securities, organizational structures, tax and procedural laws, rules, and regulations can change at any time.

In Conclusion . . .

The bottom line in successfully raising capital for start-up, early-stage, and seasoned companies, while maintaining control of the company and retaining the maximum equity for yourself and/or your management team is to use the Wall Street process of raising capital, as disclosed throughout this book. This often takes time, money, and a concerted sales effort. Plan on it and be patient. I know I keep reminding you about this, but I strongly encourage you to hire someone from the securities industry to help you develop and conduct a development or expansion capital securities offering. This strategy will afford you the patience it will take to complete your company's capital-raising effort through the issuance of securities in compliance with federal and state(s) securities laws, rules and regulations. Remember, throughout the entire process you must analyze the deal and remove as much risk from the investor's side of the equation as possible. If you do this, you should be successful in funding your start-up, early-stage, or seasoned company.

I know that if you follow the steps in this book, with dedication and commitment to the process, you should raise the amount of the capital you seek. You can do this. I know you can because others have done this without the knowledge contained within this book and without the advantage of using Financial Architect®. Now you have an incredible advantage over all those other entrepreneurs. Once you have this process down, there will be no stopping you.

Welcome to our world!

Take care, good luck, and Godspeed!

EXHIBIT A
FINANCIAL ARCHITECT DEMO

Commonwealth Capital Advisors

Presents

A Patent Pending System and Method to substantially reduce the cost of raising significant amounts of capital, through the issuance of securities, in compliance with U. S. federal and state(s) securities laws, while increasing the probability of success to the highest degree possible.

How can we make such as claim?
Because without this process, Wall Street wouldn't exist.

We've simply brought the "Wall Street" process to "Main Street" companies.

Description of Three Interdependent Components

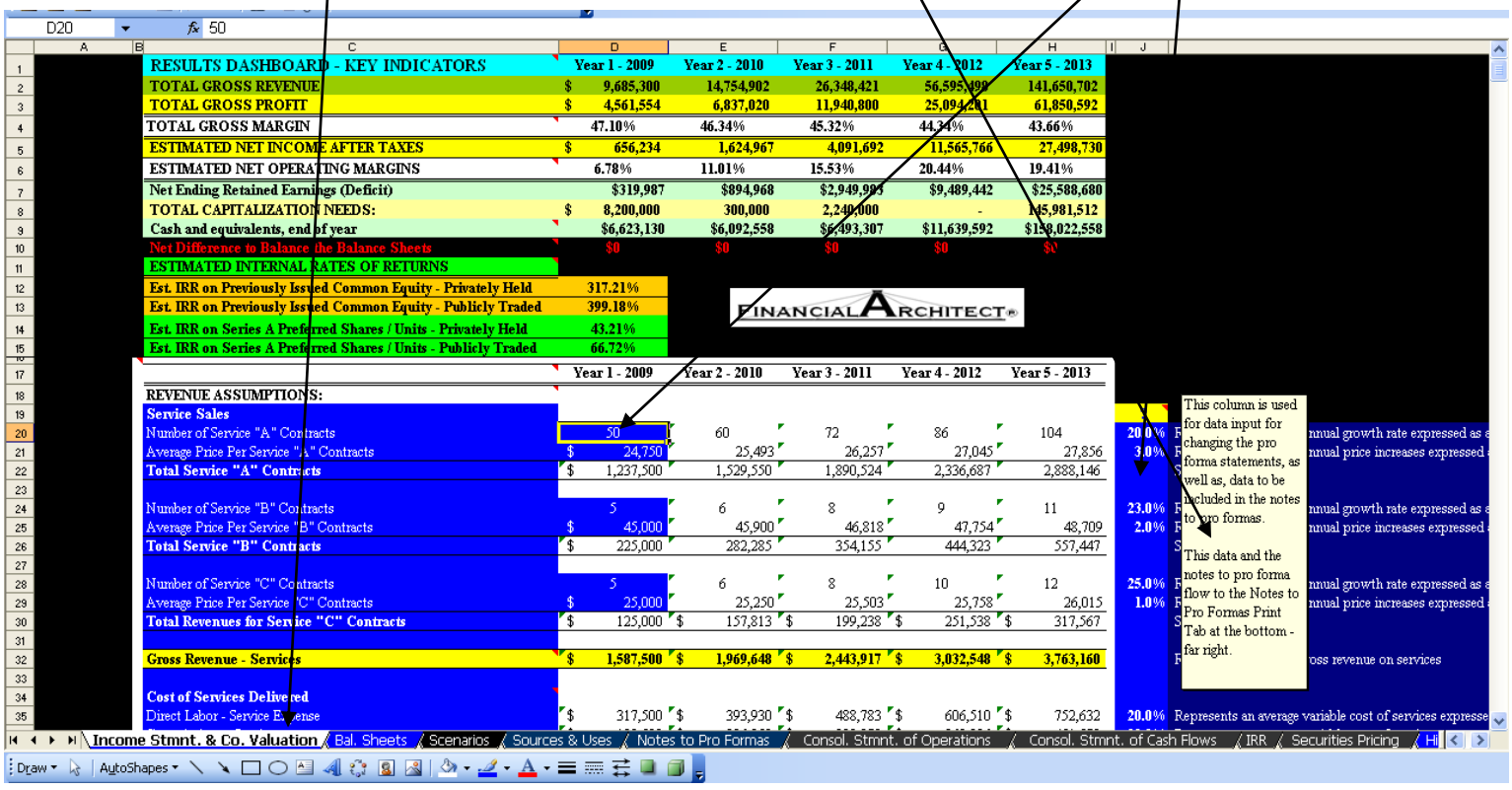
- The EBook entitled: **"<u>The Secrets of Wall Street – Raising Capital for Start-up and Early-Stage Companies -Expert Edition.</u>"**

❖ Securities Offering Document Production Tools.

The following are examples of Securities Offering Document Production Tools:

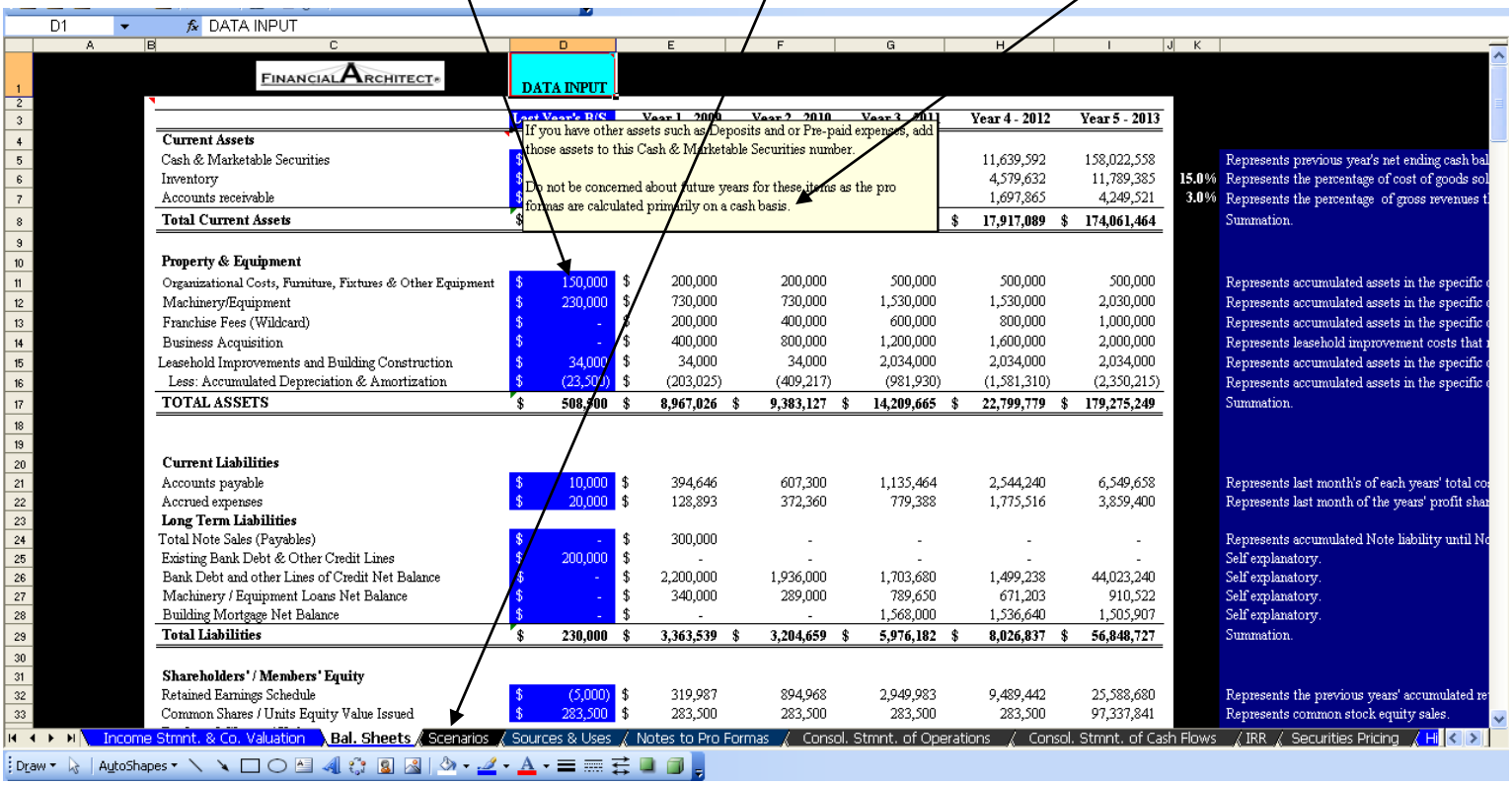
CapPro™ for Operating Companies:

Input Screens: <u>Income Stmnt. & Co. Valuation</u>; Balance Sheet and Scenarios.
By inserting your financial and economic assumptions in the Royale Blue and White cells only, you minimize the time for data input. <u>Comment Boxes</u> are placed strategically through the workbook and guide you as you go.



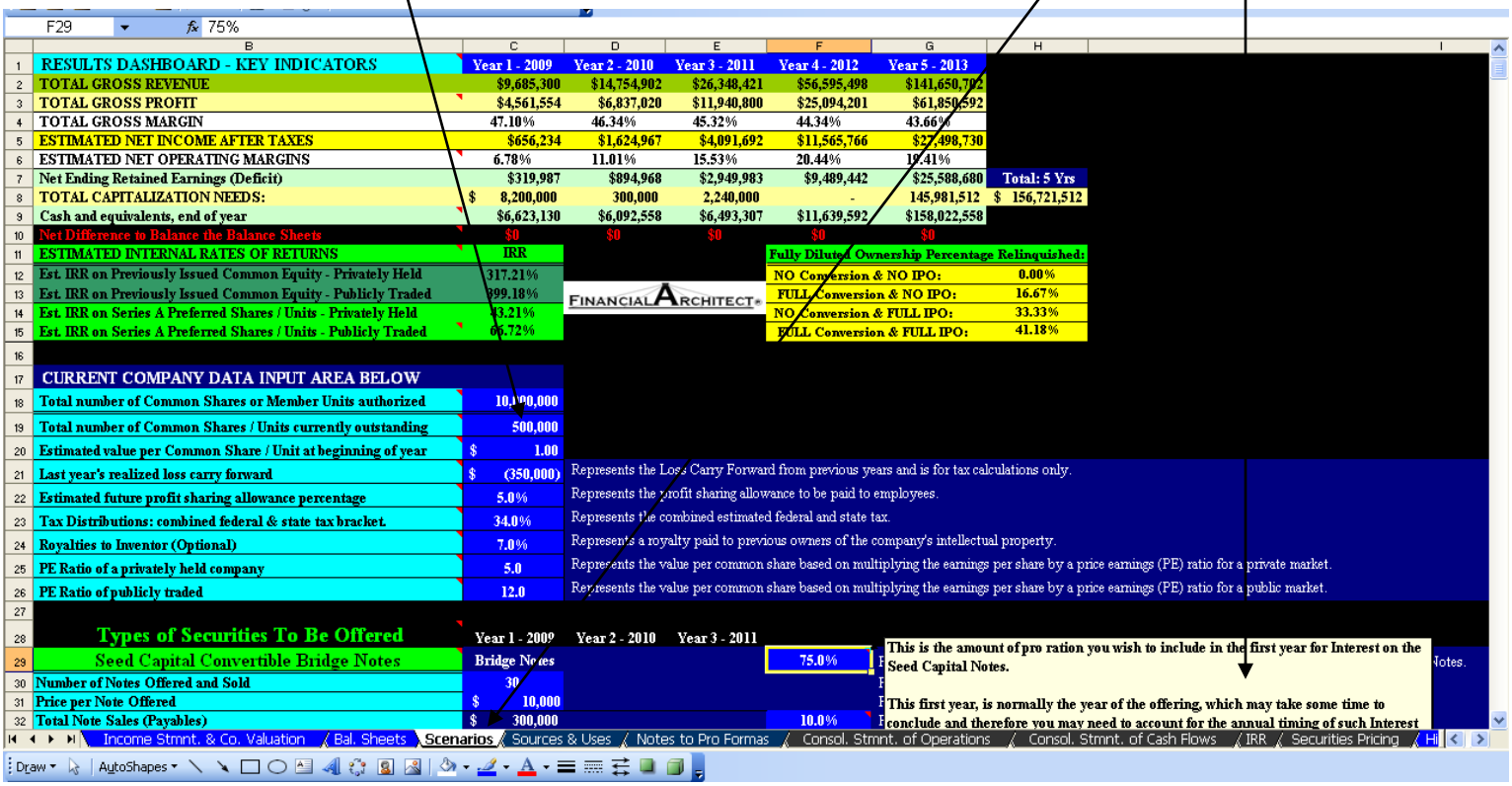
CapPro™ for Operating Companies:

Input Screens: Income Stmnt. & Co. Valuation; Balance Sheet and Scenarios. Once again, inserting your Company's previous year's balance sheet data, if available, in the Royale Blue and White cells only, you minimize the time for data input. Comment Boxes are placed strategically through the workbook and guide you as you go.



CapPro™ for Operating Companies:

Input Screens: Income Stmnt. & Co. Valuation; Balance Sheet and Scenarios. Once again, inserting your Company's basic data and deal structure assumptions in the Royale Blue and White cells only, you minimize the time for data input. Comment Boxes are placed strategically through the workbook and guide you as you go.



CapPro™ for Operating Companies:

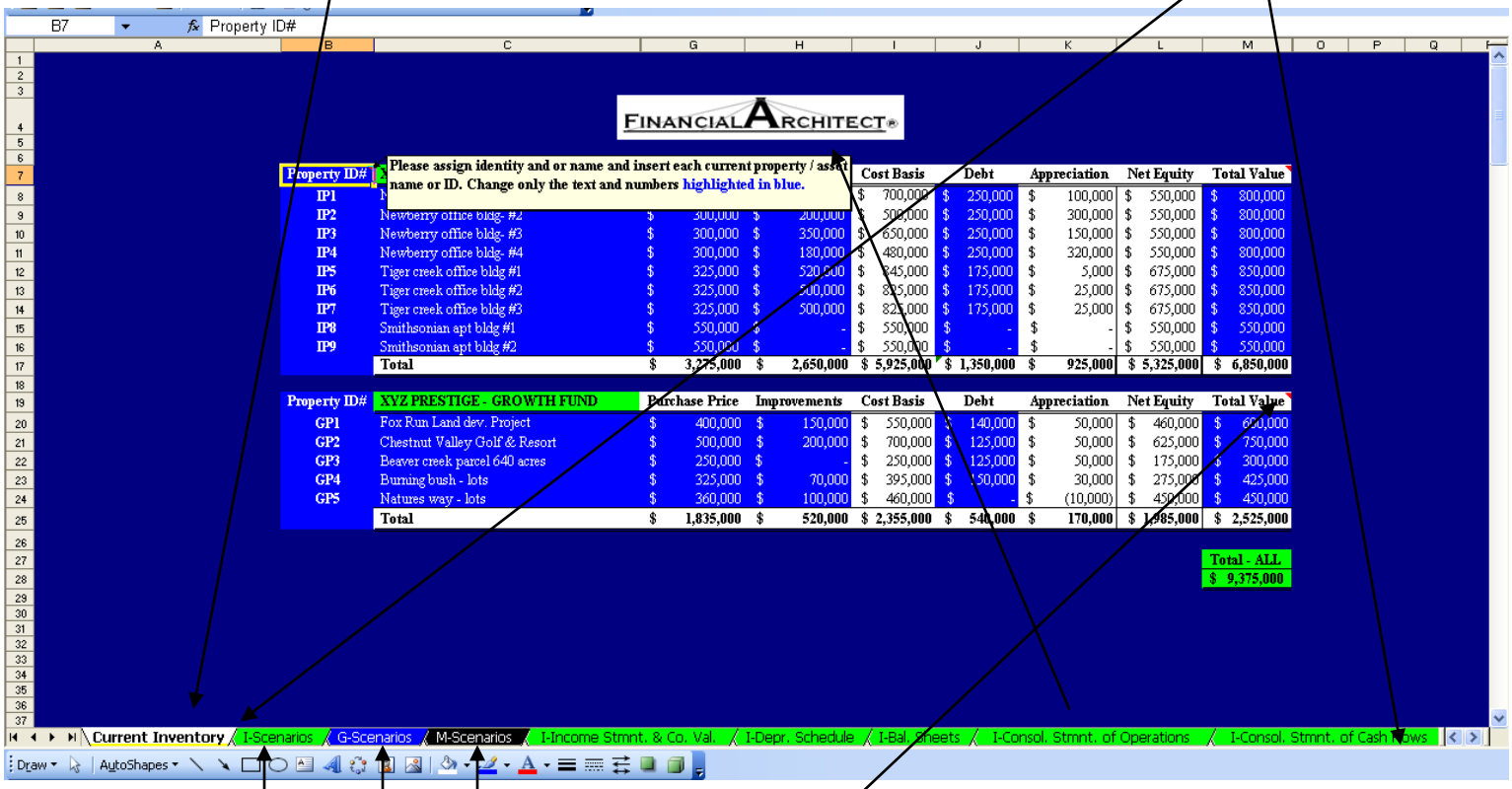
Output Screens: Pro Forma Income Stmnt & Co. Valuation; Pro Forma Consolidated Statement of Operations; Pro Forma Consolidated Statement of Cash Flows; Pro Forma Balance Sheets; Pro Forma Sources and Uses Statement; and Notes to Pro Forma Financial Projections.

Output Screens Example follows the CapPro™ for Funds example.

CapPro™ for Funds:

Input Screens: <u>The Current Inventory Page.</u> The far left tab in the "CapPro with Inventory" file. Here you list the properties you either own or control to be placed into the respective Fund that you will sell additional equity securities to further the capital base. You will eventually copy and paste this table into the PPM Text Template. If you do not have properties to be invested into the Fund, then leave blank by inserting zeros in all the numerical cells.

The CapPro™ for Funds is an MS Excel workbook comprised of a <u>series of tabs</u> for each individual worksheet at the bottom of the workbook.

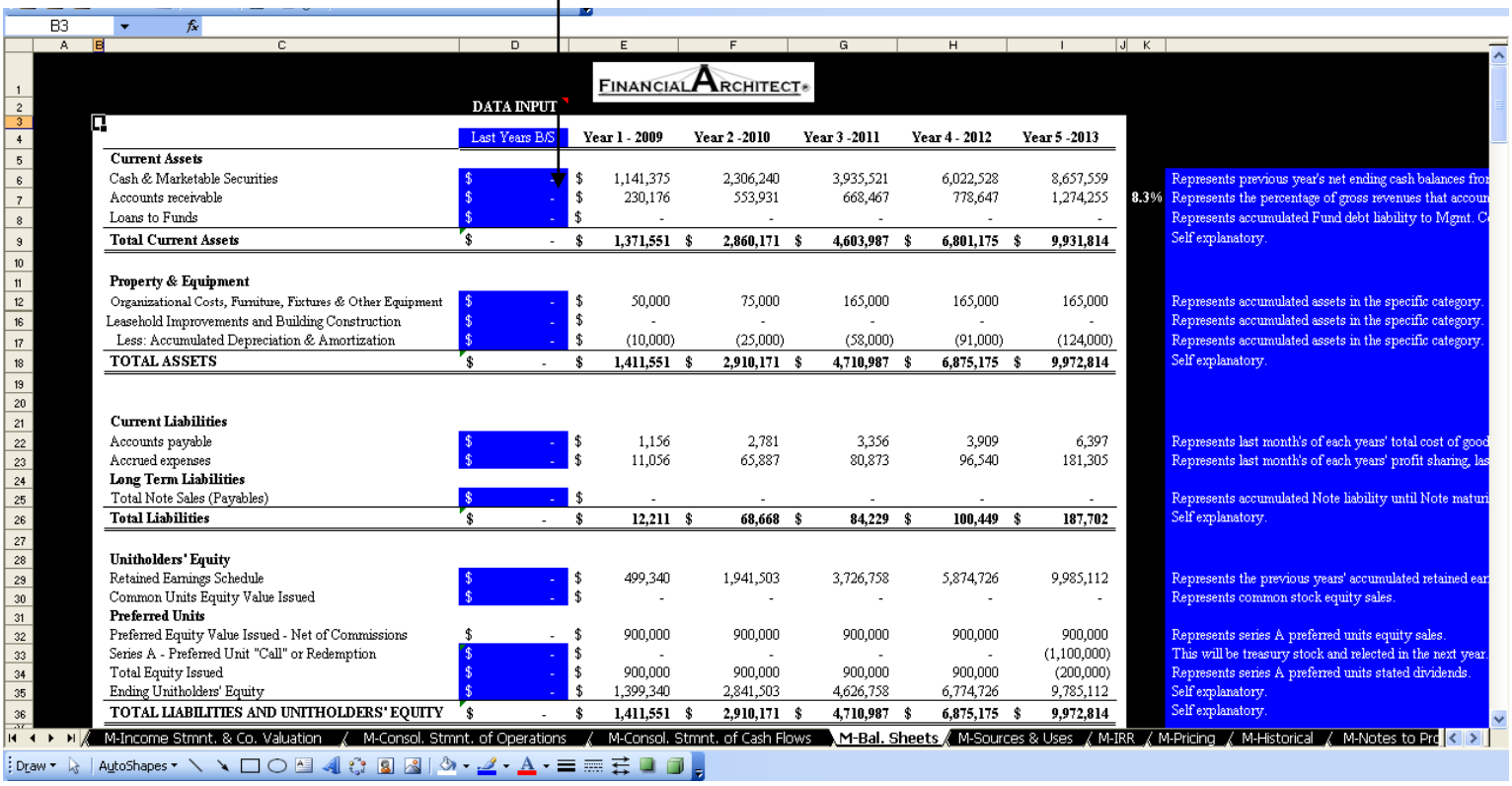


Each sheet has instructions and further explanations embedded within <u>Comment Boxes</u> located by moving your cursor over the <u>red triangles</u> in the upper right hand corner of a cell. The <u>Bright Green Tabs</u> contain financial projections for the Income Fund and to the immediate right <u>The Royal Blue Tabs</u> contain financial projections for the Growth Fund

and to the immediate right Black Tabs contain financial projections for the Management Company. (Mgmt. Co.), which you will copy and paste into the MS Word PPM Text Template later. Sheets are often referred to as "Pages" throughout these instructions.

Input Screens: Enter Balance Sheet Data. The Balance Sheets tab (see Tab on Bottom – to the right), which is the only other statement sheet where your direct data input is needed. There, you will need to input your Mgmt. Company's or Fund's last year's ending balance sheet information before you finalize your presentation. If your Mgmt. Co. is a start-up with no balance sheet information, simply insert zeros in those cells.

We suggest you Enter the existing Balance Sheet data, after you enter your financial projections in the Scenarios Pages and Income Statement & Co. Valuation sheet (for the Mgmt. Co.) and formulate your deal structure because you may have had to increase the category rows. More instructions are included within the comment boxes on the Balance Sheet statement.

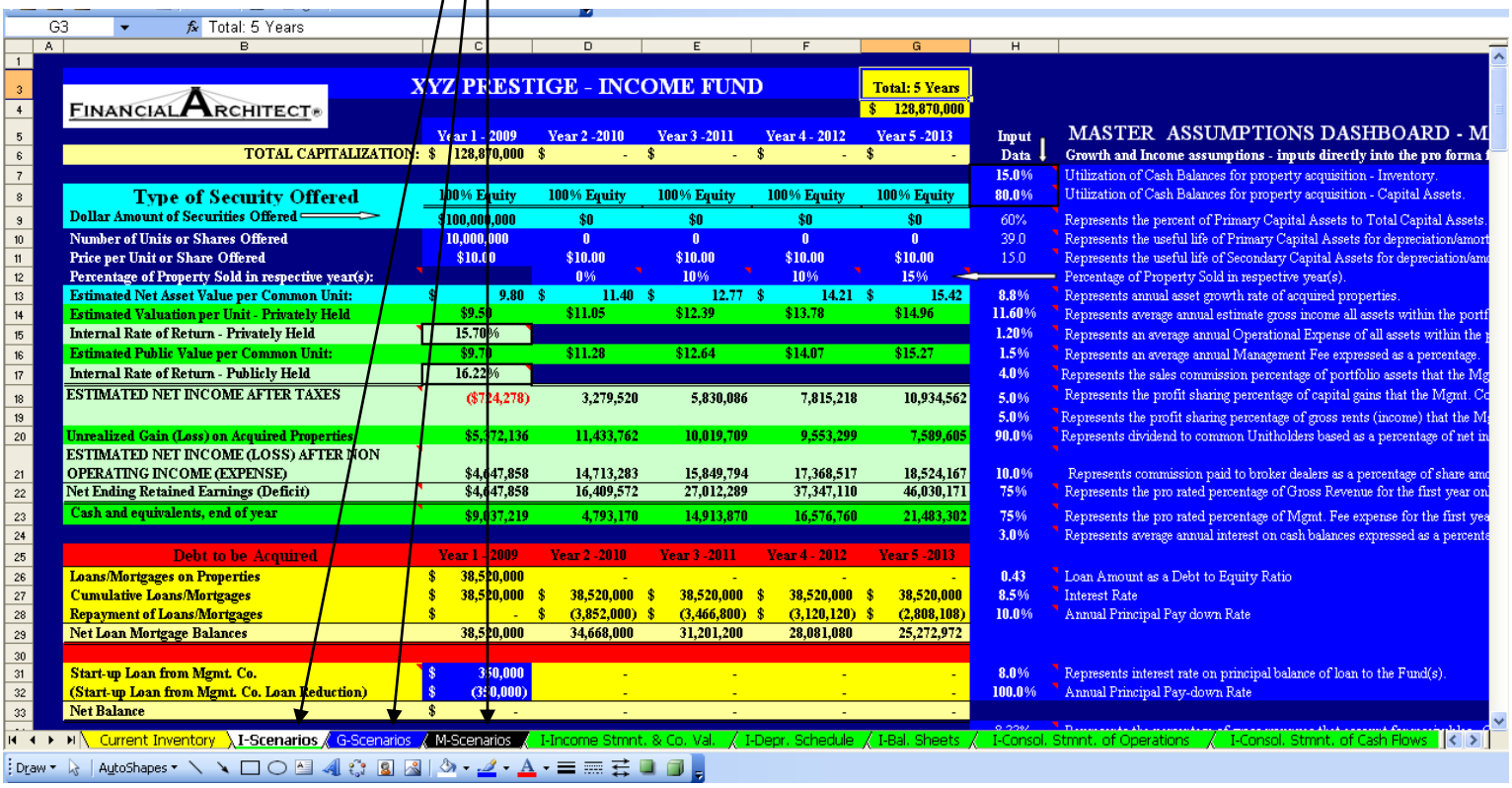


FINANCIAL ARCHITECT®

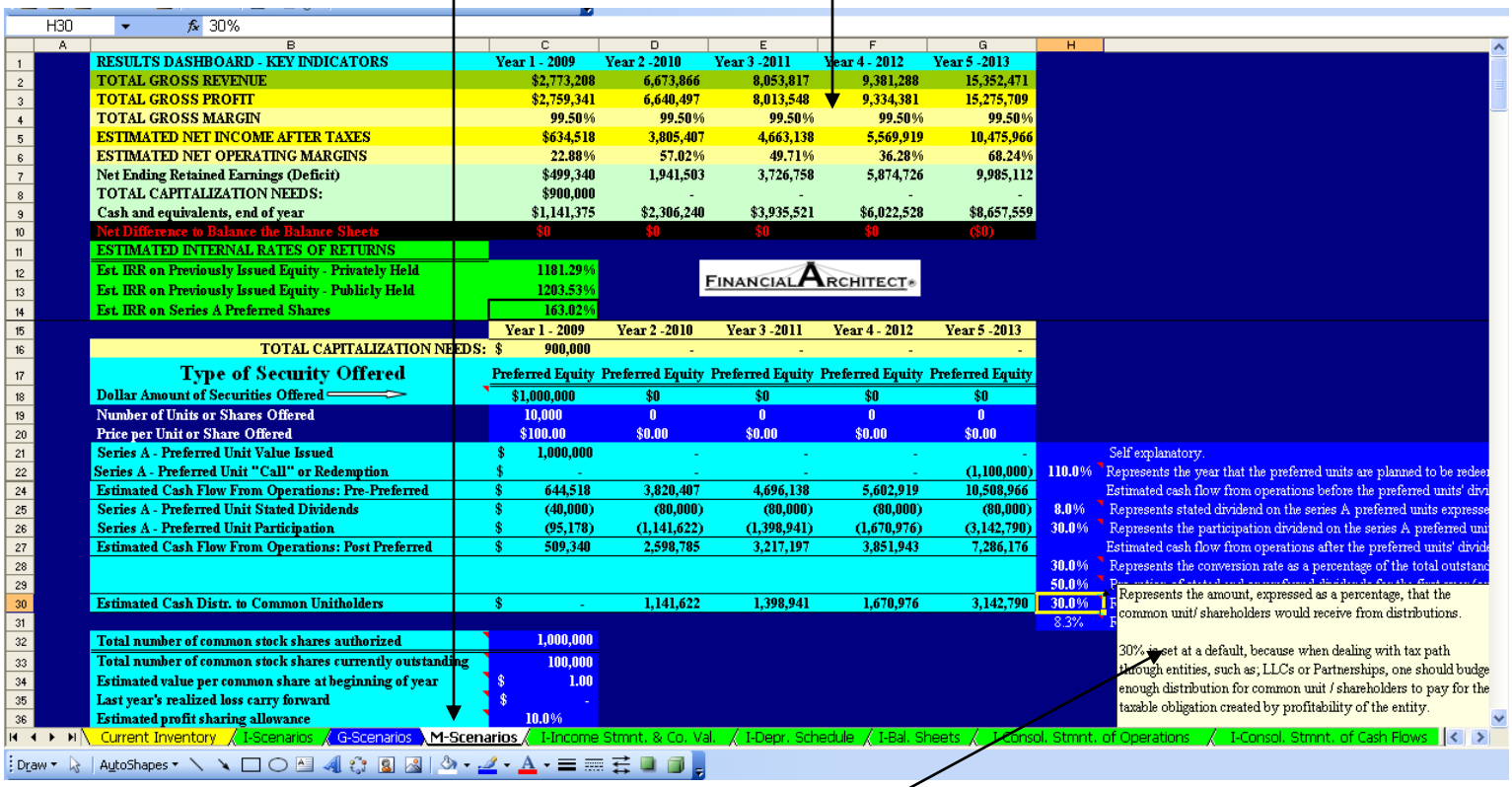
DATA INPUT

	Last Years B/S	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013		
Current Assets								
Cash & Marketable Securities	$ -	$ 1,141,375	2,306,240	3,935,521	6,022,528	8,657,559		Represents previous year's net ending cash balances fro
Accounts receivable	$ -	$ 230,176	553,931	668,467	778,647	1,274,255	8.3%	Represents the percentage of gross revenues that accou
Loans to Funds	$ -	$ -	-	-	-	-		Represents accumulated Fund debt liability to Mgmt. C
Total Current Assets	$ -	$ 1,371,551	$ 2,860,171	$ 4,603,987	$ 6,801,175	$ 9,931,814		Self explanatory.
Property & Equipment								
Organizational Costs, Furniture, Fixtures & Other Equipment	$ -	$ 50,000	75,000	165,000	165,000	165,000		Represents accumulated assets in the specific category.
Leasehold Improvements and Building Construction	$ -	$ -	-	-	-	-		Represents accumulated assets in the specific category.
Less: Accumulated Depreciation & Amortization	$ -	$ (10,000)	(25,000)	(58,000)	(91,000)	(124,000)		Represents accumulated assets in the specific category.
TOTAL ASSETS	$ -	$ 1,411,551	$ 2,910,171	$ 4,710,987	$ 6,875,175	$ 9,972,814		Self explanatory.
Current Liabilities								
Accounts payable	$ -	$ 1,156	2,781	3,356	3,909	6,397		Represents last month's of each years' total cost of good
Accrued expenses	$ -	$ 11,056	65,887	80,873	96,540	181,305		Represents last month's of each years' profit sharing, las
Long Term Liabilities								
Total Note Sales (Payables)	$ -	$ -	-	-	-	-		Represents accumulated Note liability until Note maturi
Total Liabilities	$ -	$ 12,211	$ 68,668	$ 84,229	$ 100,449	$ 187,702		Self explanatory.
Unitholders' Equity								
Retained Earnings Schedule	$ -	$ 499,340	1,941,503	3,726,758	5,874,726	9,985,112		Represents the previous years' accumulated retained ear
Common Units Equity Value Issued	$ -	$ -	-	-	-	-		Represents common stock equity sales.
Preferred Units								
Preferred Equity Value Issued - Net of Commissions	$ -	$ 900,000	900,000	900,000	900,000	900,000		Represents series A preferred units equity sales.
Series A - Preferred Unit "Call" or Redemption	$ -	$ -	-	-	-	(1,100,000)		This will be treasury stock and relected in the next year.
Total Equity Issued	$ -	$ 900,000	900,000	900,000	900,000	(200,000)		Represents series A preferred units stated dividends.
Ending Unitholders' Equity	$ -	$ 1,399,340	2,841,503	4,626,758	6,774,726	9,785,112		Self explanatory.
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	$ -	$ 1,411,551	$ 2,910,171	$ 4,710,987	$ 6,875,175	$ 9,972,814		Self explanatory.

Input Screens: The Scenarios Page(s) - Funds. Here you can build the capital and financial structure of the Fund. We've placed the Income Fund, Growth Fund and the Mgmt. Co. Scenarios Pages together for ease of comparison. These pages are the only ones you'll need to determine the size and structure of your Funds. Once the size and the deal structures have been determined by you, the rest of the sheets are used to illustrate your financial projections within the PPM. Since the structure of this page is formatted to run "What If" scenarios and Comment Boxes are used for further instruction and clarification, we will allow the page itself to instruct you as you go.



Input Screens: **Mgmt. Co Scenarios Tab** with the Results Dashboard. The floating header in the Mgmt. Co. Scenarios and All Three-Income Statement & Company Valuation pages is known as the Results Dashboard. The Results Dashboard enables you to see certain Key Indicators when you run "What if" scenarios, once all your data and financial assumptions have been entered. Explanation and the practical meaning in the respective row should be self-explanatory.



RESULTS DASHBOARD - KEY INDICATORS	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013
TOTAL GROSS REVENUE	$2,773,208	6,673,866	8,053,817	9,381,288	15,352,471
TOTAL GROSS PROFIT	$2,759,341	6,640,497	8,013,548	9,334,381	15,275,709
TOTAL GROSS MARGIN	99.50%	99.50%	99.50%	99.50%	99.50%
ESTIMATED NET INCOME AFTER TAXES	$634,518	3,805,407	4,663,138	5,569,919	10,475,966
ESTIMATED NET OPERATING MARGINS	22.88%	57.02%	49.71%	36.28%	68.24%
Net Ending Retained Earnings (Deficit)	$499,340	1,941,503	3,726,758	5,874,726	9,985,112
TOTAL CAPITALIZATION NEEDS:	$900,000	-	-	-	-
Cash and equivalents, end of year	$1,141,375	$2,306,240	$3,935,521	$6,022,528	$8,657,559
Net Difference to Balance the Balance Sheets	$0	$0	$0	$0	($0)

ESTIMATED INTERNAL RATES OF RETURNS	
Est. IRR on Previously Issued Equity - Privately Held	1181.29%
Est. IRR on Previously Issued Equity - Publicly Held	1203.53%
Est. IRR on Series A Preferred Shares	163.02%

TOTAL CAPITALIZATION NEEDS:	Year 1 - 2009 $ 900,000	Year 2 -2010 -	Year 3 -2011 -	Year 4 - 2012 -	Year 5 -2013 -
Type of Security Offered	Preferred Equity	Preferred Equity	Preferred Equity	Preferred Equity	Preferred Equity
Dollar Amount of Securities Offered	$1,000,000	$0	$0	$0	$0
Number of Units or Shares Offered	10,000	0	0	0	0
Price per Unit or Share Offered	$100.00	$0.00	$0.00	$0.00	$0.00
Series A - Preferred Unit Value Issued	$ 1,000,000	-	-	-	-
Series A - Preferred Unit "Call" or Redemption	$ -	-	-	-	(1,100,000)
Estimated Cash Flow From Operations: Pre-Preferred	$ 644,518	3,820,407	4,696,138	5,602,919	10,508,966
Series A - Preferred Unit Stated Dividends	$ (40,000)	(80,000)	(80,000)	(80,000)	(80,000)
Series A - Preferred Unit Participation	$ (95,178)	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Estimated Cash Flow From Operations: Post Preferred	$ 509,340	2,598,785	3,217,197	3,851,943	7,286,176
Estimated Cash Distr. to Common Unitholders	$ -	1,141,622	1,398,941	1,670,976	3,142,790

Total number of common stock shares authorized	1,000,000
Total number of common stock shares currently outstanding	100,000
Estimated value per common share at beginning of year	$ 1.00
Last year's realized loss carry forward	$ -
Estimated profit sharing allowance	10.0%

	Self explanatory.
110.0%	Represents the year that the preferred units are planned to be redee
	Estimated cash flow from operations before the preferred units' divi
8.0%	Represents stated dividend on the series A preferred units expresse
30.0%	Represents the participation dividend on the series A preferred uni
	Estimated cash flow from operations after the preferred units' divide
30.0%	Represents the conversion rate as a percentage of the total outstanc
50.0%	
30.0%	Represents the amount, expressed as a percentage, that the common unit/ shareholders would receive from distributions. 30% is set at a default, because when dealing with tax path through entities, such as; LLCs or Partnerships, one should budge enough distribution for common unit / shareholders to pay for the taxable obligation created by profitability of the entity.
8.3%	

The Mgmt. Co Scenarios Tab is constructed somewhat like the Fund Scenarios Pages, but with a few additional items.

Once again, the Comment Boxes located throughout various cells further your understanding of the meaning and function of each cell and calculation it contains.

Examples of Output Screens for a Fund Management Company are as follows:

Pro Forma Income Statement and Company Valuation

	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013
REVENUE ASSUMPTIONS:					
XYZ PRESTIGE - INCOME FUND	**$ 90,000,000**	**90,000,000**	**90,000,000**	**90,000,000**	**90,000,000**
Investment Activities:					
Beginning Fund Cash	$ 180,000,000	1,922,718	(2,011,559)	(2,717,455)	(2,492,798)
Annual Acquisitions - Inventory:	$ 27,000,000	288,408	-	-	-
Annual Acquisitions - Capital Assets:	$ 144,000,000	1,538,175	-	-	-
Annual gross income from rent(s) of portfolio properties:	$ 16,736,625	24,517,633	26,675,185	29,022,601	31,576,590
Interest income on average cash balances:	$ 163,841	255,167	159,915	129,611	128,597
Ending Fund Cash	**$ 10,922,718**	**6,088,441**	**4,572,545**	**4,068,202**	**4,504,926**
Net Cost Basis(s) Cumulative:	$ 171,000,000	172,826,582	172,826,582	172,826,582	172,826,582
Net Valuation of Annual Acquisitions Cumulative:	**$ 178,524,000**	**196,141,064**	**213,401,478**	**232,180,808**	**252,612,719**
Estimated Value of Existing Fund Net Assets	**189,446,718**	**202,229,506**	**217,974,023**	**236,249,010**	**257,117,645**
Percentage of Total Property Inventory Sold:	**0%**	**0%**	**0%**	**0%**	**0%**
Net Sale Price(s) of Properties Sold:	$ -	-	-	-	-
Cost Basis(s) of Properties Sold Inventory:	**$** -	-	-	-	-
Cost Basis(s) of Properties Sold Capital Assets:	**$** -	-	-	-	-
Total Cost Basis of Properties Sold:	**$** -	-	-	-	-
Realized Profit (loss)	**$** -	-	-	-	-
TOTAL GROSS REVENUE	**$ 16,900,465.78**	**$ 24,772,800**	**$ 26,835,100**	**$ 29,152,212**	**$ 31,705,187**
TOTAL GROSS PROFIT	**$ 14,758,177.78**	**$ 22,419,108**	**$ 24,274,282**	**$ 26,366,042**	**$ 28,673,834**
TOTAL GROSS MARGIN	**87.32%**	**90.50%**	**90.46%**	**90.44%**	**90.44%**
XYZ PRESTIGE - INCOME FUND					
Annual Management Fee Percentage	**1.50%**	**1.50%**	**1.50%**	**1.50%**	**1.50%**
Management Fees	$ 2,131,276	3,033,443	3,269,610	3,543,735	3,856,765
Sales Commissions from portfolio properties	$ -	-	-	-	-
Profit Sharing to Mgmt. Co. - Income	$ 238,504	945,953	1,123,310	1,308,272	1,504,165
Profit Sharing to Mgmt. Co. - Capital Gains	$ -	-	-	-	-
Interest on loan to Fund	$ (28,000)	-	-	-	-
TOTAL REVENUE FROM FUND	**$ 2,341,780**	**$ 3,979,396**	**$ 4,392,920**	**$ 4,852,007**	**$ 5,360,930**

Pro Forma Income Statement and Company Valuation (cont.)

XYZ PRESTIGE - GROWTH FUND		**45,000,000**	**90,000,000**	**90,000,000**	**90,000,000**	**90,000,000**
Investment Activities:						
Beginning Fund Cash	$	90,000,000	93,100,556	5,289,693	1,049,407	6,981,906
Annual Acquisitions - Inventory:	$	72,000,000	74,480,445	4,231,755	839,525	5,585,524
Annual Acquisitions - Capital Assets:	$	9,000,000	9,310,056	528,969	104,941	698,191
Annual gross income from portfolio	$	-	-	-	-	-
Interest income on average cash balances	$	30,004	76,359	60,841	73,400	493,298
Ending Fund Cash	**$**	**4,000,556**	**6,180,693**	**1,931,497**	**7,855,175**	**57,917,882**
Net Cost Basis(s) Cumulative	$	81,000,000	157,563,632	152,704,004	140,961,899	90,334,733
Valuation of Annual Acquisitions Cumulative:	**$**	**87,885,000**	**184,864,641**	**207,512,196**	**222,458,043**	**159,745,060**
Estimated Value of Existing Fund Net Assets	**$**	**91,885,556**	**191,045,334**	**209,443,692**	**230,313,217**	**217,662,942**

Percentage of Total Property Inventory Sold		**0%**	**5%**	**7%**	**10%**	**70%**
Net Sale Price(s) of Properties Sold	$	-	8,873,503	13,944,820	21,355,972	107,348,680
Cost Basis(s) of Properties Sold Inventory	$	-	6,302,545	8,551,424	11,276,952	50,587,450
Cost Basis(s) of Properties Sold Capital Assets	$	-	924,323	1,068,928	1,409,619	6,323,431
Total Cost Basis of Properties Sold	$	-	7,226,868	9,620,352	12,686,571	56,910,882
Realized Profit (loss)	**$**	**-**	**1,646,634**	**4,324,467**	**8,669,401**	**50,437,799**
TOTAL GROSS REVENUE	**$**	**30,004**	**8,949,862**	**14,005,661**	**21,429,372**	**107,841,978**
TOTAL GROSS PROFIT	**$**	**30,004**	**1,722,994**	**4,385,309**	**8,742,801**	**50,931,097**
TOTAL GROSS MARGIN		**100.00%**	**19.25%**	**31.31%**	**40.80%**	**47.23%**

XYZ PRESTIGE - GROWTH FUND						
Annual Management Fee Percentage		**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**
Management Fees	$	459,428	1,910,453	2,094,437	2,303,132	2,176,629
Sales Commissions from portfolio properties	$	-	369,729	581,034	889,832	4,472,862
Profit Sharing to Mgt. Co. - Income	$	-	331,956	769,202	902,846	820,160
Profit Sharing to Mgt. Co. - Capital Gains	$	-	82,332	216,223	433,470	2,521,890
Interest from loan to Fund	$	(28,000)	-	-	-	-
TOTAL REVENUE FROM FUND	**$**	**431,428**	**2,694,470**	**3,660,897**	**4,529,281**	**9,991,541**

Total Gross Revenue - Management Services	**$**	**2,773,208**	**$**	**6,673,866**	**$**	**8,053,817**	**$**	**9,381,288**	**$**	**15,352,471**
Cost of Services Delivered										
Service Expense	$	11,709		19,897		21,965		24,260		26,805
Service Expense	$	2,157		13,472		18,304		22,646		49,958
Total Cost of Services Delivered	**$**	**13,866**	**$**	**33,369**	**$**	**40,269**	**$**	**46,906**	**$**	**76,762**
TOTAL GROSS REVENUE	**$**	**2,773,208**	**$**	**6,673,866**	**$**	**8,053,817**	**$**	**9,381,288**	**$**	**15,352,471**
TOTAL GROSS PROFIT	**$**	**2,759,341**	**$**	**6,640,497**	**$**	**8,013,548**	**$**	**9,334,381**	**$**	**15,275,709**
TOTAL GROSS MARGIN		**100%**		**100%**		**100%**		**100%**		**100%**

Pro Forma Income Statement and Company Valuation (cont.)

General and Administrative Expense:						
Management Salaries	$	980,000	1,029,000	1,080,450	1,134,473	1,191,196
Administration Dept. Staff Wages	$	198,000	257,400	334,620	435,006	565,508
Payroll Taxes & Relating Insurance	$	141,360	154,368	169,808	188,337	210,804
Benefits Package	$	70,680	77,184	84,904	94,169	105,402
Sales, Marketing, Advertising & Promotion	$	75,000	79,500	84,270	89,326	94,686
Travel, Lodging, and Seminar Expense	$	165,000	198,000	237,600	285,120	342,144
General Liability Insurance	$	140,666	196,637	213,709	233,281	237,390
Key Person Life Insurance	$	9,800	10,290	10,805	11,345	11,912
Asset Property Taxes	$	400	600	1,320	1,320	1,320
Equipment Lease	$	5,000	5,500	6,050	6,655	7,321
Office and Computer Supplies	$	2,500	3,000	3,600	4,320	5,184
Accounting	$	30,000	33,000	36,300	39,930	43,923
Legal	$	50,000	60,000	72,000	86,400	103,680
Office Leases	$	72,000	72,000	200,000	200,000	200,000
Website Hosting & IT Support	$	3,500	3,850	4,235	4,659	5,124
Software Purchases	$	2,500	-	2,000	-	-
Telephones & High Speed Internet Access	$	8,000	8,800	9,680	10,648	11,713
Trade Assn. Dues, Conference & Shows	$	7,000	7,700	8,470	9,317	10,249
Research & Development Consultants	$	5,000	5,500	6,050	6,655	7,321
Financial Consultants	$	50,000	55,000	60,500	66,550	73,205
Miscellaneous Other Expenses	$	5,000	7,500	9,000	10,000	11,000
Total General and Administrative Expense	**$**	**2,021,406**	**$ 2,264,829**	**$ 2,635,371**	**$ 2,917,510**	**$ 3,239,082**
EBITDA	**$**	**737,935**	**$ 4,375,667**	**$ 5,378,177**	**$ 6,416,871**	**$ 12,036,627**
Capitalized Assets						
Organizational Costs, Furniture, Fixtures & Other Equipment	$	50,000	25,000	90,000	-	-
Business Acquisition	$	-	-	-	-	-
Leasehold Improvements and Building Construction	$	-	-	-	-	-
Total Capitalized Assets:	**$**	**50,000**	**$ 25,000**	**$ 90,000**	**$ -**	**$ -**
Note Interest	$	-	-	-	-	-
Bank Loan Interest	$	-	-	-	-	-
Interest Expense	**$**	**-**	**-**	**-**	**-**	**-**
Total Income Before Taxes, Depreciation and Amortization	$	737,935	4,375,667	5,378,177	6,416,871	12,036,627
Less:						
Profit Sharing:	$	73,794	437,567	537,818	641,687	1,203,663
Depreciation & Amortization	$	10,000	15,000	33,000	33,000	33,000
Net Income before Income Taxes	$	654,142	3,923,100	4,807,359	5,742,184	10,799,965
Federal & State Corp. Income Tax	$	19,624	117,693	144,221	172,266	323,999
Loss Carry Forward for Tax Calculations Only	$	-	-	-	-	-
ESTIMATED NET INCOME AFTER TAXES	**$**	**634,518**	**$ 3,805,407**	**$ 4,663,138**	**$ 5,569,919**	**$ 10,475,966**
ESTIMATED NET OPERATING MARGINS		**22.88%**	**57.02%**	**49.71%**	**36.28%**	**68.24%**

Pro Forma Income Statement and Company Valuation (cont.)

CAPITALIZATION:						
SERIES -A- PREFERRED UNITS						
Number of Preferred Units Offered and Sold		10,000	-	-	-	-
Price per Preferred Unit	$	100.00	-	-	-	-
Series A - Preferred Unit Value Issued	**$**	**1,000,000**	**-**	**-**	**-**	**-**
Series A - Preferred Unit "Call" or Redemption	$	-	-	-	-	(1,100,000)
Less commissions paid to broker dealers	$	100,000	-	-	-	-
Preferred Equity Value Issued - Net of Commissions	**$**	**900,000**	**-**	**-**	**-**	**-**
Series A - Preferred Unit Stated Dividends	$	(40,000)	(80,000)	(80,000)	(80,000)	(80,000)
Series A - Preferred Unit Participation	$	(95,178)	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Estimated Cash Distr. to Common Unitholders	$	-	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Est. Net Earnings per Common Unit	$	6.35	$ 38.05	$ 46.63	$ 55.70	$ 80.58
ESTIMATED NET CASH FLOW FROM OPERATIONS	**$**	**509,340**	**1,457,163**	**1,818,255**	**2,180,967**	**4,143,386**
TRADITIONAL DEBT						
Loans to Funds	$	700,000	-	-	-	-
Repayment of Loans from Funds	$	(700,000)	-	-	-	-
TOTAL CAPITALIZATION NEEDS:	$	900,000	$ -	$ -	$ -	$ -
COMPANY VALUATION - PRIVATELY HELD						
Estimated Private Value per Common Unit:	**$**	**31.73**	**190.27**	**233.16**	**278.50**	**402.92**
Company Valuation - Privately Held:	**$**	**3,172,588**	**$ 19,027,037**	**$ 23,315,691**	**$ 27,849,593**	**$ 52,379,828**
COMPANY VALUATION - PUBLICLY TRADED:						
Estimated Public Value per Common Unit:	**$**	**76.14**	**$ 456.65**	**$ 559.58**	**$ 668.39**	**$ 967.01**
Company Valuation - Publicly Traded:	**$**	**7,614,211**	**$ 45,664,890**	**$ 55,957,659**	**$ 66,839,023**	**$ 125,711,588**

ESTIMATED INTERNAL RATES OF RETURNS	
Est. IRR on Series A Preferred Shares	**163.02%**

Pro Forma Consolidated Statement of Operations

	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013
Total Gross Revenues	$ 2,773,208	6,673,866	8,053,817	9,381,288	15,352,471
Total Cost of Services Delivered	$ 13,866	33,369	40,269	46,906	76,762
Gross Profit	**$ 2,759,341**	**$ 6,640,497**	**$ 8,013,548**	**$ 9,334,381**	**$ 15,275,709**
Operating expenses:					
Total General and Administrative Expense	$ 2,021,406	2,264,829	2,635,371	2,917,510	3,239,082
Profit Sharing:	$ 73,794	437,567	537,818	641,687	1,203,663
Depreciation & Amortization	$ 10,000	15,000	33,000	33,000	33,000
Total operating expenses	$ 2,105,200	2,717,396	3,206,189	3,592,197	4,475,744
Operating profit (loss)	**$ 654,142**	**$ 3,923,100**	**$ 4,807,359**	**$ 5,742,184**	**$ 10,799,965**
Other income (expense):					
Interest Expense	$ -	-	-	-	-
Profit (loss) before income taxes	$ 654,142	3,923,100	4,807,359	5,742,184	10,799,965
Federal & State Corp. Income Tax	$ 19,624	117,693	144,221	172,266	323,999
Net profit (loss)	**$ 634,518**	**3,805,407**	**4,663,138**	**5,569,919**	**10,475,966**
Net profit (loss) per Common Unit - fully diluted	**$ 6.35**	**$ 38.05**	**$ 46.63**	**$ 55.70**	**$ 80.58**
Statement of Retained Earnings					
Beginning Retained Earnings (Deficit)	$ -	499,340	1,941,503	3,726,758	5,874,726
Net Income (Loss)	$ 634,518	3,805,407	4,663,138	5,569,919	10,475,966
Less Shareholder Distributions					
Series A - Preferred Unit Stated Dividends	$ (40,000)	(80,000)	(80,000)	(80,000)	(80,000)
Series A - Preferred Unit Participation	$ (95,178)	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Common Shareholder Distributions	$ -	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Total Shareholder Distributions	$ (135,178)	(2,363,244)	(2,877,883)	(3,421,951)	(6,365,579)
Net Ending Retained Earnings (Deficit)	**$ 499,340**	**$ 1,941,503**	**$ 3,726,758**	**$ 5,874,726**	**$ 9,985,112**

Pro Forma Consolidated Statement of Cash Flows

	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013
Cash flows from operating activities:					
Estimated Net Income	$ 634,518	3,805,407	4,663,138	5,569,919	10,475,966
Depreciation & Amortization	$ 10,000	15,000	33,000	33,000	33,000
Cash provided by operating activities	**$ 644,518**	**3,820,407**	**4,696,138**	**5,602,919**	**10,508,966**
Cash flows from increases (decreases) in current assets/liabilities					
Accounts receivable	$ (230,176)	(323,755)	(114,536)	(110,180)	(495,608)
Accounts payable	$ 1,156	1,625	575	553	2,488
Accrued expenses	$ 11,056	54,832	14,986	15,667	84,765
Total Cash flows from asset/liability changes	**$ (217,965)**	**$ (267,298)**	**$ (98,975)**	**$ (93,960)**	**$ (408,356)**
Cash outflows from investing activities:					
Total Capitalized Assets:	$ (50,000)	(25,000)	(90,000)	-	-
Loans to Funds	(700,000)	-	-	-	-
Net cash from investing activities	**$ (750,000)**	**$ (25,000)**	**$ (90,000)**	**$ -**	**$ -**
Cash inflows from financing activities:					
Total Note Sales (Payables)	$ -	-	-	-	-
Repayment of Loans from Funds	$ 700,000	-	-	-	-
Common Units Equity Value Issued	$ -	-	-	-	-
Preferred Equity Value Issued - Net of Commissions	$ 900,000	-	-	-	-
Cash outflows from financing activities:					
(Note Principal reductions)	$ -	-	-	-	-
Series A - Preferred Unit Stated Dividends	$ (40,000)	(80,000)	(80,000)	(80,000)	(80,000)
Series A - Preferred Unit Participation	$ (95,178)	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Series A - Preferred Unit "Call" or Redemption	$ -	-	-	-	(1,100,000)
Estimated Cash Distr. to Common Unitholders	$ -	(1,141,622)	(1,398,941)	(1,670,976)	(3,142,790)
Net cash flows from financing activities:	**$ 1,464,822**	**$ (2,363,244)**	**$ (2,877,883)**	**$ (3,421,951)**	**$ (7,465,579)**
Net cash increase (decrease)	$ 1,141,375	1,164,865	1,629,281	2,087,007	2,635,031
Cash and equivalents, beginning of year	$ -	1,141,375	2,306,240	3,935,521	6,022,528
Cash and equivalents, end of year	**$ 1,141,375**	**$ 2,306,240**	**$ 3,935,521**	**$ 6,022,528**	**$ 8,657,559**

Pro Forma Balance Sheets

	Year 1 - 2009	Year 2 -2010	Year 3 -2011	Year 4 - 2012	Year 5 -2013
Current Assets					
Cash & Marketable Securities	$ 1,141,375	2,306,240	3,935,521	6,022,528	8,657,559
Accounts receivable	$ 230,176	553,931	668,467	778,647	1,274,255
Loans to Funds	$ -	-	-	-	-
Total Current Assets	**$ 1,371,551**	**$ 2,860,171**	**$ 4,603,987**	**$ 6,801,175**	**$ 9,931,814**
Property & Equipment					
Organizational Costs, Furniture, Fixtures & Other Equipment	$ 50,000	75,000	165,000	165,000	165,000
Leasehold Improvements and Building Construction	$ -	-	-	-	-
Less: Accumulated Depreciation & Amortization	$ (10,000)	(25,000)	(58,000)	(91,000)	(124,000)
TOTAL ASSETS	**$ 1,411,551**	**$ 2,910,171**	**$ 4,710,987**	**$ 6,875,175**	**$ 9,972,814**
Current Liabilities					
Accounts payable	$ 1,156	2,781	3,356	3,909	6,397
Accrued expenses	$ 11,056	65,887	80,873	96,540	181,305
Long Term Liabilities					
Total Note Sales (Payables)	$ -	-	-	-	-
Total Liabilities	**$ 12,211**	**$ 68,668**	**$ 84,229**	**$ 100,449**	**$ 187,702**
Unitholders' Equity					
Retained Earnings Schedule	$ 499,340	1,941,503	3,726,758	5,874,726	9,985,112
Common Units Equity Value Issued	$ -	-	-	-	-
Preferred Units					
Preferred Equity Value Issued - Net of Commissions	$ 900,000	900,000	900,000	900,000	900,000
Series A - Preferred Unit "Call" or Redemption	$ -	-	-	-	(1,100,000)
Total Equity Issued	$ 900,000	900,000	900,000	900,000	(200,000)
Ending Unitholders' Equity	$ 1,399,340	2,841,503	4,626,758	6,774,726	9,785,112
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**$ 1,411,551**	**$ 2,910,171**	**$ 4,710,987**	**$ 6,875,175**	**$ 9,972,814**

Sources and Uses Statement

SOURCES:		
TOTAL GROSS REVENUE	$	2,773,208
Cash on hand from prior year	$	-
Total Note Sales (Payables)	$	-
Common Units Equity Value Issued	$	-
Preferred Equity Value Issued - Net of Commissions	$	900,000
Repayment of Loans from Funds	$	700,000
TOTAL SOUCES:	**$**	**4,373,208**
USES:		
Total Cost of Services Delivered	**$**	**13,866**
General and Administrative Expense		
Management Salaries	$	980,000
Administration Dept. Staff Wages	$	198,000
Payroll Taxes & Relating Insurance	$	141,360
Benefits Package	$	70,680
Sales, Marketing, Advertising & Promotion	$	75,000
Travel, Lodging, and Seminar Expense	$	165,000
General Liability Insurance	$	140,666
Key Person Life Insurance	$	9,800
Asset Property Taxes	$	400
Equipment Lease	$	5,000
Office and Computer Supplies	$	2,500
Accounting	$	30,000
Legal	$	50,000
Office Leases	$	72,000
Website Hosting & IT Support	$	3,500
Software Purchases	$	2,500
Telephones & High Speed Internet Access	$	8,000
Trade Assn. Dues, Conference & Shows	$	7,000
Research & Development Consultants	$	5,000
Financial Consultants	$	50,000
Miscellaneous Other Expenses	$	5,000
Total General and Administrative Expense	**$**	**2,021,406**
Interest Expense	$	-
Profit Sharing:	**$**	**73,794**
Federal & State Corp. Income Tax	**$**	**19,624**
Capitalized Assets		
Organizational Costs, Furniture, Fixtures & Other Equipment	$	50,000
Leasehold Improvements and Building Construction	$	-
Total Capitalized Assets:	**$**	**50,000**
Loans to Funds	$	700,000
Shareholder Distributions	$	135,178
TOTAL USES:	**$**	**3,013,868**
CASH AVAILABLE BEFORE ADJUSTMENTS	**$**	**1,359,340**
Change in Accounts Payable & Accrued Exp	$	12,211
Change in Accounts Receivable	$	(230,176)
Net Cash available for operations	**$**	**1,141,375**

Notes to Pro Forma Financial Projections

PRO FORMA INCOME STATEMENT & CO. VALUATION

REVENUE ASSUMPTIONS:		
XYZ PRESTIGE - INCOME FUND		Represents original net asset size of the Fund after securities sales commissions.
Investment Activities:		
Beginning Fund Cash		Represents an average annual cash balances in each RE Fund.
Annual Acquisitions - Inventory:	15.0%	Utilization of Cash Balances for property acquisition - Inventory.
Annual Acquisitions - Capital Assets:	80.0%	Utilization of Cash Balances for property acquisition - Capital Assets.
Annual gross income from rent(s) of portfolio properties:	12.5%	Represents average annual estimate gross income all assets within the portfolio.
Interest income on average cash balances:	3.0%	Represents average annual interest on cash balances expressed as a percentage.
Ending Fund Cash		Cash and equivalents, end of year from the Consl. Stmnt. of Cash Flows.
Net Cost Basis(s) Cumulative:		Cumulative cost basis of properties less cost basis of properties sold.
Net Valuation of Annual Acquisitions Cumulative:	8.8%	Represents annual asset growth rate of acquired properties less portfolio properties sold.
Estimated Value of Existing Fund Net Assets		Represents cash and properties.
Percentage of Total Property Inventory Sold:		Represents the percentage of properties sold in the respective years.
Net Sale Price(s) of Properties Sold:		
Cost Basis(s) of Properties Sold Inventory:		Represents the cost basis of inventory properties sold - 2 year average holding period.
Cost Basis(s) of Properties Sold Capital Assets:		Represents the cost basis of capital asset properties sold - 2 year average holding period.
Total Cost Basis of Properties Sold:		Summation.
Realized Profit (loss)		Net Profits realized from the sale of properties to account for Mgmt. Co. profit
	8.3%	Summation of annual average of total gross income from rent and crop production plus
TOTAL GROSS REVENUE		
TOTAL GROSS PROFIT		Gross Revenues less Total Cost Basis of Properties Sold less Total Cost of Goods Sold.
TOTAL GROSS MARGIN		Represents gross profit divided by gross revenue
XYZ PRESTIGE - INCOME FUND		
Annual Management Fee Percentage	1.5%	Represents an average annual Management Fee expressed as a percentage.
Management Fees	75%	Represents the pro rated percentage of Mgmt. Fee expense for the first year only.
Sales Commissions from portfolio properties	4.00%	Represents the sales commission percentage of portfolio assets that the Mgmt. Company
Profit Sharing to Mgmt. Co. - Income	5.0%	Represents the profit sharing percentage of gross rents (income) that the Mgmt. Company
Profit Sharing to Mgmt. Co. - Capital Gains	5.0%	Represents the profit sharing percentage of capital gains that the Mgmt. Company
Interest on loan to Fund	8.0%	Represents an average annual interest rate on this form of debt.
TOTAL REVENUE FROM FUND		Self explanatory.

XYZ PRESTIGE - GROWTH FUND		Represents original net asset size of the Fund after securities sales commissions.
Investment Activities:		
Beginning Fund Cash		Represents an average annual cash balances in each RE Fund.
Annual Acquisitions - Inventory:	80.0%	Utilization of Cash Balances for property acquisition - Land Inventory.
Annual Acquisitions - Capital Assets:	10.0%	Utilization of Cash Balances for property acquisition - Capital Assets
Annual gross income from portfolio	0.0%	Represents average annual estimate gross income (rents) all properties within the
Interest income on average cash balances	1.5%	Represents average annual interest on cash balances expressed as a percentage.
Ending Fund Cash		
Cost Basis(s) Cumulative		Represents the pro rated percentage of Gross Revenue for the first year only.
Net Cost Basis(s) Cumulative		Cumulative cost basis of properties less cost basis of properties sold.
Valuation of Annual Acquisitions Cumulative:	17.0%	Represents annual asset growth rate of acquired properties less portfolio properties sold.
Estimated Value of Existing Fund Net Assets		Represents cash and properties.
Percentage of Total Property Inventory Sold		Represents the percentage of properties sold in the respective years.
Net Sale Price(s) of Properties Sold		Represents the appreciative value of properties sold in the respective years net of sales
Cost Basis(s) of Properties Sold Inventory		Represents the cost basis of inventory properties sold - 2 year average holding period.
Cost Basis(s) of Properties Sold Capital Assets		Represents the cost basis of capital asset properties sold - 2 year average holding period.
Total Cost Basis of Properties Sold		Summation.
Realized Profit (loss)		Net Profits realized from the sale of properties.
TOTAL GROSS REVENUE		Summation of annual average of total gross income from rent plus proceeds from
TOTAL GROSS PROFIT		Gross Revenues less Total Cost Basis of Properties Sold.
TOTAL GROSS MARGIN		Represents gross profit divided by gross revenue
	8.3%	Represents the percentage of gross revenue as Accounts Receivable.
XYZ PRESTIGE - GROWTH FUND		
Annual Management Fee Percentage	1.0%	Represents an average annual Management Fee expressed as a percentage.
Management Fees	50.0%	Represents the pro rated percentage of Mgmt. Fee expense for the first year only.
Sales Commissions from portfolio properties	4.0%	Represents the sales commission percentage of portfolio properties that the Mgmt.
Profit Sharing to Mgt. Co. - Income	5.0%	Represents the profit sharing percentage of gross rents (income) that the Mgmt. Company
Profit Sharing to Mgt. Co. - Capital Gains	5.0%	Represents the profit sharing percentage of capital gains that the Mgmt. Company
Interest from loan to Fund	8.0%	Represents an average annual interest rate on this form of debt.
TOTAL REVENUE FROM FUND		Self explanatory.
Total Gross Revenue - Management Services		Represents estimated gross revenue on management services
Cost of Services Delivered		
Service Expense	0.50%	Represents an average variable misc. cost of goods sold for Income Fund expressed as a
Service Expense	0.50%	Represents an average variable misc. cost of services for Growth Fund expressed as a
Total Cost of Services Delivered		Self explanatory.
TOTAL GROSS REVENUE		Represents Total Revenue from Funds.
TOTAL GROSS PROFIT		Represents Total Revenue from Funds less Total Cost of Servcies Delivered.
TOTAL GROSS MARGIN		Represents gross profit divided by gross revenue

General and Administrative Expense:		
Management Salaries	5.0%	Represents combined base salaries for CEO, CFO, Exec. Director and Board of
Administration Dept. Staff Wages	30.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Payroll Taxes & Relating Insurance	12.0%	Represents payroll taxes and related insurances based on a percentage of total payroll.
Benefits Package	6.0%	Represents benefits package expense based on a percentage of total payroll
Sales, Marketing, Advertising & Promotion	6.0%	Primarily used for organizational expenses associated with promoting the Management
Travel, Lodging, and Seminar Expense	20.0%	Represents an average annual growth rate of expenses expressed as a percentage.
General Liability Insurance	0.1%	Represents general liability based as an average percentage of gross revenues for Mgmt.
Key Person Life Insurance	1.0%	Represents amount of insurance needed to cover key persons based as a percentage of
Asset Property Taxes	1.0%	Represents property taxes as a percentage of accumulated assets less depreciation.
Equipment Lease	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Office and Computer Supplies	20.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Accounting	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Legal	20.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Office Leases	0.0%	Represents a standard annual budget.
Website Hosting & IT Support	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Software Purchases	0.0%	Represents a standard annual budget.
Telephones & High Speed Internet Access	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Trade Assn. Dues, Conference & Shows	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Research & Development Consultants	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Financial Consultants	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Miscellaneous Other Expenses		Represents a standard annual budget.
Total General and Administrative Expense		Summation of above figures.
	100%	Represents the pro rated percentage of total G & A expense for the first year only.
EBITDA		Represents Earnings Before Income, Taxes, Depreciation and Amortization.
Capitalized Assets		
Organizational Costs, Furniture, Fixtures & Other Equipment	5	Represents useful life for depreciation/amortization purposes. Primarily used for
Business Acquisition	15	Represents a standard annual budget and useful life for depreciation/amortization
Leasehold Improvements and Building Construction	39	Represents a standard annual budget and useful life for depreciation/amortization
Total Capitalized Assets:		Summation
Note Interest	0%	Represents an average annual interest rate on this form of debt.
Bank Loan Interest	0%	Represents an average annual interest rate on this form of debt.
Interest Expense		Summation.
Total Income Before Taxes, Depreciation and Amortization		Self explanatory.
Less:		
Profit Sharing:	10%	Represents the profit sharing allowance to be paid to employees
Depreciation & Amortization		Self explanatory.
Net Income before Income Taxes		Self explanatory.
Federal & State Corp. Income Tax	3%	
Loss Carry Forward for Tax Calculations Only		Represents the Loss Carry Forward from previous years and is for tax calculations only
ESTIMATED NET INCOME AFTER TAXES		Self explanatory.
ESTIMATED NET OPERATING MARGINS		Represents net income (loss) divided by gross revenues

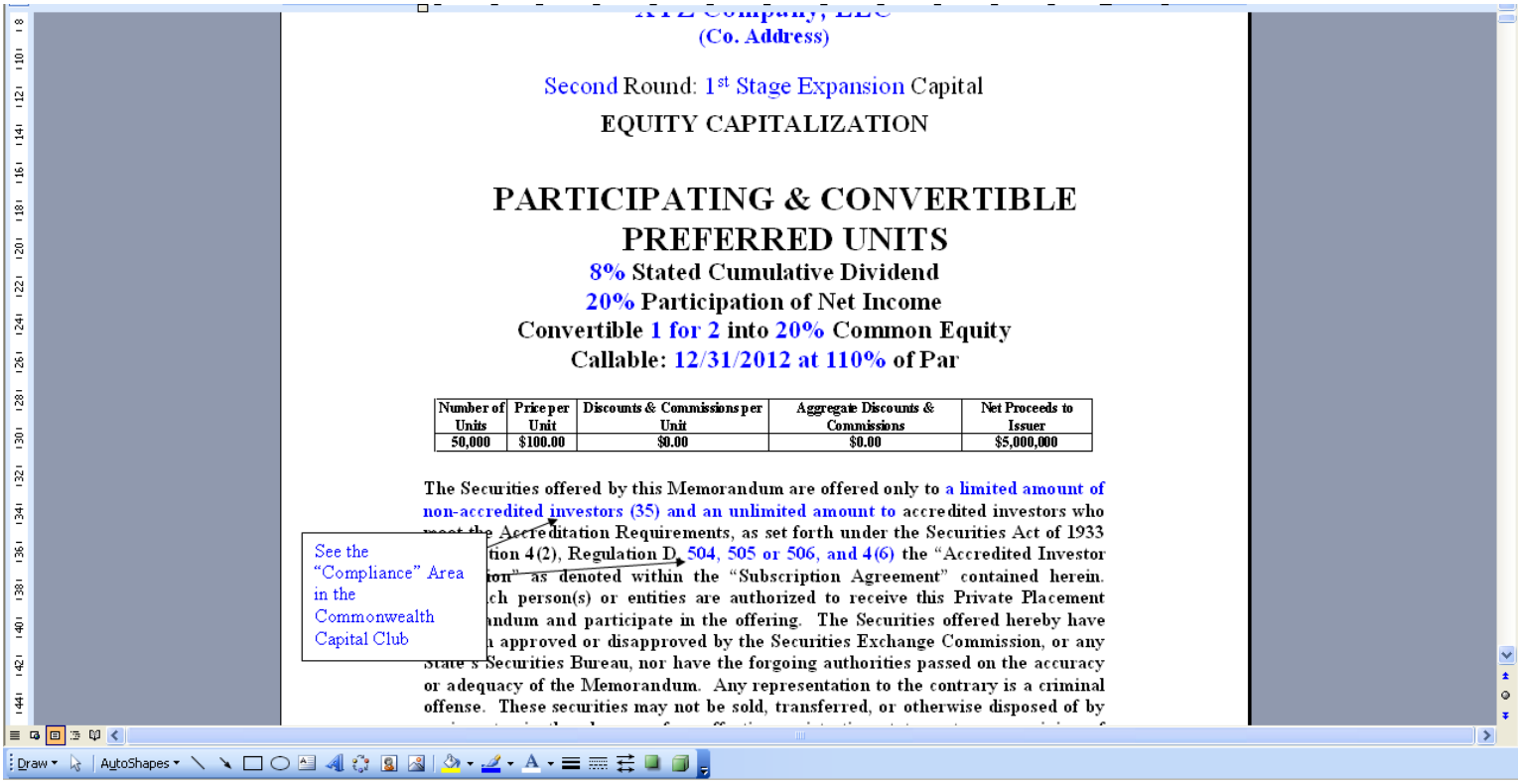
CAPITALIZATION:		
SERIES -A- PREFERRED UNITS		
Number of Preferred Units Offered and Sold		Represents the preferred units for each series after each planned offering.
Price per Preferred Unit		Self explanatory.
Series A - Preferred Unit Value Issued		Self explanatory.
Series A - Preferred Unit "Call" or Redemption	110%	Represents the year that the preferred units are planned to be redeemed and call price
Less commissions paid to broker dealers	10%	Represents commissions paid to broker dealers, if any.
Preferred Equity Value Issued - Net of Commissions		Summation
Series A - Preferred Unit Stated Dividends	8%	Represents stated dividend on the series A preferred units expressed as a percentage of
Series A - Preferred Unit Participation	30%	Represents the participation dividend on the series A preferred units expressed as a
	50%	Represents the prorated distribution for Preferred Units the first year only.
Estimated Cash Distr. to Common Unitholders	30%	Represents dividend to Common Unitholders based as a percentage of net income after
Est. Net Earnings per Common Unit		Self Explanatory
TRADITIONAL DEBT		Represents credit lines and loans from banks and other traditional lenders.
Loans to Funds	8.0%	Represents interest rate on principal balance of loan(s) to Fund(s).
Repayment of Loans from Funds		Represents loan principal payments from Fund(s) as a percentage of total outstanding
TOTAL CAPITALIZATION NEEDS:		Self explanatory.
COMPANY VALUATION - PRIVATELY HELD		
Estimated Private Value per Common Unit:	5.0	Represents the value per common share based on multiplying the earnings per share by a
Company Valuation - Privately Held:		Represents the value of the company based on multiplying the value per share by the
COMPANY VALUATION - PUBLICLY TRADED:		
Estimated Public Value per Common Unit:	12.0	Represents the value per common share based on multiplying the earnings per share by a
Company Valuation - Publicly Traded:		Represents the value of the company based on multiplying the value per share by the
ESTIMATED INTERNAL RATES OF RETURNS		
Est. IRR on Series A Preferred Shares	163%	Self explanatory.

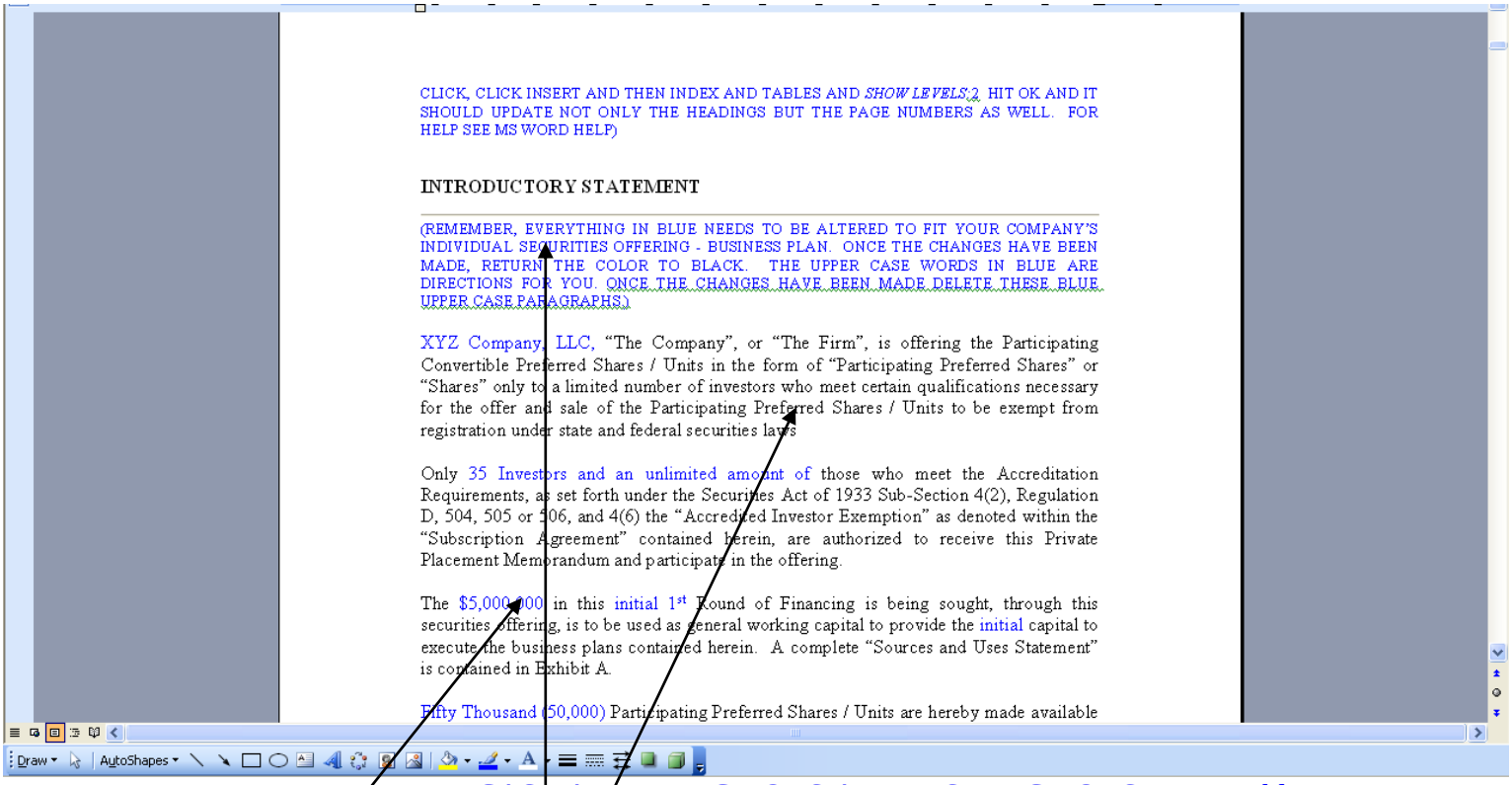
PRO FORMA BALANCE SHEETS

Current Assets	
Cash & Marketable Securities	Represents previous year's net ending cash balances from pro formas consolidated statement of cash
Accounts receivable	Represents the percentage of gross revenues that account for receivables.
Total Current Assets	Self explanatory.
Property & Equipment	
Organizational Costs, Furniture, Fixtures & Other Equipment	Represents accumulated assets in the specific category.
Leasehold Improvements and Building Construction	Represents accumulated assets in the specific category.
Less: Accumulated Depreciation & Amortization	Represents accumulated assets in the specific category.
TOTAL ASSETS	Self explanatory.
Current Liabilities	
Accounts payable	Represents last month's of each years' total cost of goods sold.
Accrued expenses	Represents last month's of each years' profit sharing, last quarter's federal ad state corp. income tax and
Long Term Liabilities	
Total Note Sales (Payables)	Represents accumulated Note liability until Note maturity.
Loans to Funds	Represents accumulated Fund debt liability to Mgmt. Co.
Total Liabilities	Self explanatory.
Unitholders' Equity	
Retained Earnings Schedule	Represents the previous years' accumulated retained earnings.
Common Units Equity Value Issued	Represents common stock equity sales.
Preferred Units	
Preferred Equity Value Issued - Net of Commissions	Represents series A preferred units equity sales.
Series A - Preferred Unit "Call" or Redemption	This will be treasury stock and relected in the next year.
Total Equity Issued	Represents series A preferred units stated dividends.
Ending Unitholders' Equity	Self explanatory.
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	Self explanatory.

Private or Public Placement Producer™ & Fund Producer™: This second interdependent sub-component consists of the securities offering document production text Template(s), crafted in MS Word. In the Private or Public Placement Producer™ there are a variety of Operating Company PPM Templates to address the various deal structures specifically designed for retailers, wholesalers, manufacturers, service providers, etc. In Fund Producer™ there is a Management Company PPM Template and a Fund PPM Template with Operating Agreements that tie the related entities together. (For RE Funds-REITs there are 2 separate text templates. One Growth Fund PPM Template and one Income Fund PPM Text Templates). These sub-components have complete instructions embedded into each PPM Text Template document, which you simply follow, as you go through them from beginning to end. You simply convert your company's business plan into a securities offering document or you can create your company's business plan and securities offering document simultaneously from scratch within Financial Architect®, saving additional time and cost. This component is fairly fundamental in nature however it does evolve and we periodically update Financial Architect® with this in mind.

Simply follow the instructions embedded within the PPM Text Template.





CLICK, CLICK INSERT AND THEN INDEX AND TABLES AND *SHOW LEVELS:2* HIT OK AND IT SHOULD UPDATE NOT ONLY THE HEADINGS BUT THE PAGE NUMBERS AS WELL. FOR HELP SEE MS WORD HELP)

INTRODUCTORY STATEMENT

(REMEMBER, EVERYTHING IN BLUE NEEDS TO BE ALTERED TO FIT YOUR COMPANY'S INDIVIDUAL SECURITIES OFFERING - BUSINESS PLAN. ONCE THE CHANGES HAVE BEEN MADE, RETURN THE COLOR TO BLACK. THE UPPER CASE WORDS IN BLUE ARE DIRECTIONS FOR YOU. ONCE THE CHANGES HAVE BEEN MADE DELETE THESE BLUE UPPER CASE PARAGRAPHS)

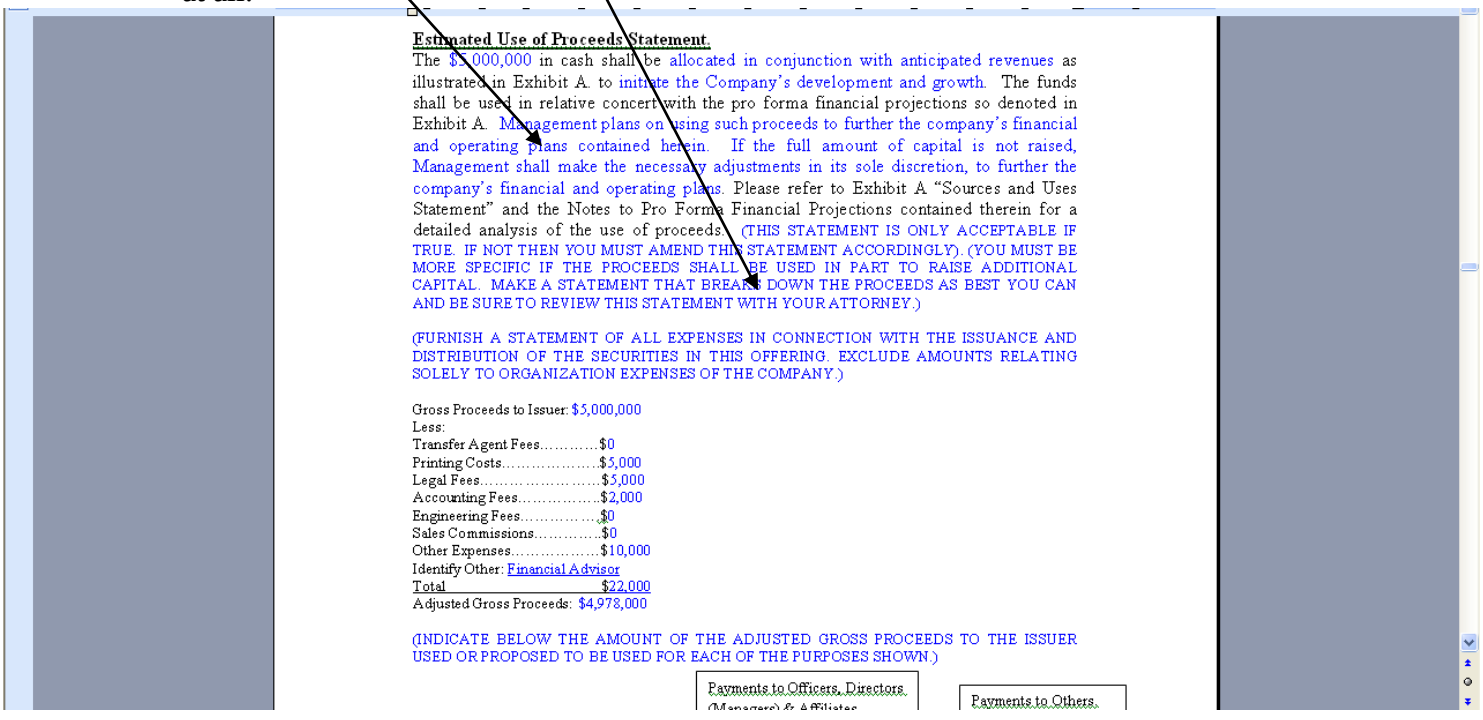
XYZ Company, LLC, "The Company", or "The Firm", is offering the Participating Convertible Preferred Shares / Units in the form of "Participating Preferred Shares" or "Shares" only to a limited number of investors who meet certain qualifications necessary for the offer and sale of the Participating Preferred Shares / Units to be exempt from registration under state and federal securities laws

Only 35 Investors and an unlimited amount of those who meet the Accreditation Requirements, as set forth under the Securities Act of 1933 Sub-Section 4(2), Regulation D, 504, 505 or 506, and 4(6) the "Accredited Investor Exemption" as denoted within the "Subscription Agreement" contained herein, are authorized to receive this Private Placement Memorandum and participate in the offering.

The $5,000,000 in this initial 1st Round of Financing is being sought, through this securities offering, is to be used as general working capital to provide the initial capital to execute the business plans contained herein. A complete "Sources and Uses Statement" is contained in Exhibit A.

Fifty Thousand (50,000) Participating Preferred Shares / Units are hereby made available

Text in BLUE UPPER CASE ARE DIRECTIONS AND INSTRUCTIONS. Text in blue sentence case serves as an example of normal disclosure text and may need to be changed and text in black sentence case should stay and be changed only by your legal counsel, if at all.



Estimated Use of Proceeds Statement

The $5,000,000 in cash shall be allocated in conjunction with anticipated revenues as illustrated in Exhibit A. to initiate the Company's development and growth. The funds shall be used in relative concert with the pro forma financial projections so denoted in Exhibit A. Management plans on using such proceeds to further the company's financial and operating plans contained herein. If the full amount of capital is not raised, Management shall make the necessary adjustments in its sole discretion, to further the company's financial and operating plans. Please refer to Exhibit A "Sources and Uses Statement" and the Notes to Pro Forma Financial Projections contained therein for a detailed analysis of the use of proceeds. (THIS STATEMENT IS ONLY ACCEPTABLE IF TRUE. IF NOT THEN YOU MUST AMEND THIS STATEMENT ACCORDINGLY). (YOU MUST BE MORE SPECIFIC IF THE PROCEEDS SHALL BE USED IN PART TO RAISE ADDITIONAL CAPITAL. MAKE A STATEMENT THAT BREAKS DOWN THE PROCEEDS AS BEST YOU CAN AND BE SURE TO REVIEW THIS STATEMENT WITH YOUR ATTORNEY.)

(FURNISH A STATEMENT OF ALL EXPENSES IN CONNECTION WITH THE ISSUANCE AND DISTRIBUTION OF THE SECURITIES IN THIS OFFERING. EXCLUDE AMOUNTS RELATING SOLELY TO ORGANIZATION EXPENSES OF THE COMPANY.)

Gross Proceeds to Issuer: $5,000,000
Less:
Transfer Agent Fees.....$0
Printing Costs.....$5,000
Legal Fees.....$5,000
Accounting Fees.....$2,000
Engineering Fees.....$0
Sales Commissions.....$0
Other Expenses.....$10,000
Identify Other: Financial Advisor
Total $22,000
Adjusted Gross Proceeds: $4,978,000

(INDICATE BELOW THE AMOUNT OF THE ADJUSTED GROSS PROCEEDS TO THE ISSUER USED OR PROPOSED TO BE USED FOR EACH OF THE PURPOSES SHOWN.)

Payments to Officers, Directors (Managers) & Affiliates	Payments to Others

❖ The Commonwealth Capital Club.

This third and final component is a password protected area on our website, see Members Only at:**http://www.commonwealthcapital.com .**

The Commonwealth Capital Club contains the critical Compliance Components, Accredited Investor Portals and the Securities Selling Techniques, in addition to other useful resources. This Component is dynamic, fluid and changes often so it is important to access it regularly.

See full step-by-step instructions in the Commonwealth Capital Club.

1. To refresh your memory, Re-Read Chapter 18 "Soliciting & Selling Securities to Raise Capital" in the EBook entitled: "The Secrets of Wall Street – Raising Capital for Start-up and Early-Stage Companies."
2. If you can, convert your securities offering document into a protected document, such as an Adobe pdf file, you can distribute that file electronically, as long as you track its distribution.
3. Open the Compliance Tools menu in the Commonwealth Capital Club and use the "PPM Distribution List and Securities Record" Commonwealth Capital Club under Compliance Tools under Regulatory Compliance to track PPM distribution (requirement for compliance) and to create securities records, such as a stock record, note record, etc. This is where you can keep accurate tracking of your share and note-holder's information.

1. See "Accredited Investors" & "Selling Techniques" in the Commonwealth Capital Club.

Technical & Professional Support. Financial Architect® is designed to enable you and your professional advisors, specifically your attorney and accountant, to complete the entire process of raising capital through the issuance of securities. We suggest you use those resources first.

In an effort to ensure that Financial Architect™ remains the premier securities offering document production system, reasonable questions (that are not covered in the instructions or within the Text templates) shall be responded to within 3 business days and at no charge. Requests for additional feature(s) requests (not included in Cap Pro™, Cap Pro™ for Funds or the Templates) that actually improve the product shall be responded to within a reasonable period and changes made at no charge. Such questions and requests, as well as, all other inquiries should be sent to support@CommonwealthCapital.com

If you wish to have your PPM and CapPro™ documents reviewed for completion, full document production, financial advisory, regulatory compliance, finance department creation or any other type of support from us, then please download a copy of our Investment Banking Advisory Services ("IBAS") Agreement and fax it to (312) 540-1939. Then "Contact us" for bank wire instructions. We charge against a retainer based on our standard billing rate as defined under the Additional Services section in the IBAS Agreement. Our current rate is $500 per hour and minimum non-refundable retainer is $5,000.

This service protocol is required by Federal and State(s) Securities laws, rules and regulations, as we provide services in the highly regulated securities industry.

Wishing you success in all your endeavors!

EXHIBIT B

SAMPLE WORK PRODUCT

The Following Sample Illustrates a Management Company PPM of a Fund because it covers what would be illustrated for an Operating Company.

(CCA Sample Work Product- ALL NAMES ARE FICTITIOUS)

Offeree_____ No. _____

PRIVATE PLACEMENT MEMORANDUM

XYZ Capital Management LLC
123 Easy Street
Anywhere, Washington 98346

First Round: Development Capital
EQUITY CAPITALIZATION

PARTICIPATING & CONVERTIBLE PREFERRED UNITS

12% Stated Cumulative Dividend
20% Participation of Net Income
Convertible 1 for 2 into 20% Common Equity
Callable: 12/31/2012 at 110% of Par

Number of Units	Price per Unit	Discounts & Commissions per Unit	Aggregate Discounts & Commissions	Net Proceeds to Issuer
10,000	**100.00**	**0.00**	**0.00**	**$1,000,000.00**

The Securities offered by this Memorandum are offered only to accredited investors who meet Accreditation Requirements, as set forth under the Securities Act of 1933 Sub-Section 4(2), Regulation D, Rule 506, and 4(6) the "Accredited Investor Exemption" as denoted within the "Subscription Agreement" contained herein. Only such person(s) or entities are authorized to receive this Private Placement Memorandum and participate in the offering. The Securities offered hereby have not been approved or disapproved by the Securities Exchange Commission, or any State's Securities Bureau, nor have the forgoing authorities passed on the accuracy or adequacy of the Memorandum. Any representation to the contrary is a criminal offense. These securities may not be sold, transferred, or otherwise disposed of by an investor in the absence of an effective registration statement or an opinion of legal counsel that registration is not required. The securities are to be considered illiquid. No public market exists for these securities. The Management cannot guarantee, warrant, or further assure that any type of liquid market will develop. The securities offered herein are to be considered high risk in nature.

Private Placement Memorandum Dated 09/01/2007. Offering expires 11/30/07.

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INTRODUCTORY STATEMENT

XYZ Capital Management, LLC, ("XYZ", "XYZ Capital," Company", or "The Firm") is offering equity participations in the form of "Participating Preferred Units" or "Shares"[1] only to a limited number of investors who meet certain qualifications necessary for the offer and sale of the Units to be exempt from registration under state and federal securities laws.

Only those who meet the Accreditation Requirements, as set forth under the Securities Act of 1933 Sub-Section 4(2), Regulation D, 506, and 4(6) the "Accredited Investor Exemption" as denoted within the "Subscription Agreement" contained herein, are authorized to receive this Private Placement Memorandum and participate in the offering.

The $1,000,000 in this 1st Round of Financing as sought through this securities offering is to be used as initial and general working capital as necessary to execute the business plans contained herein. A complete "Sources and Uses Statement" is contained in Exhibit A.

Ten Thousand (10,000) Participating Preferred Units are hereby made available to the prospective investor(s) so named on this page as offeree at a per Unit price of $100.00 per unit.

The purchaser of a Unit will become a Preferred Unit-holder in the Company with only those rights, duties, and obligations accorded a Preferred Unit-holder pursuant to the Company's Articles of Organization and Operating Agreements, and otherwise in full accordance with the laws of the State of Washington.

This Private Placement Memorandum (the "Memorandum" or "PPM") is submitted on a confidential basis for use solely in connection with this Offering of the Participating Preferred Units (the "Shares") of XYZ Capital Management LLC, This offering is a private placement intended to be exempt from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"). The Units are being offered to prospective investors by the Company's Management only. The use of the Memorandum for any other purpose is not authorized.

By accepting this Memorandum, the recipient (and his, her or its officers, directors, employees, agents, associates or affiliates) agrees that such person(s) will:

1. Not divulge to any other party any information contained herein or in any notes, summaries or analysis derived from this Memorandum, and
2. Not reproduce or redistribute the Memorandum in whole or in part.

This Memorandum does not purport to contain all of the information that a prospective investor may desire in investigating the Company. Each investor must conduct and rely upon his/her or its own evaluation of the Company and of the terms of the offering, including the merits and risks, involved in making an investment decision. The Company hereby offers to the investor the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the Company possesses or can acquire without unreasonable effort or expense, that is necessary to verify the accuracy of the information furnished to the investor.

This Memorandum is not intended to be, nor shall it be construed as, a complete description of the facts, risks or consequences regarding an investment in the offering or as legal, accounting, tax, business,

[1] Hereafter, the term "share(s)" may be used interchangeably with the term "units" with reference to a unit participation in the terms of this offering.

investment or other expert advice. All potential investors should perform their own independent investigations of the offering, the market potential, the Management, the securities, and similar industries. All potential investors should consult their own qualified advisors concerning the investment and the suitability relating to an individual or an institutional investor's ability to sustain a total financial loss of an investment in the Company.

This Memorandum speaks as of the date shown on the cover. Neither the delivery of this Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company after the date hereof.

No person has been authorized to give any information other than that contained in this Memorandum, or to make any representations in connection with the Offering made hereby, except information given to you by a manager of the Company on letterhead. If given or made, such other information or representations must not be relied upon as having been authorized by the Company.

Investors will be required to represent that: (1) they are sophisticated in business and financial matters or have been properly advised by someone who is; (2) they are familiar with and understand the terms of the Offering; (3) they are accredited investors as further defined within the subscription agreement; and (4) they, either individually or together with their purchaser-representative/advisor, have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the investment.

Other information contained herein has been obtained by Management and from sources deemed reliable. Such information necessarily incorporates significant assumptions, as well as, factual matters. Therefore, Management cannot guarantee the accuracy of the information contained herein.

These securities are subject to restrictions on transferability and resale, and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws, pursuant to registration thereunder or exemption therefrom. Investors should be aware that they might be required to bear the financial risks of the investment for an indefinite period of time. Potential investors should be aware that a legend reciting the restrictions on transferability will be placed upon the security and that they will be asked to sign a written agreement that the securities will not be resold without registration under applicable securities laws or exemptions thereof.

The purchase of Units involves risk. See “Risks and Other Important Factors”. Each prospective investor is urged to read this entire Memorandum, including the Exhibits Section, and make a thorough investigation of the Company in light of the risk factors.

THE RECIPIENT ACCEPTING DELIVERY OF THIS MEMORANDUM AGREES TO ABSOLUTE CONFIDENTIALITY AND TO RETURN THIS MEMORANDUM AND ALL FURNISHED DOCUMENTS HEREWITH TO THE COMPANY OR ITS AFFILIATED COMPANIES UPON REQUEST, IF THE RECIPIENT DOES NOT PURCHASE ANY OF THE UNITS OFFERED HEREIN.

All potential investors are invited to ask questions and obtain additional information from the Management concerning the terms and conditions of the offering, the Management and any affiliations thereof, and any other relevant matters, including, but not limited to, additional information to verify the accuracy of the information set forth in this Memorandum. Questions concerning the Company and any requests for additional information should be directed to:

Paul J. Jones, CEO & General Manager
XYZ Capital, LLC
123 Easy Street
PO Box 430
Anywhere, Washington 98346
Tel: (123) 456-7890. Cell: (123) 456-7891.

This Memorandum contains certain "forward-looking statements" within the meaning of section 27a of the Securities Act and section 21e of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact included in this Memorandum, including without limitation certain statements under the headings "Summary of the Offering," "The Company" and other similar headings, may constitute forward-looking statements. Forward-looking statements can often (but not always) be identified by terminology such as "may," "will," "could," "anticipate," "believe," "estimate," "intend," "expect," and "continue," or variations thereof, and similar expressions.

Although Management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from the Company's expectations ("cautionary statements") are disclosed in this Memorandum, including without limitation in conjunction with the forward-looking statements included in this Memorandum and in the section of this Memorandum entitled "Risks and Other Important Factors," and under the description of the Company and its business.
All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth herein. The Company disclaims any intention or obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

This Memorandum does not constitute an offer to sell or a solicitation of an offer to sell these securities to anyone other than fully-accredited investors with the requirements set forth in the subscription agreement, or to any person to whom it is unlawful to make such an offer or solicitation and does not constitute an offer to sell or solicitation to any member of the general public. This Memorandum constitutes an offer or a solicitation of an offer only to the person named as offeree and to whom this Memorandum is delivered by Management of the Company or through a representative NASD Member firm(s), if any.

The Units are being offered by the Company hereunder subject to prior sale, withdrawal, cancellation, or modification of the offer without notice, and, when modified by notice, as and if delivered to and accepted by the purchasers thereof. No sale of any of the Units offered hereunder shall be complete unless accepted in writing by the Company. The Company may decline any subscription for any of the participating preferred Units at its sole discretion and for any reason or for no reason.

The Company's General Manager and other principals may, from time-to-time, be engaged in related or un-related activities. Such individuals may serve as managers and principals of other organizations, which are not in direct competition with the Company, its financial goals, and objectives.

No dealer, salesperson, finder or any other person has been authorized to give any information or to make any representations or promises other than those contained in this Memorandum, and any such other information, representations, or promises, if given or made, must not be relied upon as having been so authorized. The delivery of this Memorandum or any sale hereunder at any time does not imply that the information herein is correct as of any time subsequent to the date hereof. Securities are sold by this Private Placement Memorandum only.

This Memorandum contains all of the representations made by the Company concerning this offering and no person shall make different or broader statements than those contained herein. Investors are cautioned not to rely upon any information not expressly set forth in this Memorandum.

This Memorandum includes summaries and/or descriptions of various documents. Such summaries do not purport to be complete and are qualified in their entirety by reference to the original documents, which are attached, either as exhibits to this Memorandum or will be made available to any prospective investor upon written request to the Company.

The Company will provide all purchasers of participating preferred Units with a detailed written statement of the application of the proceeds of the offering within two (2) months after the completion of the offering and with annual current balance sheets and income statements thereafter.

The Company will make available to any Unit-holder or their designated representative the right to inspect the books and records of the Company at any reasonable time for proper purposes, upon written request to the Company.

The Company agrees to maintain at its offices a list of the names and addresses of all Shareholders, which shall be available to any Unit-holder or their designated representative.

This investment involves a high degree of risk. The Company is in the early stages of development and expansion with a limited history of proven record of business

operations in the applications as described throughout this Memorandum. An investor could lose his/her or its entire investment in the Units offered hereby.

Among the risks and other factors to be considered carefully by potential investors are those set forth below under the heading "Risks and Other Important Factors."

This Memorandum has been prepared solely for informational purposes and is for distribution to a limited number of investors. The Company anticipates that this offering may continue through 11/30/07 unless the Company, in its sole discretion, sooner terminates or extends the offering. Management shall use the proceeds from this offering as received.

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EXECUTIVE SUMMARY

XYZ Capital Management, LLC, a limited liability company formed in July, 2007, has been created to manage multiple real estate investment trusts (REITs) by selling unit shares. Each fund will represent a different form of real estate development.

XYZ is located at 123 Easy St. Anywhere, Washington. The company is currently seeking to raise $1,000,000 through a Private Placement Offering Memorandum (PPM) for start-up costs, as well as to create its first REIT, Renewal Urban Solutions Real Estate Investment Trust Fund, LLC (Renewal Urban). Renewal Urban will focus on urban renewal and urban infill development by creating a wide variety of projects, including residential, commercial and mixed-use design.

XYZ's goal is to increase investor profits through portfolio growth investments and high returns on the sale of quality real estate projects. It seeks growing investor confidence in investments, and desires to be an example to others of responsible, sustainable and environmentally-friendly developmental practices.

Summary of the Offering.

The securities offered are hereby made available to the prospective investor(s) named on the cover page of this Private Placement Memorandum.

Management has formulated this offering to provide investors with the key elements of a quality investment vehicle, hence the creation and issuance of Convertible Participating Preferred Units with a Call protection date of 12/31/2012. The key elements are as follows:

1.) First lien security on 100% of the company's assets;
2.) A 12% stated cumulative dividend;
3.) A 20% aggregate participation of net income;
4.) A "call" protection date of 12/31/2012; and
5.) One (Class B) for two units (Class A) conversion privilege into an aggregate of Twenty percent (20%) of the common class A Member Units (fully diluted) until the call protection date, after which the conversion option expires.

The $1,000,000 in this round of financing of Participating Preferred Units (or, "Shares"), sought through this securities offering, is to be used as development and general working capital necessary to execute the business plans contained herein. (See "Sources and Uses Statement" included in the "Pro Forma Financial Projections" in Exhibit A).

Ten Thousand (10,000) Participating Preferred Units are hereby made available to the prospective investor(s) named on the cover page of this private placement memorandum. The securities are offered at a per Unit price of $100.00. The minimum purchase amount is 100 Units for an aggregate dollar amount of $10,000 and thereafter in increments of 50 Units ($5,000).

The Pro Forma Financial Projections in Exhibit A illustrate selling 10,000 Units of Participating Preferred Units at a per Unit price of $100.00. The Units offered herein are offered on a first come first served basis.

Exit Strategy

Management has planned an exit strategy for the Preferred Unit-holders in the Company in the form of a Call price of $110.00 per Unit at or after the Call date of 12/31/2012. Aggregate conversion into Twenty Percent (20%) of the company's Class A Voting Membership interests is available, as well.

Estimated Internal Rate of Return (IRR) per Preferred Unit.

No Properties Sold – No Profit Sharing Illustration

SERIES -A- PARTICIPATING PREFERRED UNITS	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012	
Stated Dividends per Preferred Unit	$ -	12.00	12.00	12.00	12.00	
Estimated Participation Dividends per Preferred Unit	$ -	2.66	13.54	63.10	66.20	
Estimated Principal Payment per Preferred Unit	$ -	-	-	-	$ 110.00	
Estimated Total Cash Distr. per Preferred Unit by Year	$ -	$ 14.66	$ 25.54	$ 75.10	$ 78.20	IRR
Estimated Total Cash plus Unit Value Return					$ 303.50	41.93%

All Properties Sold – Profit Sharing Illustration

SERIES -A- PARTICIPATING PREFERRED UNITS	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012	
Stated Dividends per Preferred Unit	$ -	12.00	12.00	12.00	12.00	
Estimated Participation Dividends per Preferred Unit	$ -	7.15	34.14	43.07	48.42	
Estimated Principal Payment per Preferred Unit	$ -	-	-	-	$ 110.00	
Estimated Total Cash Distr. per Preferred Unit by Year	$ -	$ 19.15	$ 46.14	$ 55.07	$ 60.42	IRR
Estimated Total Cash plus Unit Value Return					$ 290.79	42.94%

Management formulated the Estimated Internal Rate of Return for the Participating Preferred Units by comparing the Participating Preferred Unit original Par value per Unit against the accumulated stated dividends per Unit, plus the participating cash distributions per Unit, plus the Par value of the Unit, in anticipation of a call or retirement at the end of a 5-year period. The Standard Internal Rate of Return formula was used to calculate the percentage.

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THE COMPANY

XYZ Capital Management LLC, a Washington-based real estate trust management company, aspires to manage the financing and operations of multiple real estate investments trusts, each with a unique market focus; all with unified concern for the environment.

XYZ's ambition drives it to create successful trusts that can support quality development and design, thus creating positive and healthy environments for living, working and playing. It endeavors to gain high financial and positive social returns for its investors through the sale of its projects, and through opportunities to make a difference in their own communities.

Management believes the goals in XYZ's Mission Statement can best be achieved through a Limited Liability Company (LLC) business structure. In contrast to the corporate structure, management believes the LLC structure places fewer demands and and will offer the Company greater flexibility to concentrate on the type of growth management seeks at this stage of its development. In addition, management believes this structure will avoids corporate level double taxation, thereby furthering XYZ's growth objectives and consequently the potential for increased shareholder return.

Organizational Structure

Decisions on behalf of the Company will be made by a management committee (the Committee). The Committee (which management intends should function very much like a corporation's board of directors) will be made up of managing members to include managing director Paul Jones, who will act as Chairman, Robert Smith as Chief Financial Officer (CFO), and others to be named later. (See Exhibit C – Operating Agreement.)

Business Description

Management has designed XYZ is to serve as a management company for one or more Real Estate Investment Trusts (REITs). XYZ's immediate responsibility is to raise and manage finances for seven current real estate projects. On behalf of its REITs, it will conduct research into real estate market trends, developmental solutions to environmental impact, and seek potential land acquisitions for future development.

XYZ will contract with a related real estate development company Renewal Properties LLC (Renewal Properties) to assume project development management responsibilities of its seven projects. So that XYZ may focus solely on financing, investor relations and project research, Mr. Jones has created West River, LLC (West River) to take over development management of these projects and future REIT projects

As developer, West River will contract with related architectural firm Jones Architects Inc., or outside architects for design and permitting services. Jones Architects will contract with outside consultants for engineering, site studies, interior design, surveying, project reports, and other needed services that cannot be provided in house.

To establish initial working capital and to fund future REITs, XYZ is offering these shares to accredited investors and intends to claim an exemption from registration under Regulation D, Rule 506. XYZ's goal is to raise $1,000,000.00 by the end of 2007. Upon reaching twenty-five percent of its goal, or $250,000, XYZ plans to set up the first of what it envisions to be several REITs. Renewal Urban Solutions Real Estate Investment Trust (Renewal Urban.) being the first of several. XYZ plans to engage a a securities offering for the first REIT, which will involve a private placement followed by an exchange listed registration which should thereby making the shares in the REIT eligible for public trading. XYZ, as the management company, plans to raise funds on behalf of the REIT for land acquisitions and pre-construction financing of urban renewal and urban infill real estate projects. Thereafter, Renewal Urban will reimburse XYZ's loan for set-up costs at 8.5 percent interest in installments or a lump sum with no pre-payment penalty. XYZ will charge an annual fee, paid monthly, of 1.9 percent of total assets under management, and shall receive twenty percent (20%) of net profits for its management services to its REITs.

XYZ then intends to register a public offering with the SEC and selected states under regulation SB-2 on Renewal Urban's behalf the, 1st REIT, and begin selling the shares for cash, real estate and real property in an effort to raise thirty million dollars ($30,000,000) through 2007 and 2008.

Selling shares to the public should create further opportunities for shareholders. Management intends that Renewal Urban pay off land mortgages and purchase all seven projects from Renewal Properties LLC, gaining a potential profit from these projects as illustrated in Exhibit A. Twenty percent (20%) of the profits shall be paid out to XYZ and the balance of those proceeds retained by the REIT to go toward the purchase of additional land and future project pre-development costs.

Just as XYZ plans to create Renewal Urban to focus on urban real estate opportunities for its investments, it also endeavors to create other REITs, each with its own unique objective relating to the development, construction, and operation of real estate. All will employ double bottom-line investment strategies that XYZ hopes will result in substantial financial benefits. Some of these will specifically focus on Leadership in Energy and Environmental Design (LEED) certification for added emphasis on environmentally- friendly construction.

The goal to invest in increasingly larger and more complex projects over wider geographical areas drives XYZ's desire to research real estate development opportunities in Three Rivers County, and throughout Western Washington.

Value and Marketability of Service

Real estate development can be an excellent way to increase land values over a short period of time. XYZ does not limit itself to one design premise, but rather embraces a wide market of high-demand development to include single and multi-family housing, condominiums, commercial, and mixed-use, with a focus on the niche market of urban

infill, adding new "urbanist" traditional community design and construction to existing neighborhoods.

New Urbanism, a nationwide vision to reform all aspects of real estate development and urban planning, is strongly supported in The State of Washington by the Growth Management Act (GMA). The GMA was adopted in 1990 by the Washington State Legislature after it found that uncoordinated and unplanned growth posed a threat to the environment, sustainable economic development, and the quality of life in Washington. Its purpose is to reduce suburban sprawl and rural development by requiring cities and counties to encourage new growth in existing urban areas. Governmental agencies are providing assistance in the push for urban infill, and this creates a strong opportunity for XYZ in its drive to create Renewal Urban.

Mixed-use development is one of the best ways to satisfy the needs of urban infill. It condenses diverse housing and commercial space needs into single buildings, and conserves land space with an up-rather-than-out design style. Far from a new concept, the idea was brought from Europe and used in the construction of city neighborhoods where buildings housed family businesses at ground level, and the families above in upper-level residential units. At the time cars were either non-existent or too expensive, so urban design in this manner was a necessity for those who lived and worked in these neighborhoods.

Recently, it's become apparent that mixed-use is necessary not only for urban infill, but for several other reasons: industry and governmental reports suggest that well designed urban neighborhoods are in high demand across the country due to swiftly changing modern circumstances. Increased transportation costs have helped create the need for work spaces closer to home. An evident decrease in household size over the last few decades has created a demand for smaller homes, and, as housing prices go up, more and more first-time homebuyers may look to purchase condominiums as a way to get a foot-hold in the market. As our lives become busier and more complicated, convenience becomes a priority, and living amidst work spaces and businesses frequented holds many benefits for individuals as well as for society as a whole. Less time spent work commuting means more time for those things of higher importance and meaning in our lives.

Commitment to the environment is a high priority to XYZ management as it works to fund development and meet the needs of a growing population. In the case of urban renewal, land already cleared for development can be "recycled" for current and future needs. XYZ is proud to be associated with development that employs green architectural design into most of its projects - and decreasing carbon emissions into the air - by limiting the need to drive.

To the potential buyer of XYZ's real estate projects, the same values apply. In addition, the diversification of their purpose makes them a somewhat safer investment than single-use real estate. Several different sources of revenue in one building significantly decrease the impact on the overall economy of the building in the case of a downturn in

one market sector. A slump in office rental space, for instance, will have less of an impact on a mixed-use project than on a building with office space alone.

Services.

Through the sale of the securities offered herein, XYZ shall fund its operation and set up REITs. The REITs, with investments from sales of subsequent privately or publicly placed securities offerings, are intended to purchase land for real estate development projects, fund pre-construction design and permitting, and sell projects for company and investor profit. XYZ intends to generate long-term gain for its investors through market research, careful handling of investments, and through its affiliates, unique in-house expertise that covers most phases of real estate development.

In addition to seeking and creating valuable real estate development projects, XYZ management shall strive to create value for local communities. Highly-regulated industries such as architecture, real estate development, and building construction require specialized knowledge to create viable, attractive, and functional buildings at a reasonable cost. Management feels XYZ's abilities not only to offer architectural design, marketing, and research but also expertise in areas such as the navigation of complex development rules and regulations are necessary services to the community and to the real estate market. These abilities should enhance XYZ's potential profitability.

XYZ's in-house range of specialized real estate and design service expertise is generally provided only by national companies working on larger projects. XYZ is one of only a few small development companies in the Seattle area focusing on urban infill projects of moderate size. XYZ is able to provide investors with a local connection to their investments, taking projects from inception to sales.

The life of a single project will typically start with a proposal to the Committee by the managing director for a project idea. This is followed by a presentation given to the Committee on behalf of staff members from XYZ, West River, and Jones Architects. The Committee will then either approve or decline the proposal. If approved, XYZ will decide to which of its REITs the project should be assigned and it will be handed off to developer West River, with funds supplied by its respective REIT. West River will contract with Jones Architects or other architectural firm to provide architecture and design consultation. West River will seek construction loans, and provide marketing for lease-up and pre-sales upon the sale of a project. West River will hire a general contractor, and Jones Architects will review construction progress. West River will direct sales income to XYZ, and XYZ will disperse funds to its investors, as well as those of Renewal Urban. All participants in the process are related and controlled contractually by XYZ.

Marketing Strategy.

Projects may be on the market for sale while in design if it is of benefit to the company. In general, projects will be taken from design through construction and sales, but some may be pre-sold prior to construction. Unique buildings such as medical dental offices will be marketed to their specific community.

Operations Plan.
Management intends that XYZ be managed by a competent staff of Executives, Financial Mangers and support staff. Early staff projections are one CEO, one CFO and one bookkeeper but, as the project quantity and complexity grows, additional staff will likely be added.

A real estate developer company, West River LLC, has been contracted to provide project management. West River was created in June 2007 specifically to support the operations of XYZ. West River will be run by a staff of executives and Project Managers, lead by Managing Member, Paul J. Jones.

The business functions of funding and project management are separated for reasons of insurance and efficiency. XYZ will focus on financial support of the projects and West River will focus on developer services.

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THE INDUSTRY

Real estate investment has been a growing trend for the past twenty years with the creation of Real Estate Investment Trusts (REITs). REITs allow small investments of capital to be pooled and thus invested in much larger projects than are often available to individual investors. Management expects to grow substantially in the near future as the investing public becomes increasingly aware of the quality projects we are funding. Assuming a rate of return in line with the REIT industry average, Management expects to have adequate access to capital as it is needed.

According to the 2006 Three Rivers County Trends report, the housing market was "red hot in 2005." Although sales retreated in 2006, the market remains very active by the standards of the previous decade. Many people take an interest in real estate pricing trends due to the ever-increasing value in real estate, and its worth as an investment. National Data has suggested that somewhere in the neighborhood of forty percent (40%) of homes sold in 2005 were investment or second-home purchases, creating a twenty-three percent (23%) rise in real estate investments from 2004.

Competition

The Company's principal competition is considered limited in the Three Rivers County area because the Company's focus is on moderately sized urban infill projects, and this focus is shared only by a few development companies in the area, including Seattle. High barriers to entry should also limit competition, although future competition may surface if others follow XYZ's business model.

Operations may eventually be expanded into the Seattle area. At that time, Management expects increased competition from other developers.

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MANAGEMENT

XYZ's executive staff consists of Managing Director Paul Jones and CFO Robert Smith. Mr. Jones will be in charge of project selection and design through his affiliated company, Jones Architects Inc. Mr. Jones will also be in charge of project development through his affiliated company West River LLC. Mr. Smith will direct unit sales and provide accounting, financial management and financial oversight of investor funds invested into the various real estate development projects.

CEO & General Manager: Paul J. Jones.
Mr. Jones has been a licensed architect with the state of Washington since 1996. He has worked for several renowned architectural firms including Mithun in Seattle, and Johnston Associates, Inc. on Bainbridge Island. His design experience includes multifamily, single family, mixed use, and commercial, and his projects can be found throughout the Puget Sound area. For the past 15 years, he has extensively studied urban neighborhoods and urban infill. Since 2000, he has owned and operated the architectural firm Jones Architects, created Renewal Properties LLC and Milestone Beneficial LLC, and established the seven real estate development projects that Renewal Urban intends to purchase. His design and real estate knowledge are key factors to XYZ's long-term success.

CFO: Robert D. Smith.
Mr. Smith is a former Licensed Securities Broker (series 7) and a former Certified Public Accountant. He has experience in public and private offerings as well as securities trading on major stock exchanges. He has been an owner of, or held management level positions in auto sales, a golf reservation business, RV park development, factory built housing, and the oil service industry. His accounting background includes ownership of an accounting firm for 12 years, Controller for a fast food company, store's accountant for a paint manufacturer, and internal audit for a chemical company.

Management Committee.
A Management Committee has been formed and will have 7 members. Two members will be the CEO and CFO. The other members of the committee will be named soon with unfilled seats anticipated to be filled potentially with future investor members. The Committee's business will be conducted in a similar manner to a corporate board of directors. The committee members will be advisors to the CEO for reviewing the general operations of the company, and reviewing proposals for new projects to be acquired by one or more REITs. They will also be responsible for selecting a replacement CEO if necessary.

Management operations.
When, as expected, business increases, in-house and potentially outside bookkeepers will be hired to track daily financial activities and investor accounts. Outside consultants will be retained for XYZ and its REITs as necessary to provide services not available in house, such as CPAs, attorneys, and securities document providers.

XYZ's in-house accounting system uses QuickBooks and Excel. It also employs an outside accountant, Whitney Houston, P.S. Certified Public Accountants of Countdown, CA.

XYZ will acquire business liability, operations, and director's insurance as necessary. Management also intends that Renewal Urban have property liability insurance, and West River have developer's insurance.

Careful security of all records is a major priority for XYZ. Password protection for websites, computer servers, locked file cabinets and financial offices as well as the office itself is mandatory.

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TERMS OF THE OFFERING

General.
Management intends that the $1,000,000 in this round of financing of Participating Preferred Units be used as general working capital as necessary to execute the business plans contained herein. (See "Sources and Uses Statement" included in the "Pro Forma Financial Projections" in Exhibit A).

Ten Thousand (10,000) Participating Preferred Units are hereby made available to the prospective investor(s) who are named on the cover page of this private placement memorandum. The securities are offered at a per Unit price of $100.00. The minimum purchase amount is 100 Units for an aggregate dollar amount of $10,000 with increment of 50 Units for an aggregate dollar amount of $5,000 thereafter.

The Units offered herein are offered on a first come first served basis.

Description of the Participating Preferred Units.
The Company's Articles of Organization were filed in July 2007 with the State of Washington. The Operating Agreement provides authorization for the issuance of Class B Non-voting Participating Preferred Units.

Holders of the Company's Participating Preferred Units are entitled to receive stated dividends at a rate of Twelve Percent (12%) per annum if declared at the discretion of the Managing Member out of funds legally available. Dividends will depend upon, among other things, the operating results and financial condition of the Company, its present and future capital requirements and general business conditions.

The aggregate holders of Participating Preferred Units have the right to receive distributions from net income at a rate of Twenty Percent (20%) of the net after tax income as illustrated in Exhibit A. Individual Participation of Net Income is $2/10^{th}$ of 1% per Unit.

The Participating Preferred Unit is callable at 110% par value at the end of the fifth year, 2012 Management may "Call" the Participating Preferred Unit any time after the Call protection date of 12/31/2012. Due to the call provision, Participating Preferred Units do not represent permanent equity capital in the Company.

Holders of Participating Preferred Units have the right to convert into the Class A Voting Member Units at a pro rated ratio commensurate with the participation rate any time until the Call date of 12/31/2012. The aggregate of the 10,000 Units may be converted, in whole or in part, into Twenty Percent (20%) on the total ownership of the company, on a fully diluted and on a pro rata ownership basis. Class A Voting Member Units represent permanent equity in the company.

Participating Preferred Unit-holders have the right to receive distributions from liquidation of the Company's assets, ahead of Class A Members, if business failure were to occur.

Participating Preferred Unit Dividends are cumulative and shall be paid in arrears before any Class A Members receiving any dividends.

An indenture will be present on the Participating Preferred Unit certificates with a legend stating that the Units are non-transferable and that the securities have not been registered under the various acts. This Private Placement Memorandum dated 09/01/2007 serves as the disclosure document for this securities offering.

Investor Representations.
The securities will be offered only to "accredited investors" who will be required to represent (i) that they meet certain financial requirements, and (ii) that they have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the prospective investment and otherwise as defined under Regulation D subsection 230.501. (See: Exhibit B - Subscription Agreement).

Representations, Warranties and Covenants of the Company.
The Company represents, warrants, and covenants for the benefit of purchasers of the securities that:

(a) There are no options, rights, other warrants or other agreements by the Company entitling any person to purchase or otherwise acquire outstanding securities convertible or exchangeable into any capital stock or other securities of the Company, aside from those described herein. However, this fact in no way shall preclude the Company from issuing any of the aforementioned securities or other similar securities, including debt instruments, to capitalize the Company as Management sees fit. All company actions required to be taken by the Company prior to the issuance and sale of the securities to subscribers have been taken. The securities, when sold, issued and delivered in accordance with the terms of the Subscription Agreement, for the consideration expressed in that Agreement, will be duly authorized, validly issued, fully paid and non-assessable. None of the securities are subject to preemptive rights of any Unit-holder of the Company. When the securities offered are issued, the expenditures of the Company will be as set forth in this Memorandum under the "Sources and Uses Statement" contained in Exhibit A.

(b) The Company is duly organized, validly existing and in good standing as a Domestic Limited Liability Company in accordance with related Laws, acts, regulations and other rules governing business in the state of Washington.

(c) The Company is not in violation of any terms or provisions of any of its charter documents including its Articles of Organization and Operating Agreement; of any material term or provision of any indenture, mortgage, deed of trust, note agreement, lease or other agreement or instrument to which it is a party or by which it is or may be bound or to which any of its assets, property or business is or may be subject; of any material term of any indebtedness; or of any statute or any judgment, decree, order, rule or regulation of any court, regulatory body or administrative agency or other federal, state

or other government body, domestic or foreign, having jurisdiction over its assets, property or business, which violation or violations, either in any case or in the aggregate, might result in any material adverse change, financial or otherwise, in its assets, properties, condition, business, earnings, or prospects; and the delivery of this Memorandum, the consummation by the Company of the transactions contemplated in it and compliance by the Company with the terms of the subscription documents, will not result in any of these violations.

(d) The financial requirements and projections of the Company set forth in this Memorandum under Exhibit A are based on Management's best estimates regarding the Company and its business plans.

(e) The Company has filed all federal, state, local and foreign tax returns which are required to be filed or has requested extensions and has paid all taxes due.

(f) There are no facts presently existing or events which have occurred which constitute a material financial liability of the Company, not disclosed herein or in the exhibits hereto.

The Class A Member Interest Units are owned as of September 1, 2007**.**

Class A Unit-holders:	Number of Class A Units	Ownership %
Paul J. Jones	70,000	70.00%
Reserved for Class B Conversion	20,000	20.00%
Reserved for ESOP	10,000	10.00%
Total Authorized	100,000	100.00%

Capitalization Plan.
Management believes that the $1,000,000 in equity development capital sought through this offering will be sufficient to allow Management to grow the Company's business and attract further capital necessary for the future of the company.

Management plans to keep the Company a closely and privately-held Company for a period of five years. Management may execute an Initial Public Offering after that period of time or before, if the need arises and there is a favorable market environment However, there is no liquid or public market for the Participating Preferred Units herein and there can be no assurance that a liquid market for the Units will develop.

Minimum Purchase Requirement.
Each qualified investor will be subject to a minimum purchase requirement of 100 Units of the Participating Preferred Units for $10,000, with 50 Unit increments or $5,000 thereafter. There is no maximum amount of the securities that can be purchased by any qualified investor, up to the maximum amount of the offering. Management may waive the minimum purchase requirement at its sole discretion.

The Offering Period.
The offering extends from the offering date of September 01, 2007 to the close of business on November 30, 2007 (or earlier if the total amount of Units offered are sold) unless the offering is extended at the sole discretion of the Company. The Company may terminate the offering at any time for any reason or for no reason.

Availability of Information.
Prospective investors and their investment advisors are invited to communicate with Paul J. Jones, CEO & General Manager by phone at ((123) 456-7890) or by email at Paul@XYZCap.com or in person by appointment at 123 Easy Street, PO Box 430 Anywhere, WA 98346. Prospective investors and their purchaser representatives are also invited to request any material information reasonably available from the Company relating to its formation, managers, business activities, or anything else set forth in this Memorandum, which is not competitively confidential.

Escrow Agent.
There is no minimum aggregate offering amount and therefore no need to establish an Escrow Account or Escrow Agent relationship. Management will use the proceeds from this offering, when received and as needed and in relative concert with the "Sources and Uses Statement" contained in Exhibit A, to further the Company's financial goals and objectives.

Registrar & Transfer Agent.
As with most private placement offerings, the Company shall act as the registrar and transfer agent to save on costs associated with those services. However, the Company may appoint one or more transfer agents and registrars to act in its place where numerous securities may be presented for registration of transfer or exchange

The Company and any registrar or transfer agent may deem and treat the person in whose name any of the securities shall be registered upon the books of the Company as the absolute owner for the purpose of receiving notices of any nature and payment of or on account of the dividends or other distributions and for all other purposes; and neither the Company nor the paying agent nor any registrar or transfer agent shall be affected by any notice to the contrary. All such payments and notices so made to any registered holder or upon his/her or its order shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for notices owed or moneys paid upon any such distribution.

Preferred Unit-holder Right of Inspection of Books and Records.
In compliance with applicable federal and state law, any Preferred Member Shareholder, Membership Interest Shareholder, holder of voting trust certificate, or their agent, may inspect and copy the Operating Agreement, the minutes, of the proceedings of Membership Interest Shareholders, the annual statement of affairs, and any voting trust agreements on file at the Company's principal office during normal business hours. In addition, any Unit-holder or holder of voting trust certificate, or their agent, may present

to any manager or resident agent of the Company a written request for a statement showing all Units and securities issued by the Company during a specified period of not more than 12 months preceding the date of the request. The Company must respond to the request within 30 days of the date in which it was made.

Plan of Distribution.
The participating preferred Units will be allocated to purchasers of the securities in certificate form. Such certificates shall be cut, signed, and mailed within 10 days after receipt of funds.

Size of Offering.

Amount of Units Offered	Price Per Unit	Commissions	Net Proceeds to Firm
10,000	$100.00	$0.00	$1,000,000

NOTE: Proceeds to the Company are computed before deducting expenses of this offering, including legal fees, consulting fees, promotional and marketing expenses associated with this offering, and other offering expenses, which will be paid by the Company out of the proceeds of this offering. (See: "Estimated Use of Proceeds Statement").

Estimated Use of Proceeds Statement
For the balance of 2007, the proceeds are to be used to initiate the Company's development and growth. More specifically:

1. $250,000 loan to the REIT to for exchange registration purposes, to launch the Initial Public Offering.*
2. $250,000 loan to the REIT for marketing the shares of the REIT to the general public.*
3. $250,000 for general and administrative expenses for the first 12 months.
4. $40,000 short-term initial loan to be paid back to Paul J.
5. $210,000 to serve as a contingency reserve to further assure that the REIT is funded.

*NOTE: The loans to the REIT are to be paid back to XYZ, once ample capital is raised for the REIT to support its own securities marketing efforts.

The balance and loan re-payment proceeds of up to $1,000,000 in cash shall be allocated in conjunction with anticipated revenues as illustrated in Exhibit A for year 2008. The funds shall be used in relative concert with the pro forma financial projections so denoted in Exhibit A. Management plans on using such proceeds to further the company's financial and operating plans contained herein. If the full amount of capital is not raised, Management shall make the necessary adjustments in its sole discretion, to further the company's financial and operating plans. Please refer to Exhibit A "Sources and Uses Statement" and the Notes to Pro Forma Financial Projections contained therein for a detailed analysis of the use of proceeds.

Prior Offerings.
There has been no other prior execution of a securities offering for this Company.

Documents Incorporated by Reference.
All of the information contained in this Memorandum and the enclosed Exhibits are hereby incorporated herein by reference. This Memorandum contains summaries of certain documents believed to be accurate but reference must be made to the actual documents for complete information concerning the rights and obligations of the parties thereto. Copies of such documents are made available at the main office of the Company. All such summaries are qualified in their entirety by reference to the actual and complete documents. Specific documents relating to this investment shall be made available to the prospective investors and their advisors or purchaser representatives upon written request received by the Company's Management.

Voting Rights.
The Participating Preferred Unit-holders have no right to vote on any matter concerning the company. However, Participating Preferred Unit-holders have the right to vote on any change in the terms of the Participating Preferred Units issued hereby. Any proposed change must receive a unanimous vote to be effective.

Voting Control.
The Participating Preferred Unit-holders have no right to vote on any matter concerning the company and therefore shall not have any voting control. The Class A Members hold the exclusive right to elect the Managing Member who, in turn, appoints any Managing Directors or Advisory Board Members. The Operating Agreement may govern such matters as Unit distributions, voting, Management indemnification, and dissolution. A percentage greater than 50% of the Class A Membership vote shall control 100% of the Company.

Preemptive Rights.
The Participating Preferred Unit-holders have no Preemptive right to purchase additional Units. Management, out of general courtesy to its existing Unit-holder base, shall offer subsequent securities offerings to existing Class A Members/Unit holders of its securities on a first come first served basis for a period of 30 days after notification of the intent to sell additional securities. Such an offering shall be to allow investors to maintain their percentage of permanent ownership and voting control in the Company. After the 30 day period, the Company is under no obligation to sell securities to exiting Class A Unit-holders and may issue and deliver un-issued Participating Preferred or Class A Units or acquired and reissued treasury Shares, options, warrants, rights, or debt instruments or other securities having conversion or option rights, to other prospective investors as Management deems appropriate.

Company's First Right of Refusal.
The Company reserves the right as a "first right of refusal" to purchase any of the Company's securities, which may be noticed for sale by the Company's investors.

To Purchase Participating Preferred Units.
To purchase the Participating Preferred Units offered herein, the Subscription Agreement furnished with this Memorandum must be completed and received by the Company after the official Offering Date of September 01, 2007 and prior to the Termination Date, of November 30, 2007, with full payment for the purchase of the Units offered herein, a copy of the Subscription Agreement is contained at the end of this Memorandum. (See Exhibit B). Management retains the right to reject any subscription for securities in whole or in part, withdrawal, or cancellation of the offer without notice.

All potential investors consent to reasonable inquiries made by the Company and its representatives to assist in verifying that they meet the suitability requirements applicable to this offering. The Company will promptly notify each subscriber of its acceptance or rejection of a subscription hereunder and will promptly return the full purchase price for any portion of a subscription that is rejected.

The Company will not accept a Subscription Agreement unless forty-eight (48) hours have elapsed after delivery of this Memorandum to the subscriber.

All potential investors consent to reasonable inquiries made by the Company and its representatives to assist in verifying that they meet the suitability requirements applicable to this offering. The Company will promptly notify each subscriber of its acceptance or rejection of a subscription hereunder and will promptly return the full purchase price for any portion of a subscription that is rejected.

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RISKS AND OTHER IMPORTANT FACTORS

Any person contemplating an investment in the securities offered herein should be aware of the risk factors relevant to the offering and should consider, among other things, those factors set forth below.

Best Efforts Offering.
This offering is being conducted on a "best efforts" basis by the Company's Managers only. No other individual may solicit or sell the securities offered herein. No guarantee can be given that all or any of the securities will be sold, or that sufficient proceeds will be available to conduct successful operations without the need for further financing if only a portion of the securities are sold.

Limited or No Substantial Operating History.
The Company is a development stage company recently formed, July of 2007 for the purpose of carrying out the business plans contained herein. Although Management has many years experience in the business sector, the Company as an entity, is relatively new and as such has little substantial operating history

No Guarantee of Profitability.
The Company anticipates that revenues will be sufficient to create net profits for the Company. However, there can be no assurance that revenues will be sufficient for such purpose. Although Management believes in the Company's economic viability, there can be no guarantee that the business will be profitable to the extent anticipated. Success of the venture is primarily dependent upon the extent that the Company is able to operate the venture in accordance with expectations and assumptions as set forth in the financial projections. (See Exhibit A "Pro Forma Financial Projections").

No Guaranteed Return of Investor's Capital Contributions.
The Participating Preferred Units offered hereby are speculative and involve a high degree of risk. There can be no guarantee that an investor will realize a substantial return on the investment, or any return at all, or that the investor will not lose the entire investment. For this reason, each prospective investor should read this offering Memorandum and all Exhibits carefully and should consult with his/her or its own legal counsel, accountant(s), or business advisor(s) prior to making any investment decision.

Capital Requirements.
Management believes that the capital raised from this offering will be sufficient to cover costs to launch the further development of the Company as described herein however, there can be no guarantee that the Company may not require additional funds, either through additional equity offerings or debt placement, to continue operating and to seek profitability. Such additional capital may result in dilution to the Company's Shareholders, or result in increased expenses and decreased returns to the Company's Shareholders. The Company's ability to meet short term and long-term financial commitments may depend on the future cash flows generated from subsequent securities offerings and operations. There can be no assurance that future profits or subsequent

securities offerings will generate enough funds to meet the Company's financial commitments.

Arbitrary Determination of Offering Price.
Management believes it has priced the securities offered herein to provide for an exceptional rate of return on investment for the relative risk involved in owning the securities, if the pro forma financial projections prove to be correct or exceeded. The offering price of the Units being offered herein was arbitrarily determined and bears no relationship to assets, book value, earnings, or other established criteria of value. In determining the offering price such factors as the limited financial resources of the Company, the nature of the Company's assets, estimates of the business potential of the Company, the amount of equity and voting control desired to be retained by the Company's existing Shareholders, the amount of dilution to investors, and the general conditions of the securities market, were considered.

Competition.
Management believes that its competition is limited in the Three Rivers County area. Our focus is on moderately sized urban infill projects, and this focus is shared only by a few development companies in the area, including Seattle. High barriers to entry into will limit competition, although future competition may surface if others follow XYZ's business model.

Operations will eventually be expanded into the Seattle area. At that time, we can expect increased competition from other developers. That said, Management cannot guarantee that its approach will not be imitated in whole or in part at any time.

Reliance upon Management.
The success of the Company depends to a large degree upon the efforts of the Company's Management. Management shall have the exclusive control of all aspects of the business of the Company and in this regard, Management will make all decisions relating to operations such as the selection of personnel and the amount of proceeds to apply to daily operations and capital raising efforts. Management believes that its accumulated industry knowledge will allow the Company successfully to pursue sound Management and financial strategies to continue as an ongoing concern. No person should purchase any of the securities offered hereby unless an investor is willing to entrust all aspects of the Company's operations to its Management. Management has budgeted for Key Person life insurance to replace a member of the Management team, in case of incapacity or death of a Management team member.

Reliance on Market Research.
A substantial portion of the market research conducted for this project is based upon management's prior business experience as well as personal discussions with industry leaders. While the initial response has been positive, such information is highly subjective, with no independent statistics to rely upon. While the Company considers these indicators to be very favorable for the development of its business, there is no definitive proof of the size of the potential market or that the business plan contained

herein can achieve all its stated goals.

Governmental Regulation.
The real estate development industry, in which XYZ will become an active participant, is highly-regulated at both State and Federal Levels. XYZ will continue to comply with all applicable regulations affecting the markets in which it operates however, such regulation may become overly burdensome and therefore may have a negative affect on the Company's ability to perform as illustrated.

Financial Projections.
The Management of the Company, based on information and assumptions Management believes to be reasonable, prepared the financial projections enclosed with this Memorandum. Such projections, therefore, reflect only the Management's current expectation of likely results. There ordinarily will be differences between projected results and actual results because events and circumstances frequently do not occur as expected, and differences can be material. Thus, projected benefits to investors may also vary and there can be no guarantee that the results shown in the enclosed projections will be realized in whole or in part. Neither the Company nor its affiliates or professional advisors guarantee or warrant the projected results. It should also be noted that projections are based on the assumption that all of the securities will be sold for this offering as well as for offerings related to raising the necessary capital. Projected results may vary substantially if less than the entire amount of capital sought is received.

The financial projections provided herein depend on various assumptions, which may prove to be incorrect. There is no assurance that the actual events will correspond with such assumptions. Future results and investment returns are impossible to predict with any real accuracy and no representation or warranty of any kind is made by the firm, its Management or its representatives respecting the current or future accuracy or completeness of, and no representation is to be inferred from, such projections.

Restrictions on Transfer.
The securities have restrictions and limited transferability. There is currently no public trading market for the securities and no guarantee can be given that one will develop. The securities have not been registered under the Securities Act of 1933, as amended (the "1933 Act") or under any state securities laws. The securities are being offered and sold pursuant to exemptions from applicable federal and state registration requirements, allowing for transactions, which do not involve a "public offering". The Company is under no obligation to provide for registration of the securities in the future. Any subsequent sales of the securities by investors may only be permissible if an exemption from the applicable federal and state registration provisions is available at the time of the proposed sale. The Company cannot guarantee to any investor that such an exemption will be available. The Company is not presently subject to the periodic reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 and may or may not choose to make available to the public, in the foreseeable future, information with respect to the Company's affairs sufficient to permit the use of Rule 144 under the 1933 Act as a means of disposing of an investment in the Company. Consequently,

holders of the securities may not be able to liquidate their investment in the event of an emergency.

Private Offering Exemption.
These securities are being offered in reliance upon the non-public offering exemption as provided in the 1933 Act, 4(6) The Accredited Investor Exemption and or Regulation D Rule 506 promulgated thereunder, and applicable state securities registration exemptions. Although Management shall exercise due care in the offering of these and other securities related to raising capital for the Company, there can be no guarantee that this offering successfully complies with the requirements of the 1933 Act, 4(6) The Accredited Investor Exemption and/or Regulation D Rule 506 and other applicable state securities laws. If the Company should fail to comply with the requirements of the 1933 Act, 4(6) The Accredited Investor Exemption and or Regulation D Rule 506, or applicable state securities laws, and is not sufficiently profitable to remain attractive to the purchasers of its securities, investors might assert that they have the right to rescind their investment. Because compliance with the securities statutes is highly technical and difficult, an investor seeking rescission potentially could succeed. If a number of investors successfully sought rescission, the Company could face severe financial demands, which could adversely affect the Company and therefore the non-rescinding investors.

No Litigation.
Management is aware of no actions, investigations, lawsuits or other proceedings against the Company or any of its managers of any nature in effect, pending, or threatened which individually or in the aggregate might result in any material adverse change, financial or otherwise, in the assets, properties, condition, business, earnings or prospects of the Company, or which question the validity of the capital stock of the Company, the subscription documents or any action taken or to be taken by the Company in connection with this offering.

Dilution.
Due to the nature of the Class B Non-voting Preferred Units offered herein, as a forward lien security on assets in the case of business liquidation, there will be no dilution of Preferred Members interests in relation to ownership or an investment in the Preferred Units and the Company. The Estimated Rate of Return projections contained in the Executive Summary and the notes to pro forma financial projections contained in Exhibit A take into account a fully diluted basis of the total authorized 10,000 Preferred Units to be outstanding in arriving at the Estimated Rate of Return figures.

Ministerial Errors and Omissions.
Any clerical mistakes or errors in the Memorandum should be considered ministerial in nature and not a factual misrepresentation or a material omission of fact.

Investor Suitability Standards.
See Subscription Agreement.

Tax Structure.
XYZ Capital Management LLC should not be treated as a corporation for tax purposes. The federal and state tax obligations created by the profits and losses of the Company shall "pass through" on a pro rata basis, to each individual Unit-holder. Cash distributions should be treated as such for tax purposes, however one should seek advice of their own tax advisors in regards to these matters.

Tax Matters.
The following summarizes certain U.S. tax considerations relating to an investment in the Company. This summary is based upon the law, regulation and practice as of the date of this Memorandum, which are subject to change and to differing interpretation. Members should note that the following is only of a general nature and does not address all possible tax consequences relating to an investment in the Company.

This summary does not address the tax consequences applicable to all categories of investors. In particular, this description does not purport to address the potential tax considerations that may be material to a U.S. Member (as defined below) based on its particular situation and does not address the tax considerations applicable to U.S. Members that may be subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, dealers in securities or currencies or U.S. Persons (as defined below) that have a functional currency other than the U.S. dollar. Moreover, this discussion does not address the state, local or alternative minimum tax consequences of the acquisition, ownership or disposition of Units in the Company. Members should consult their own tax advisors on the specific tax implications of acquiring, holding, receiving distributions in respect of, and disposing of, the Units because the specific tax treatment applicable to a Member may differ from the following summary.

Income or gains of the Company may be subject to withholding, income or other tax in the jurisdictions where investments are located or where the Company is engaged in business. Prospective investors should note that this summary does not address the interaction of the U.S. federal tax laws and any income or estate tax treaties between the U.S. and any other jurisdiction. This summary also does not address possible tax consequences to the Company or to Partners under non-United States tax laws.

The Company's net income may be subject to the Washington state tax, at the rate as determined by state law, of net income per year or tax rates in other jurisdictions as they pertain.

Prospective investors should consult their own tax advisors with respect to the specific tax consequences of an investment in the Company, including the application and effect of any U.S. federal, state, estate, local, foreign and other tax laws, and including the effect of recently passed U.S. tax legislation.

U.S. tax-exempt investors should read the section addressed to them below, and should consult their own tax advisors concerning the consequences to them, in their particular situations, of investing through such separate investment vehicles.

For purposes of this discussion, a "U. S. Person" or a "U. S. Member" is an individual who is a citizen or resident of the United States, as determined for U.S. federal income tax purposes, a corporation or an entity treated as a corporation for such purposes that is created or organized in or under the laws of the United States or any political subdivision thereof, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if (i) it is subject to the primary supervision of a court within the United States and one or more U.S. Persons have the authority to control all substantial decisions of the trust, or (ii) it has a valid election under applicable U.S. Treasury regulations to be treated as a U.S. Person. If a Limited Liability Company is an investor, the tax treatment of a partner in such Limited Liability Company will generally depend upon the status of the partner and the activities of such Limited Liability Company.

Limited Liability Company Status
Subject to the rules applicable to "publicly traded Limited Liability Company/Partnership," a domestic Limited Liability Company or Limited Liability Company, (such as the Company), will generally be classified as a Limited Liability Company for U.S. federal income tax purposes unless it elects to be treated as a corporation. The Company will not elect to be treated as a corporation for U.S. federal income tax purposes. However, an entity that would otherwise be classified as a Limited Liability Company for such purposes may nonetheless be classified as an association taxable as a corporation if it is treated as a "publicly traded Limited Liability Company/Partnership". Management intends to obtain and rely on representations and undertakings from each investor and conduct the activities of the Company to ensure that the Company is not treated as a publicly traded Limited Liability Company/Partnership. The discussion herein assumes that the Company will be treated as a Limited Liability Company/Partnership for U.S. federal income tax purposes. The classification of an entity as a Limited Liability Company/Partnership for such purposes may not be respected for certain state, local or non-U. S. Tax purposes.

U.S. Members
General. Each U.S. Member will be required to take into account its distributive Unit of items of income, gain, loss, deduction and credit of the Company for each taxable year of the Company ending with or within the Member's taxable year. Each item generally will have the same character and source (either U.S. or foreign) to a U.S. Member as though the U.S. Member realized the item directly. U.S. Members must report those items without regard to whether any distribution has been or will be received from the Company.

The Company may invest in certain securities, such as original issue discount obligations, preferred stock with redemption or repayment premiums, hedging and derivative investments or in certain entities, and consequently the U. S. Members, to recognize

taxable income without receiving a corresponding amount of cash. Moreover, the Company may reinvest, repay debt with, or otherwise not distribute various amounts of its taxable receipts. In addition, the Company intends to make most of its investments through subsidiary entities treated as flow-through entities for U.S. tax purposes. Thus, taxable income allocated to a U.S. Member may exceed cash distributions, if any, made to such U. S. Member, in which case such Member may have to satisfy tax liabilities arising from an investment in the Company from such Member's own funds.

Allocations. For U.S. federal income tax purposes, a U. S. Member's allocable Unit of items of income, gain, loss, deduction or credit of the Company will be determined in accordance with the allocation provisions of the Limited Liability Company Operating Agreement if such allocations have "substantial economic effect" or are determined to be in accordance with such U. S. Member's interest in the Company. If the U.S. Internal Revenue Service (the "IRS") were to successfully challenge allocations contained in the Limited Liability Company Agreement, the resulting allocations could be less favorable to a U.S. Member than the allocations contained in the Limited Liability Company Agreement.

Basis. Each U.S. Member will (subject to certain limits discussed below) be entitled to deduct its allocable Unit of the Company's losses to the extent of its tax basis in its Units in the Company at the end of the tax year of the Company in which such losses are recognized. A U. S. Member's tax basis in its Units is, in general, equal to the amount of cash the U.S. Member has contributed to the Company, increased by the U. S. Member's Unit of income and liabilities of the Company, and decreased by the U. S. Member's proportionate Unit of distributions, losses and reductions in such liabilities.

If cash (including in certain circumstances distributions of certain marketable securities treated as cash distributions) distributed to a U.S. Member in any year, including for this purpose any reduction in that U. S. Member's Unit of the liabilities of the Company, exceeds that U. S. Member's Unit of the taxable income of the Company for that year, the excess will reduce the tax basis of that U. S. Member's interest and any distribution in excess of such basis will result in taxable gain. In general, distributions of property other than cash (as described above) will reduce the basis (but not below zero) of a U. S. Member's Units by the amount of the Company's basis in such property immediately before its distribution but will not result in the recognition of taxable income to the U. S. Member.

Limits on Deductions for Losses and Expenses. Various Company deductions allocable to certain U.S. Members may be subject to limitations for U.S. federal income tax purposes. Although the Company is not intended to be a tax shelter, it is possible that losses would exceed income in a given year. Any such losses may be passive losses, which may subject individuals, closely held corporations and other U.S. Members to limitations on deductions for such losses. Loss deductions for such Members may also be subject to the at-risk limitations. Deductions for Company expenses and fees may be treated as miscellaneous itemized deductions, which may be subject to additional limitations on deductions for individuals, estates and trusts, including the threshold for

deductibility that the deductions must exceed two percent of the taxpayer's adjusted gross income, if such items of deduction are attributable to investment activities of the Company as opposed to activities that represent a trade or business for U.S. federal income tax purposes. If the Company were to borrow money to distribute the proceeds to its investors, an individual U. S. Member's Unit of the interest incurred by the Company on such loan could, under certain circumstances, constitute non-deductible personal interest. Corporate U.S. Members may be subject to other limits on losses including, for example, limits under the dual consolidated loss rules.

The deductibility of capital losses is subject to limitations. In the case of a U.S. Member that is a corporation, capital losses may only offset capital gains and unused capital losses can generally be carried back three years and carried forward five years. In the case of a U.S. Member that is an individual, capital losses offset capital gains and a limited amount of capital losses can be used to offset ordinary income (currently $3,000) in a year in which capital losses exceed capital gains. Any unused portion of such excess capital losses can be carried forward (but not back) to future years.

In general, subject to a limited allowance for deduction of organizational expenses in the first year, neither the Company nor any U.S. Member may currently deduct organizational or syndication expenses. All remaining organizational expenses are amortized over a 15-year period. U.S. Members may claim ordinary deductions for fees paid to Management, but the IRS may take the view that such amounts must be capitalized and treated as part of the cost of an investment made by the Company.
U.S. Members should consult their own tax advisors regarding limitations on losses and deductions resulting from an investment in the Company.

Taxation of the Company's Operations. In light of the operations of the Company, gains from the sale of properties allocable to the Members will primarily be taxed as ordinary income from passive activities. Any losses allocable to the Members will be considered passive and only be offset by the Members against other passive income. Passive losses may be fully allowable upon the complete disposition of the interest in the properties. In addition, the Company may realize Section 1231 gains or losses as property used in a trade or business.

Sale or Other Disposition of Units. A U.S. Member that sells or otherwise disposes of Units in a taxable transaction generally will recognize gain or loss equal to the difference, if any, between the adjusted basis of the Units and the amount realized from the sale or disposition. The amount realized will include the U. S. Member's Unit of the Company's liabilities outstanding at the time of the sale or disposition. If the Member holds the Units as a capital asset, such gain or loss will be capital gain or loss except to the extent of proceeds attributable to "unrealized receivables" (including, among other items, depreciation recapture and stock in certain foreign corporations) and "inventory items." The capital gain or loss generally will be long-term capital gain or loss if the Units were held for more than one year on the date of such sale or disposition; provided, however, that a capital contribution by the U.S. Member within the one-year period ending on the date of such sale or disposition will cause part of such gain or loss to be short-term.

Long-term capital gain of individuals is generally taxed at a rate of 15%, but long-term capital gain could be taxed at a rate of 50% to the extent that any of such gain is attributable to depreciation deductions that are not recaptured as ordinary income. As discussed above, the deductibility of capital losses is subject to limitations. If any additional amounts paid on the capital contribution of a new Member admitted to the Company subsequent to the Company's Initial Closing are distributed to the existing Limited Partners, Management intends to treat such amounts as guaranteed payments for the use of capital, which will be includible by the existing Members as ordinary income.

In the event of a sale or other transfer of Units at any time other than the end of the Company's taxable year, the Unit of income and losses of the Company for the year of transfer attributable to the Units transferred will be allocated for U.S. federal income tax purposes between the transferor and the transferee on either an interim closing-of-the-books basis or a pro rata basis reflecting the respective periods during such year that each of the transferor and the transferee owned the Units.

U.S. State and Local Taxes. In addition to U.S. federal income tax consequences, prospective investors should consider potential U.S. state and local tax consequences of an investment in the Company in the state or locality in which they are a resident for tax purposes.

U.S. Tax-Exempt Investors. Qualified pension plans and certain other U.S. tax-exempt entities are generally subject to U.S. federal income tax on their unrelated business taxable income ("UBTI"). Subject to certain exceptions, UBTI is gross income derived by such a tax-exempt entity from an unrelated trade or business (including a trade or business conducted by a Limited Liability Company of which the tax-exempt entity is a partner), less the deductions directly connected with that trade or business. UBTI generally does not include dividends and interest. In light of the investment strategy of the Company in which gain or loss will be derived from the sale of the property, UBTI will be generated consequently such income will be subject to the applicable tax(es).

In addition, if a U.S. tax-exempt entity's acquisition of an interest in a Limited Liability Company is debt-financed, or the Company incurs "acquisition indebtedness" that is allocated to the acquisition of an investment by such Limited Liability Company, then UBTI would include a percentage of gross income (less the same percentage of deductions) derived from such investment regardless of whether such income would otherwise be excluded as dividends, interest, rents, gain or loss from the sale of eligible property or similar income.

The Company and its subsidiaries that are treated as flow-through entities for U.S. federal income tax purposes may earn operating income that would be UBTI if earned by a U.S. tax-exempt Member directly. In addition, the Company expects to incur debt either directly or through flow-through entities in which it invests.

ERISA Considerations.

A fiduciary of a pension, profit sharing, or other Benefit Plan Investor subject to ERISA should consider fiduciary standards under ERISA in the context of the plan's particular circumstances before authorizing an investment of a portion of such plan's assets in the Company. Accordingly, among other factors, such fiduciary should consider (i) whether the investment satisfies the prudence requirements of Section 404 (a) (1) (B) of ERISA, (ii) whether the investment satisfies the diversification requirements of section 404 (a) (1) (C) of ERISA, and (ii) whether the investment is in accordance with the documents and instruments governing the plan as required by Section 404 (a) (1) (D) of ERISA.

Section 406 of ERISA and Section 4975 of the Internal Revenue code (the "Code") prohibit an employee benefit plan from engaging in certain transactions involving "plan assets" with parties, which are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the plan. Consequently, a fiduciary of a plan subject to ERISA or the Code should consider whether an investment in the Company constitutes or gives rise to a prohibited transaction under ERISA or the Code.

If the assets of the Company were deemed to be assets of a plan which invested in Units of the Company, such investment might be deemed to constitute a delegation under ERISA of the duty to manage plan assets by the fiduciaries deciding to invest in the Company, and certain transactions involved in the operation of the Company might be deemed to constitute prohibited transactions under ERISA and the Code. ERISA and the Code do not define "plan assets." Pursuant to regulations issued by the Department of Labor, the assets of the Company will not be considered to be assets of plans which purchase Units if less than 50% of the value of each class of equity interests in the Company is held by Benefit Plan Investors (e.g., employee benefit plans subject to ERISA, individual retirement accounts, and other employee benefit plans not subject to ERISA, such as governmental plans).

The Department of Labor regulations further require that the Limited Liability Company interests held by Management and any of its affiliates must be disregarded in determining whether Benefit Plan Investors own less than 50% of the value of the aggregate Limited Liability Company interests in the Company.

While employee benefit plans, which are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Sections 3(33) of ERISA) are not subject to ERISA requirements, they are included solely for purposes of the 50% limitation.

If properties are acquired by the Company on a leveraged basis, it is possible that a portion of the income or gain attributable to such properties may be taxable income to benefit plans and other normally tax-exempt entities under rules pertaining to unrelated income.

Due to the complexity of these rules and the penalties imposed upon persons involved in prohibited transactions, it is particularly important that potential plan purchasers consult

with their respective counsel regarding the consequences under ERISA of their acquisition and ownership of Units.

U. S. Securities Laws and Foreign Investors.
The offer and sale of the Units will not be registered under the Securities Act pursuant to an exemption from the registration requirements of the Securities Act of 1933, and the securities laws of certain states. Each investor must furnish certain information to the Company and represent, among other customary private placement representations, that it is acquiring its Units for investment purposes and not with a view towards resale or distribution. The acquisition of Units by each investor also must be lawful under applicable state securities laws or the laws of the applicable foreign jurisdiction if the investor is a non-U. S. person.

The Units have not been, and will not be, registered under the Securities Act. Accordingly, the United States securities laws impose certain restrictions upon the ability of a Member to transfer such Units. Units may not be offered, sold, transferred or delivered, directly or indirectly, unless (i) such Units are registered under the Securities Act and any applicable state securities laws, or (ii) an exemption from registration under the Securities Act and any applicable state securities laws is available. Moreover, there will be no liquid, public market for the Shares, and none is expected to develop.

Further, Units may not be offered, sold, transferred, or delivered, directly or indirectly, to any "Unacceptable Investor". "Unacceptable Investor" means any person who is a:

(a) person or entity who is a "designated national", "specially designated national", "specially designated terrorist", "specially designated global terrorist", "foreign terrorist organization", or "blocked person" within the definitions set forth in the Foreign Assets Control Regulations of the United States Treasury Department, 31 C.F.R., Subtitle B, Chapter V, as amended;

(b) person acting on behalf of, or an entity owned or controlled by, any government against whom the United States maintains economic sanctions or embargoes under the Regulations of the United States Treasury Department, 31 C.F.R., Subtitle B, Chapter V, as amended--including, but not limited to--the "Government of Sudan", the "Government of Iran", the "Government of Cuba", the "Government of Syria", and the "Government of Burma"; or

(c) person or entity subject to additional restrictions imposed by the following statutes or Regulations and Executive Orders issued thereunder: the Trading with the Enemy Act, 50 U.S.C. app. §§1 et seq., the Iraq Sanctions Act, Pub. L. 101-513, Title V, §§ 586 to 586J, 104 Stat. 2047, the National Emergencies Act, 50 U.S.C. §§ 1601 et seq., the Antiterrorism and Effective Death Penalty Act of 1996, Pub. L. 104 132, 110 Stat. 1214 1319, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., the United Nations Participation Act, 22 U.S.C. § 287c, the International Security and Development Cooperation Act, 22 U.S.C. § 2349aa-9, the Nuclear Proliferation Prevention Act of 1994, Pub. L. 103 236, 108 Stat. 507, the Foreign Narcotics Kingpin

Designation Act, 21 U.S.C. §§ 1901 et seq., the Iran and Libya Sanctions Act of 1996, Pub. L. 104 172, 110 Stat. 1541, the Cuban Democracy Act, 22 U.S.C. §§ 6001 et seq., the Cuban Liberty and Democratic Solidarity Act, 22 U.S.C. §§ 6021-91, and the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1997, Pub. L. 104 208, 110 Stat. 3009 172, or any other law of similar import as to any non U.S. country, as each such Act or law has been or may be amended, adjusted, modified, or reviewed from time to time.

In the event of a registered public offering of Units in the U.S., the Company would become subject to the reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under such circumstances, investors that own more than 5% of the Company's outstanding Units may be obligated to make certain information filings with the Commission pursuant to the Exchange Act. Each prospective investor is advised to consult with its own legal advisor regarding the securities law consequences of ownership of Units if the Units become subject to the Exchange Act.

Compliance with Anti-Money Laundering Requirements.
The Company may be subject to certain provisions of the USA PATRIOT Act of 2001 (the "Patriot Act"), including, but not limited to, Title III thereof, the International Money Laundering and Abatement and Anti-Terrorist Financing Act of 2001 ("Title III"), certain regulatory and legal requirements imposed or enforced by the Office of Foreign Assets Control ("OFAC") and other similar laws of the United States. In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, the Company may request that investors provide additional documentation verifying, among other things, such investor's identity and source of funds to be used to purchase Units. The Company may decline to accept a subscription if this information is not provided or on the basis of the information that is provided. Requests for documentation and additional information may be made at any time during which a Member holds Units. The Company may be required to report this information, or report the failure to comply with such requests for information, to appropriate governmental authorities, in certain circumstances without informing a Member that such information has been reported. The Company will take such steps as it determines are necessary to comply with applicable law, regulations, orders, directives or special measures, including, but not limited to, those imposed or enforced by OFAC, the Patriot Act and Title III. Governmental authorities are continuing to consider appropriate measures to implement anti-money laundering laws and at this point it is unclear what steps the Company may be required to take; however, these steps may include prohibiting a Member from making further contributions of capital to the Company, depositing distributions to which such Member would otherwise be entitled into an escrow account or causing the withdrawal of such Member from the Company.

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STATE RESTRICTIVE LEGENDS

THE INCLUSION OF RESTRICTIVE LEGENDS FOR EACH STATE IN THIS MEMORANDUM IS NOT INTENDED TO IMPLY THAT THE SECURITIES COVERED BY THIS MEMORANDUM ARE TO BE OFFERED FOR SALE IN EVERY STATE, BUT IS MERELY A PRECAUTION IN THE EVENT THIS MEMORANDUM MAY BE TRANSMITTED INTO ANY STATE OTHER THAN AS MAY BE DELIVERED BY THE COMPANY.

NOTICE TO RESIDENTS OF ALL STATES:

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD SOLELY IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND SUCH LAWS. THERE IS NO PUBLIC MARKET FOR THE SECURITIES OF THE COMPANY. EVEN IF SUCH MARKET EXISTED, PURCHASERS OF SECURITIES WILL BE REQUIRED TO REPRESENT THAT THE SECURITIES ARE BEING ACQUIRED FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO SALE OR DISTRIBUTION, AND PURCHASERS WILL NOT BE ABLE TO RESELL THE SECURITIES UNLESS THE SECURITIES ARE REGISTERED UNDER THE ACT AND QUALIFIED UNDER THE APPLICABLE STATE STATUTES (OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION AND QUALIFICATION IS AVAILABLE). PURCHASERS OF THE SECURITIES SHOULD BE PREPARED TO BEAR THE ECONOMIC RISK OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES COMMISSION OR ANY OTHER STATE OR FEDERAL REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING, NOR THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. SEE "INVESTOR SUITABILITY STANDARDS," "RISK AND OTHER IMPORTANT FACTORS".

THE PRESENCE OF A LEGEND FOR ANY GIVEN STATE REFLECTS ONLY THAT A LEGEND MAY BE REQUIRED BY THAT STATE AND SHOULD NOT BE CONSTRUED TO MEAN AN OFFER OR SALE MAY BE MADE IN ANY PARTICULAR STATE. THIS MEMORANDUM MAY BE SUPPLEMENTED BY ADDITIONAL STATE LEGENDS.

THE SECURITIES REPRESENTED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES COMMISSION PURSUANT TO SECTION 5 OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") IN RELIANCE ON EXEMPTIONS FROM REGISTRATION INCLUDING SECTION 3(B), SECTION 4(2), REGULATION D, RULE 504, 505 OR 506 AND SECTION 4(6) THE "ACCREDITED INVESTOR EXEMPTION" THEREUNDER FOR LIMITED OFFERINGS, FOR PRIVATE OFFERINGS AND RELEASE 33-4708 ISSUED BY THE SECURITIES COMMISSION ON JULY 9, 1964, FOR OFFERINGS TO FOREIGNERS.

NOTICE TO ALABAMA RESIDENTS

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER THE ALABAMA SECURITIES ACT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ALABAMA SECURITIES COMMISSION. THE COMMISSION DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF ANY SECURITIES, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF THIS PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO ALASKA RESIDENTS

THE SECURITIES OFFERED HAVE NOT BEEN REGISTERED WITH THE ADMINISTRATOR OF SECURITIES OF THE STATE OF ALASKA PROVISIONS OF 3 AAC 08.500—3 THROUGH AAC 08.506. THE INVESTOR IS ADVISED THAT THE ADMINISTRATOR HAS MADE ONLY A

CURSORY REVIEW OF THE REGISTRATION STATEMENT AND HAS NOT REVIEWED THIS DOCUMENT SINCE THE DOCUMENT IS NOT REQUIRED TO BE FILED WITH THE ADMINISTRATOR. THE FACT OF THE REGISTRATION DOES NOT MEAN THAT THE ADMINISTRATOR HAS PASSED IN ANY WAY UPON THE MERITS, RECOMMENDED, OR APPROVED THE SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A VIOLATION OF A.S. 45.55.170.

THE INVESTOR MUST RELY ON THE INVESTOR'S OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED IN MAKING AN INVESTMENT DECISION ON THESE SECURITIES.

NOTICE TO ARIZONA RESIDENTS

THE UNITS OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF THE STATE OF ARIZONA (THE "ARIZONA ACT"), AND THEY THEREFORE HAVE THE STATUS OF SECURITIES ACQUIRED IN AN EXEMPT TRANSACTION UNDER ARS SECTION 44-1844 OF THE ARIZONA ACT. THE UNITS CANNOT BE RESOLD WITHOUT REGISTRATION UNDER THE ARIZONA ACT OR UNLESS AN EXEMPTION THEREFROM IS AVAILABLE.

NOTICE TO ARKANSAS RESIDENTS

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 14(B) (14) OF THE ARKANSAS SECURITIES ACT AND SECTION 4(2) OF THE SECURITIES ACT OF 1933, AS AMENDED. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ARKANSAS SECURITIES DEPARTMENT OR WITH THE SECURITIES COMMISSION. NEITHER THE DEPARTMENT NOR THE COMMISSION HAVE PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THE OFFERING, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

NOTICE TO CALIFORNIA RESIDENTS

IT IS UNLAWFUL TO CONSUMMATE A SALE, TRANSFER OF THESE SECURITIES OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFROM WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES. THE SALE OF THE SECURITIES DESCRIBED IN THIS MEMORANDUM HAVE NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR THE RECEIPT OF CONSIDERATION THEREFORE PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE THEREOF IS EXEMPT UNDER APPLICABLE LAW. THE COMPANY IS RELYING ON THE EXEMPTION FROM SUCH QUALIFICATION PROVIDED BY SECTION 10102(f) OF THE CALIFORNIA CORPORATIONS CODE.

NOTICE TO COLORADO RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE COLORADO SECURITIES ACT OF 1981 BY REASON OF SPECIFIC EXEMPTION THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1981, IF SUCH REGISTRATION IS REQUIRED.

NOTICE TO CONNECTICUT RESIDENTS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER SECTION 36-485 OF THE CONNECTICUT GENERAL STATUTES, THE UNIFORM SECURITIES ACT, AS AMENDED (THE "CONNECTICUT ACT"), AND THEREFORE CANNOT BE RESOLD UNLESS

THEY ARE REGISTERED UNDER SECTION 36-485 OF THE CONNECTICUT ACT OR UNLESS AN EXEMPTION FROM REGISTRATION PURSUANT TO SECTION 36-490(B) (9) OF THE CONNECTICUT UNIFORM SECURITIES ACT OR ANY OTHER SECTION OF THE CONNECTICUT ACT IS AVAILABLE. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSIONER OF THE STATE OF CONNECTICUT, NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

NOTICE TO DELAWARE RESIDENTS

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE DELAWARE SECURITIES ACT (THE "DELAWARE ACT"), AND THEREFORE CANNOT BE RESOLD OR TRANSFERRED BY THE INVESTOR EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER THE ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE ACT.

NOTICE TO FLORIDA RESIDENTS

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE FLORIDA SECURITIES AND INVESTOR PROTECTION ACT (THE "FLORIDA ACT") AND ARE BEING SOLD IN RELIANCE UPON AN EXEMPTION PROVISION CONTAINED THEREIN. PURSUANT TO SECTION 517.061(11) (a) (5) OF THE FLORIDA STATUTES, IF SECURITIES ARE SOLD TO FIVE OR MORE FLORIDA RESIDENTS, FLORIDA INVESTORS WILL HAVE A THREE (3) DAY RIGHT OF RESCISSION. INVESTORS WHO HAVE EXECUTED A SUBSCRIPTION AGREEMENT MAY ELECT, WITHIN THREE (3) BUSINESS DAYS AFTER THE FIRST TENDER OF CONSIDERATION THEREFORE TO WITHDRAW THEIR SUBSCRIPTION AND RECEIVE A FULL REFUND OF ANY MONEY PAID BY THEM. SUCH WITHDRAWAL WILL BE WITHOUT ANY FURTHER LIABILITY TO ANY PERSON. TO ACCOMPLISH SUCH WITHDRAWAL, AN INVESTOR NEED ONLY SEND A LETTER OR TELEGRAM TO THE COMPANY AT THE ADDRESS SHOWN HEREIN INDICATING HIS INTENTION TO WITHDRAW. SUCH LETTER OR TELEGRAM MUST BE SENT AND POSTMARKED PRIOR TO THE END OF THE AFOREMENTIONED THIRD BUSINESS DAY. IF SENDING A LETTER, AN INVESTOR SHOULD SEND IT BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ENSURE THAT IT IS RECEIVED AND TO EVIDENCE THE TIME WHEN IT IS MAILED. ANY ORAL REQUESTS FOR RESCISSION SHOULD BE ACCOMPANIED BY A REQUEST FOR WRITTEN CONFIRMATION THAT THE ORAL REQUEST WAS RECEIVED ON A TIMELY BASIS. THE COMPANY'S ADDRESS IS SET FORTH UNDER "THE COMPANY."

NOTICE TO GEORGIA RESIDENTS

THESE SECURITIES ARE BEING OFFERED AND SOLD IN RELIANCE ON PARAGRAPH (13) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

NOTICE TO HAWAII RESIDENTS

NEITHER THIS MEMORANDUM NOR THE SECURITIES DESCRIBED HEREIN HAVE BEEN APPROVED OR DISAPPROVED BY THE COMMISSIONER OF SECURITIES OF THE STATE OF HAWAII, NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM.

NOTICE TO IDAHO RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE IDAHO SECURITIES ACT AND THEREFORE CANNOT BE RESOLD OR TRANSFERRED, UNLESS THEY ARE SO REGISTERED OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

NOTICE TO ILLINOIS RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER SECTION 5 OF THE ILLINOIS SECURITIES ACT OF 1953 (THE "ILLINOIS ACT"). THE SECURITIES MAY NOT BE RESOLD,

TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY, UNLESS SUBSEQUENTLY REGISTERED UNDER THE ACT OR UNLESS AN EXEMPTION FROM REGISTRATION THEREFROM IS AVAILABLE.

NOTICE TO INDIANA RESIDENTS

THE INDIANA SECURITIES DIVISION HAS NOT IN ANY WAY PASSED UPON THE MERITS OR QUALIFICATION OF, NOR RECOMMENDED, NOR GIVEN APPROVAL TO THE SECURITIES HEREBY OFFERED, NOR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. PENDING PERFECTION OF THE EXEMPTION UNDER SECTION 23-1-2(B) (10) OF THE INDIANA BLUE SKY LAW, THE OFFERING IS PRELIMINARY AND SUBJECT TO MATERIAL CHANGE. THESE SECURITIES ARE SPECULATIVE, HAVE NOT BEEN REGISTERED UNDER SECTION 3 OF THE INDIANA SECURITIES ACT AND THEREFORE, CANNOT BE RESOLD OR TRANSFERRED, UNLESS THEY ARE SO REGISTERED, NOR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

NOTICE TO KANSAS RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACT OF ANY JURISDICTION BY REASON OF SPECIFIC EXEMPTION THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAW, IF SUCH REGISTRATION IS REQUIRED.

NOTICE TO KENTUCKY RESIDENTS

FOR KENTUCKY RESIDENTS, THE OPERATOR IN ALL SALES TO NON-ACCREDITED INVESTORS MUST HAVE REASONABLE GROUNDS TO BELIEVE, AFTER MAKING INQUIRY THAT: (1) THE INVESTMENT IS SUITABLE FOR THE PURCHASER ON THE BASIS OF THE FACTS DISCLOSED BY THE PURCHASER AS TO HIS OR HER OTHER SECURITY HOLDINGS AND TO HIS OR HER FINANCIAL SITUATION AND NEEDS. (THERE IS A PRESUMPTION FOR THE LIMITED PURPOSE OF THIS CONDITION THAT IF THE INVESTMENT DOES NOT EXCEED 10% OF THE INVESTOR'S NET WORTH THAT IT IS SUITABLE). (2) THE INVESTOR, EITHER ALONE OR WITH REPRESENTATIVES, HAS SUFFICIENT KNOWLEDGE AND EXPERIENCE TO EVALUATE THE MERITS AND RISKS OF THE INVESTMENT.

THE SECURITIES REPRESENTED IN THIS MEMORANDUM AND SUBSCRIPTION DOCUMENTS ARE BEING SOLD PURSUANT TO A CLAIM OF EXEMPTION FROM THE REGISTRATION OR QUALIFICATION PROVISIONS OF THE FEDERAL AND STATE SECURITIES LAWS AND MAY NOT BE SOLD OR TRANSFERRED WITHOUT COMPLIANCE WITH THE REGISTRATION OR QUALIFICATION PROVISIONS OF APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR APPLICABLE EXEMPTIONS THEREFROM.

NOTICE TO LOUISIANA RESIDENTS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, THE LOUISIANA SECURITIES LAW AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAW. THE SECURITIES ARE SUBJECT TO RESTRICTION ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED NOR RESOLD, EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAW PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE SECURITIES HAVE NOT BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING, NOR THE ACCURACY OR

ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

NOTICE TO MARYLAND RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE MARYLAND SECURITIES ACT, BY REASON OF SPECIFIC EXEMPTIONS THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE RESOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY, UNLESS SUBSEQUENTLY REGISTERED UNDER THE ACT OR THE MARYLAND SECURITIES ACT, IF SUCH REGISTRATION IS REQUIRED.

NOTICE TO MASSACHUSETTS RESIDENTS

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE MASSACHUSETTS SECURITIES ACT BY REASON OF SPECIFIC EXEMPTIONS THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE MASSACHUSETTS IS SECURITIES ACT, IF SUCH REGISTRATION IS REQUIRED.

NOTICE TO MICHIGAN RESIDENTS

THE SECURITIES REFERRED TO IN THIS MEMORANDUM WILL BE SOLD TO AND ACQUIRED BY THE HOLDER IN A TRANSACTION EXEMPT UNDER SECTION 4(2) (b) (9) OF THE MICHIGAN BLUE SKY LAW. THE SECURITIES HAVE NOT BEEN REGISTERED UNDER SAID LAW AND MAY NOT BE RESOLD EXCEPT IN ACCORDANCE WITH SAID LAW WITHIN SIX MONTHS OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES, OR THE TERMINATION OF THE SUBSCRIPTION PERIOD AS SET FORTH IN THIS PRIVATE PLACEMENT MEMORANDUM, WHICHEVER FIRST OCCURS, THE COMPANY SHALL, IF SALES OF THE SECURITIES ARE MADE TO MICHIGAN RESIDENTS, PREPARE AND FURNISH TO INVESTORS A DETAILED WRITTEN STATEMENT OF THE APPLICATION OF PROCEEDS OF THE OFFERING, AS WELL AS ANY OTHER APPLICABLE STATEMENTS AND REPORTS REQUIRED TO BE FURNISHED UNDER APPLICABLE LAW.

NOTICE TO MINNESOTA RESIDENTS

THESE SECURITIES REPRESENTED BY THIS MEMORANDUM HAVE NOT BEEN REGISTERED UNDER CHAPTER 80A OF THE MINNESOTA SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO REGISTRATION, OR AN EXEMPTION THEREFROM.

NOTICE TO MISSISSIPPI RESIDENTS

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER THE MISSISSIPPI SECURITIES ACT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE MISSISSIPPI SECRETARY OF STATE. THE SECRETARY OF STATE HAS NOT PASSED UPON THE VALUE OF THESE SECURITIES AND HAS NOT APPROVED OR DISAPPROVED OF THE OFFERING. THE SECRETARY OF STATE DOES NOT RECOMMEND THE PURCHASE OF THESE OR ANY OTHER SECURITIES. THERE IS NO ESTABLISHED MARKET FOR THESE SECURITIES AND THERE MAY NOT BE ANY MARKET FOR THESE SECURITIES IN THE FUTURE. THE SUBSCRIPTION PRICE OF THESE SECURITIES HAS BEEN ARBITRARILY DETERMINED BY THE ISSUER AND IS NOT AN INDICATION OF THE ACTUAL VALUE OF THESE SECURITIES. THE PURCHASER OF THESE SECURITIES MUST MEET CERTAIN SUITABILITY STANDARDS AND MUST BE ABLE TO BEAR AN ENTIRE LOSS OF HIS INVESTMENT. THESE SECURITIES MAY NOT BE TRANSFERRED FOR A PERIOD OF ONE YEAR EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER THE MISSISSIPPI SECURITIES ACT OR ANY TRANSACTION IN COMPLIANCE WITH THE MISSISSIPPI SECURITIES ACT.

NOTICE TO MISSOURI RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACT OF ANY JURISDICTION BY REASON OF SPECIFIC EXEMPTIONS THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAW, IF SUCH REGISTRATION IS REQUIRED.

NOTICE TO NEBRASKA RESIDENTS

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH DIRECTOR OF THE DEPARTMENT OF BANKING AND FINANCE OF THE STATE OF NEBRASKA, BUT HAS NOT YET BECOME EFFECTIVE, INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BE SOLD BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PRELIMINARY DOCUMENT SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN NEBRASKA SINCE SUCH OFFER, SOLICITATION, OR SALE WOULD BE UNLAWFUL PRIOR TO QUALIFICATION UNDER SECTION 8-1107 OF THE NEBRASKA SECURITIES ACT.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE UNDER THIS CHAPTER HAS BEEN FILED WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO NEW JERSEY RESIDENTS

THESE SECURITIES ARE OFFERED IN RELIANCE ON AN EXEMPTION FROM REGISTRATION UNDER THE NEW JERSEY UNIFORM SECURITIES LAW. THE SECURITIES HAVE NOT BEEN REGISTERED UNDER SAID LAW AND MAY NOT BE RE-OFFERED FOR SALE, TRANSFER OR RESOLD WITHOUT COMPLIANCE WITH THE REGISTRATION PROVISIONS OF SAID LAW OR AN EXEMPTION THEREFROM. THE BUREAU OF SECURITIES OF NEW JERSEY HAS NOT PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS MEMORANDUM AND DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF THE SECURITIES.

NOTICE TO NEW MEXICO RESIDENTS

THE SECURITIES DESCRIBED HEREIN ARE OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF NEW MEXICO, (THE "NEW MEXICO ACT"). ACCORDINGLY, THE NEW MEXICO SECURITIES BUREAU HAS NOT REVIEWED THE OFFERING OF THESE SECURITIES AND HAS NOT APPROVED OR DISAPPROVED THIS OFFERING. THE NEW MEXICO SECURITIES BUREAU HAS NOT PASSED UPON THE VALUE OF THESE SECURITIES OR UPON THE ACCURACY OF THE INFORMATION CONTAINED WITHIN THIS PRIVATE PLACEMENT MEMORANDUM. THESE SECURITIES MAY NOT BE RESOLD OR OTHERWISE TRANSFERRED WITHOUT REGISTRATION UNDER THE ACT OR AN EXEMPTION THEREFROM.

NOTICE TO NEW YORK RESIDENTS

THIS PRIVATE PLACEMENT MEMORANDUM DOES NOT KNOWINGLY CONTAIN AN UNTRUE STATEMENT OF MATERIAL FACT OR KNOWINGLY OMIT TO STATE A MATERIAL FACT NECESSARY TO MAKE THE STATEMENTS MADE, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING. IT CONTAINS A FAIR SUMMARY OF THE MATERIAL TERMS OF THE DOCUMENTS PURPORTED TO BE SUMMARIZED HEREIN. ALL PROCEEDS OF THIS OFFERING WILL BE USED ONLY FOR THE PURPOSES SET FORTH UNDER THE CAPTION "USE OF PROCEEDS."

THE OFFERING OF THE SECURITIES HAS NOT BEEN REVIEWED BY THE ATTORNEY GENERAL OF THE STATE OF NEW YORK BECAUSE OF THE OFFEROR'S REPRESENTATIONS THAT THIS IS INTENDED TO BE A NON-PUBLIC OFFERING PURSUANT TO REGULATION D AND THAT IF ALL OF THE CONDITIONS AND LIMITATIONS OF REGULATION D ARE NOT COMPLIED WITH, THE OFFERING WILL BE RESUBMITTED TO THE ATTORNEY GENERAL FOR AMENDED EXEMPTION. ANY OFFERING LITERATURE USED IN CONNECTION WITH THE OFFERING HAS NOT BEEN RE-FILED WITH THE ATTORNEY GENERAL AND HAS NOT BEEN REVIEWED BY THE ATTORNEY GENERAL. THE SECURITIES ARE BEING PURCHASED FOR THE INVESTOR'S OWN ACCOUNT FOR INVESTMENT AND NOT FOR DISTRIBUTION OR RESALE TO OTHERS. EACH NEW YORK INVESTOR WILL BE REQUIRED TO AGREE THAT HE OR SHE WILL NOT SELL OR OTHERWISE TRANSFER THESE UNITS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. EACH NEW YORK INVESTOR WILL BE REQUIRED TO REPRESENT THAT HE OR SHE HAS ADEQUATE MEANS OF PROVIDING FOR HIS OR HER CURRENT NEEDS AND POSSIBLE PERSONAL CONTINGENCIES, AND THAT HE OR SHE HAS NO NEED FOR LIQUIDITY OF THIS INVESTMENT. ALL NEW YORK INVESTORS WILL BE REQUIRED TO REPRESENT THAT THEY UNDERSTAND THAT THE OFFERING MAY BE MADE ONLY TO THOSE NON-ACCREDITED RESIDENTS OF NEW YORK WHO: HAVE A NET WORTH (ALONE OR JOINTLY WITH A SPOUSE, BUT EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES) OF THREE TIMES THE AMOUNT OF THE INVESTMENT AND AN ADJUSTED GROSS INCOME (ALONE OR JOINTLY WITH A SPOUSE, BUT EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOMOBILES) OF FIVE TIMES THE AMOUNT OF THE INVESTMENT.

ALL DOCUMENTS, RECORDS AND BOOKS PERTAINING TO THIS INVESTMENT WILL BE MADE AVAILABLE FOR INSPECTION BY EACH NEW YORK INVESTOR AND HIS OR HER ATTORNEY, ACCOUNTANT OR PURCHASER REPRESENTATIVE. THE BOOKS AND RECORDS OF THE ISSUER WILL BE AVAILABLE AT ITS PRINCIPAL PLACE OF BUSINESS UPON REASONABLE NOTICE FOR INSPECTION BY INVESTORS AT REASONABLE HOURS.

NOTICE TO OHIO RESIDENTS

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE OHIO SECURITIES ACT (THE "OHIO ACT"), AND THEREFORE CANNOT BE RESOLD OR TRANSFERRED BY THE INVESTOR EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER THE OHIO ACT, OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE OHIO ACT.

NOTICE TO OKLAHOMA RESIDENTS

THE SECURITIES OFFERED HEREIN HAVE NOT BEEN REGISTERED UNDER THE OKLAHOMA SECURITIES ACT (THE "OKLAHOMA ACT"), AND THEREFORE CANNOT BE RESOLD OR TRANSFERRED BY THE INVESTOR IN A TRANSACTION WHICH IS EXEMPT UNDER THE OKLAHOMA ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE OKLAHOMA ACT.

NOTICE TO OREGON RESIDENTS

THE SECURITIES OFFERED HEREIN HAVE NOT BEEN REGISTERED WITH THE DIRECTOR OF THE DEPARTMENT OF INSURANCE AND FINANCE FOR THE STATE OF OREGON. THE

INVESTOR MUST RELY ON THE INVESTOR'S EXAMINATION OF THE COMPANY CREATING THE SECURITIES, AND THE TERMS OF THE OFFERING, INCLUDING THE MAKING OF AN INVESTMENT DECISION ON THESE SECURITIES.

NOTICE TO PENNSYLVANIA RESIDENTS

EACH SUBSCRIBER WHO IS A PENNSYLVANIA RESIDENT HAS THE RIGHT TO CANCEL AND WITHDRAW HIS OR HER SUBSCRIPTION AND HIS OR HER PURCHASE OF SECURITIES THEREUNDER, UPON WRITTEN NOTICE TO THE COMPANY GIVEN WITHIN TWO (2) BUSINESS DAYS FOLLOWING THE RECEIPT BY THE COMPANY OF HIS OR HER EXECUTED SUBSCRIPTION AGREEMENT. ANY NOTICE OF CANCELLATION OR WITHDRAWAL SHOULD BE MADE BY TELEGRAM, CERTIFIED OR REGISTERED MAIL AND WILL BE EFFECTIVE UPON DELIVERY TO WESTERN UNION OR DEPOSIT IN THE UNITED STATES MAIL, POSTAGE OR OTHER TRANSMITTAL FEES PREPAID. UPON SUCH CANCELLATION OR WITHDRAWAL, THE SUBSCRIBER WILL HAVE NO OBLIGATION OR DUTY UNDER THE SUBSCRIPTION AGREEMENT TO THE COMPANY OR ANY OTHER PERSON AND WILL BE ENTITLED TO THE FULL RETURN OF ANY AMOUNT PAID BY HIM OR HER, WITHOUT INTEREST. NEITHER THE PENNSYLVANIA SECURITIES COMMISSION NOR ANY OTHER AGENCY PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING, AND ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

PENNSYLVANIA SUBSCRIBERS MAY NOT SELL THEIR SECURITIES FOR ONE YEAR FROM THE DATE OF PURCHASE IF SUCH A SALE WOULD VIOLATE SECTION 203(D) OF THE PENNSYLVANIA SECURITIES ACT.

PENNSYLVANIA RESIDENTS WHO ARE NOT ACCREDITED INVESTORS MUST MEET THE SUITABILITY REQUIREMENTS SET FORTH IN THIS MEMORANDUM AND MUST HAVE A NET WORTH (EXCLUSIVE OF HOME, HOME FURNISHINGS AND PERSONAL AUTOMOBILES) OF AT LEAST FIVE (5) TIMES THE AMOUNT OF THE PROPOSED INVESTMENT.

NOTICE TO RHODE ISLAND RESIDENTS

ALTHOUGH THE SECURITIES HEREIN DESCRIBED HAVE BEEN EXEMPTED FROM REGISTRATION PURSUANT TO TITLE 7, CHAPTER 11, OF THE RHODE ISLAND GENERAL LAWS, SUCH EXEMPTION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE RHODE ISLAND DEPARTMENT OF BUSINESS REGULATION THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE, ACCURATE OR NOT MISLEADING.

NOTICE TO SOUTH CAROLINA RESIDENTS

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER THE SOUTH CAROLINA UNIFORM SECURITIES ACT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE SOUTH CAROLINA SECURITIES COMMISSIONER. THE COMMISSIONER DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF ANY SECURITIES, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF THIS PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO SOUTH DAKOTA RESIDENTS

EACH SOUTH DAKOTA RESIDENT PURCHASING ONE OR MORE WHOLE OR FRACTIONAL SECURITIES MUST WARRANT THAT HE HAS EITHER A MINIMUM ANNUAL GROSS INCOME OF $30,000.00 OR A MINIMUM NET WORTH (EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES) OF $75,000.00. ADDITIONALLY, EACH INVESTOR WHO IS NOT AN ACCREDITED INVESTOR OR WHO IS AN ACCREDITED INVESTOR SHALL NOT MAKE AN INVESTMENT IN THIS PROGRAM IN EXCESS OF TWENTY PERCENT (20%). OF HIS NET WORTH (EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES).

NOTICE TO TENNESSEE RESIDENTS

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSIONS OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE TENNESSEE SECURITIES ACT OF 1993, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISK OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NOTICE TO TEXAS RESIDENTS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE TEXAS SECURITIES ACT, AS AMENDED, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT. THE SECURITIES ARE SUBJECT TO RESTRICTION ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE SECURITIES HAVE NOT BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES COMMISSION, ANY STATE SECURITIES COMMISSION NOR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON NOR ENDORSED THE MERITS OF THIS OFFERING NOR THE ACCURACY NOR ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

NOTICE TO VIRGINIA RESIDENTS

THE SECURITIES OF THE COMPANY HAVE NOT BEEN REGISTERED UNDER THE VIRGINIA SECURITIES ACT (THE "VIRGINIA ACT"), AND THEREFORE CANNOT BE RESOLD OR TRANSFERRED BY THE INVESTOR EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER THE ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE ACT.

NOTICE TO WASHINGTON STATE RESIDENTS

THE ADMINISTRATOR OF SECURITIES HAS NOT REVIEWED THE OFFERING OR OFFERING CIRCULAR AND THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF WASHINGTON, CHAPTER 21.20 RCW, AND, THEREFORE, CANNOT BE RESOLD UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OF WASHINGTON, CHAPTER 21.20 RCW, OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

NOTICE TO WISCONSIN RESIDENTS

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY IN THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES HAVE NOT BEEN RECOMMENDED BY AND FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY, OR DETERMINED THE ADEQUACY, OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

EXHIBIT A: PRO FORMA FINANCIAL PROJECTIONS

2008 SOURCES AND USES STATEMENT

Scenario A – No Properties Sold – No Profit Sharing Illustration

Pro Forma Income Statement & Company Valuation - Scenario A

	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
REVENUE ASSUMPTIONS:					
Management Fees					
Fund I: Cash	4,645,000	3,483,750	2,612,813	1,959,609	1,469,707
Fund I: Properties:					
City Villa	16,000,000	16,000,000	16,000,000	120,000,000	127,200,000
Kingston Marina View	1,150,000	1,150,000	3,000,000	3,180,000	3,370,800
Kingston Ponds	780,000	780,000	3,750,000	3,975,000	4,213,500
Olympic Silhouette	525,000	1,520,000	1,611,200	1,707,872	1,810,344
Park Terrace	3,000,000	3,000,000	15,600,000	16,536,000	17,528,160
Roseway Lane	1,050,000	6,000,000	6,360,000	6,741,600	7,146,096
St. Marie Plaza	2,850,000	2,850,000	13,000,000	13,780,000	14,606,800
Value of Existing Fund Assets	**30,000,000**	**34,783,750**	**61,934,013**	**167,880,081**	**177,345,407**
Annual Management Fee Percentage	2.80%	2.80%	2.80%	2.80%	2.80%
Total Management Fees	840,000	973,945	1,734,152	4,700,642	4,965,671
Profit Sharing					
Sale Price(s)	$ -	-	-	-	-
Cost Basis(s)	$ -	-	-	-	-
Realized Profits	$ -	-	-	-	-
Profit Sharing	$ -	-	-	-	-
Total Profit Sharing	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Gross Revenue - Management Services	**$ 840,000**	**$ 973,945**	**$ 1,734,152**	**$ 4,700,642**	**$ 4,965,671**
Cost of Services Delivered					
Service Expense	$ 16,800	19,479	34,683	94,013	99,313
Total Cost of Services Delivered	**$ 16,800**	**$ 19,479**	**$ 34,683**	**$ 94,013**	**$ 99,313**
Gross Profit - Services	**$ 823,200**	**$ 954,466**	**$ 1,699,469**	**$ 4,606,629**	**$ 4,866,358**
Gross Margin - Services	**98%**	**98%**	**98%**	**98%**	**98%**
TOTAL GROSS REVENUE	**$ 840,000**	**$ 973,945**	**$ 1,734,152**	**$ 4,700,642**	**$ 4,965,671**
TOTAL GROSS PROFIT	**$ 823,200**	**$ 954,466**	**$ 1,699,469**	**$ 4,606,629**	**$ 4,866,358**
TOTAL GROSS MARGIN	**98%**	**98%**	**98%**	**98%**	**98%**
General and Administrative Expense:					
Management Salaries	$ 350,000	367,500	385,875	405,169	425,427
Administration Dept. Staff Wages	$ 90,000	108,000	129,600	155,520	186,624
Payroll Taxes & Relating Insurance	$ 52,800	57,060	61,857	67,283	73,446
Benefits Package	$ 26,400	28,530	30,929	33,641	36,723
Sales, Marketing, Advertising & Promotion	$ 50,000	53,000	56,180	59,551	63,124
Travel, Lodging, and Seminar Expense	$ 20,000	24,000	28,800	34,560	41,472
General Liability Insurance	$ 4,200	4,870	8,671	7,051	7,449
Key Person Life Insurance	$ 7,000	7,350	7,718	8,103	8,509
Asset Property Taxes	$ 400	600	2,782	2,782	2,782
Equipment Lease	$ 2,400	2,640	2,904	3,194	3,514
Office and Computer Supplies	$ 1,500	1,650	1,815	1,997	2,196
Accounting	$ 15,000	16,500	18,150	19,965	21,962
Legal	$ 25,000	27,500	30,250	33,275	36,603
Office Leases	$ 50,000	50,000	75,000	75,000	75,000
Website Hosting & IT Support	$ 6,000	6,600	7,260	7,986	8,785
Software Purchases	$ 1,500	-	2,000	-	-
Telephones & High Speed Internet Access	$ 8,000	8,800	9,680	10,648	11,713
Trade Assn. Dues, Conference & Shows	$ 2,000	2,200	2,420	2,662	2,928
Research & Development Consultants	$ 5,000	5,500	6,050	6,655	7,321
Financial Consultants	$ 5,000	5,500	6,050	6,655	7,321
Miscellaneous Other Expenses	$ 5,000	7,500	9,000	10,000	11,000
Total General and Administrative Expense	**$ 727,200**	**$ 785,300**	**$ 882,989**	**$ 951,696**	**$ 1,033,895**
EBITDA	**$ 96,000**	**$ 169,166**	**$ 816,480**	**$ 3,654,933**	**$ 3,832,463**

Pro Forma Income Statement & Company Valuation – Scenario A (cont.)

Capitalized Assets						
Organizational Costs, Furniture, Fixtures & Other Equipment	$	50,000	25,000	90,000	-	-
Leasehold Improvements and Building Construction	$	-	-	150,000	-	-
Total Capitalized Assets:	**$**	**50,000**	**$ 25,000**	**$ 240,000**	**$ -**	**$ -**
Note Interest	$	-	-	-	-	-
Bank Loan Interest	$	-	-	-	-	-
Machinery / Equipment Loan Interest	$	-	-	-	-	-
Building Mortgage Interest		-	-	-	-	-
Interest Expense	**$**	-	-	-	-	-
Total Income Before Taxes, Depreciation and Amortization	$	96,000	169,166	816,480	3,654,933	3,832,463
Less:						
Profit Sharing:	$	9,600	16,917	81,648	365,493	383,246
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Net Income before Income Taxes	$	76,400	137,250	697,986	3,252,594	3,412,370
Federal & State Corp. Income Tax	$	2,292	4,117	20,940	97,578	102,371
Loss Carry Forward for Tax Calculations Only	$	-	-	-	-	-
ESTIMATED NET INCOME AFTER TAXES	**$**	**74,108**	**$ 133,132**	**$ 677,046**	**$ 3,155,016**	**$ 3,309,999**
ESTIMATED NET OPERATING MARGINS		**8.82%**	**13.67%**	**14.40%**	**63.54%**	**66.66%**
CAPITALIZATION:						
SERIES -A- PREFERRED UNITS		-	-	-	-	-
Number of Preferred Units Offered and Sold		10,000	-	-	-	-
Price per Preferred Unit		100	-	-	-	-
Series A - Preferred Unit Value Issued		**1,000,000**	-	-	-	-
Series A - Preferred Unit "Call" or Redemption		-	-	-	-	**(1,100,000)**
	-	-	-	-	-	-
Preferred Equity Value Issued		**1,000,000**	-	-	-	-
	-	-	-	-	-	-
Estimated Cash Flow From Operations: Pre-Preferred		**84,108**	**148,132**	**713,892**	**3,191,862**	**3,346,845**
Series A - Preferred Unit Stated Dividends		(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation		(7,411)	(26,626)	(135,409)	(631,003)	(662,000)
Estimated Cash Flow From Operations: Post Preferred		**40,697**	**1,506**	**458,483**	**2,440,859**	**2,564,845**
	-	-	-	-	-	-
Estimated Cash Distr. to Common Unitholders		**(22,232)**	**(39,940)**	**(203,114)**	**(946,505)**	**(993,000)**
ESTIMATED NET CASH FLOW FROM OPERATIONS		**18,465**	**(38,434)**	**255,369**	**1,494,354**	**1,571,846**
Est. Net Earnings per Common Unit	**$**	**0.74**	**$ 1.33**	**$ 6.77**	**$ 31.55**	**$ 33.10**
COMPANY VALUATION - PRIVATELY HELD						
Estimated Private Value per Common Unit:	**$**	**3.71**	**6.66**	**33.85**	**157.75**	**165.50**
Company Valuation - Privately Held:	**$**	**370,540**	**$ 665,661**	**$ 3,385,232**	**$ 15,775,080**	**$ 16,549,996**
COMPANY VALUATION - PUBLICLY HELD						
Estimated Public Value per Common Unit:	**$**	**11.12**	**$ 19.97**	**$ 101.56**	**$ 473.25**	**$ 496.50**
Company Valuation - Publicly Held:	**$**	**1,111,620**	**$ 1,996,984**	**$ 10,155,696**	**$ 47,325,240**	**$ 49,649,988**

ESTIMATED INTERNAL RATES OF RETURNS	
Est. IRR on Series A Preferred Shares	**41.93%**

Consolidated Statement of Operations – Scenario A

		Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Revenues	$	840,000	973,945	1,734,152	4,700,642	4,965,671
Total Cost of Goods Sold	$	16,800	19,479	34,683	94,013	99,313
Gross Profit	**$**	**823,200**	**$ 954,466**	**$ 1,699,469**	**$ 4,606,629**	**$ 4,866,358**
Operating expenses:						
Total General and Administrative Expense	$	727,200	785,300	882,989	951,696	1,033,895
Profit Sharing:	$	9,600	16,917	81,648	365,493	383,246
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Total operating expenses	$	746,800	817,216	1,001,483	1,354,036	1,453,988
Operating profit (loss)	**$**	**76,400**	**$ 137,250**	**$ 697,986**	**$ 3,252,594**	**$ 3,412,370**
Other income (expense):						
Interest Expense	$	-	-	-	-	-
Profit (loss) before income taxes	$	76,400	137,250	697,986	3,252,594	3,412,370
Federal & State Corp. Income Tax	$	2,292	4,117	20,940	97,578	102,371
Net profit (loss)	**$**	**74,108**	**133,132**	**677,046**	**3,155,016**	**3,309,999**
Net profit (loss) per Common Unit - fully diluted	**$**	**0.74**	**$ 1.33**	**$ 6.77**	**$ 31.55**	**$ 33.10**
Statement of Retained Earnings						
Beginning Retained Earnings (Deficit)	$	-	8,465	(44,969)	173,554	1,631,062
Net Income (Loss)	$	74,108	133,132	677,046	3,155,016	3,309,999
Less Shareholder Distributions						
Series A - Preferred Unit Stated Dividends	$	(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation	$	(7,411)	(26,626)	(135,409)	(631,003)	(662,000)
Common Shareholder Distributions	$	(22,232)	(39,940)	(203,114)	(946,505)	(993,000)
Total Shareholder Distributions	$	(65,643)	(186,566)	(458,523)	(1,697,508)	(1,775,000)
Net Ending Retained Earnings (Deficit)	**$**	**8,465**	**$ (44,969)**	**$ 173,554**	**$ 1,631,062**	**$ 3,166,062**

Consolidated Statement of Cash Flows – Scenario A

		Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Cash flows from operating activities:						
Estimated Net Income	$	74,108	133,132	677,046	3,155,016	3,309,999
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Cash provided by operating activities	**$**	**84,108**	**148,132**	**713,892**	**3,191,862**	**3,346,845**
Cash flows from increases (decreases) in current assets/liabilities						
Accounts receivable		(8,400)	(1,339)	(7,602)	(29,665)	(2,650)
Inventory		-	-	-	-	-
Accounts payable		-	-	-	-	-
Accrued expenses		1,373	1,066	9,600	42,813	2,678
Total Cash flows from asset/liability changes	**$**	**(7,027)**	**$ (273)**	**$ 1,998**	**$ 13,148**	**$ 27**
Cash outflows from investing activities:						
Total Capitalized Assets:	$	(50,000)	(25,000)	(240,000)	-	-
Loan to REIT	$	-				
Net cash from investing activities	**$**	**(50,000)**	**$ (25,000)**	**$ (240,000)**	**$ -**	**$ -**
Cash inflows from financing activities:						
Repayment of Loan from REIT	$	-	-	-	-	-
Series A - Preferred Unit Value Issued	$	1,000,000	-	-	-	-
Cash outflows from financing activities:						
Series A - Preferred Unit Stated Dividends	$	(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation	$	(7,411)	(26,626)	(135,409)	(631,003)	(662,000)
Estimated Cash Distr. to Common Unitholders	$	(22,232)	(39,940)	(203,114)	(946,505)	(993,000)
Net cash flows from financing activities:	**$**	**934,357**	**$ (186,566)**	**$ (458,523)**	**$ (1,697,508)**	**$ (2,875,000)**
Net cash increase (decrease)	$	961,438	(63,707)	17,367	1,507,502	471,873
Cash and equivalents, beginning of year	$	-	961,438	897,731	915,098	2,422,600
Cash and equivalents, end of year	**$**	**961,438**	**$ 897,731**	**$ 915,098**	**$ 2,422,600**	**$ 2,894,473**

Pro Forma Balance Sheets – Scenario A

	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Current Assets					
Cash & Marketable Securities	$ 961,438	897,731	915,098	2,422,600	2,894,473
Inventory	$ -	-	-	-	-
Accounts receivable	$ 8,400	9,739	17,342	47,006	49,657
Total Current Assets	**$ 969,838**	**$ 907,470**	**$ 932,439**	**$ 2,469,606**	**$ 2,944,130**
Property & Equipment					
Organizational Costs, Furniture, Fixtures & Other Equipment	$ 50,000	75,000	165,000	165,000	165,000
Machinery/Equipment	$ -	-	-	-	-
Franchise Fees (Wildcard)	$ -	-	-	-	-
Business Acquisition	$ -	-	-	-	-
Leasehold Improvements and Building Construction	$ -	-	150,000	150,000	150,000
Less: Accumulated Depreciation & Amortization	$ (10,000)	(25,000)	(61,846)	(98,692)	(135,538)
TOTAL ASSETS	**$ 1,009,838**	**$ 957,470**	**$ 1,185,593**	**$ 2,685,914**	**$ 3,123,592**
Current Liabilities					
Accrued expenses	$ 1,373	2,439	12,039	54,852	57,530
Long Term Liabilities					
Total Note Sales (Payables)	$ -	-	-	-	-
Loan to REIT	$ -	-	-	-	-
Machinery / Equipment Loans	$ -	-	-	-	-
Building Mortgage	$ -	-	-	-	-
Total Liabilities	**$ 1,373**	**$ 2,439**	**$ 12,039**	**$ 54,852**	**$ 57,530**
Shareholders Equity					
Retained Earnings Schedule	$ 8,465	(44,969)	173,554	1,631,062	3,166,062
Common Units Equity Value Issued	$ -	-	-	-	-
Preferred Units					
Series A - Preferred Unit Value Issued	$ 1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Series A - Preferred Unit "Call" or Redemption	$ -	-	-	-	(1,100,000)
Total Equity Issued	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ (100,000)
Ending Unitholders' Equity	$ 1,008,465	$ 955,031	$ 1,173,554	$ 2,631,062	$ 3,066,062
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,009,838**	**$ 957,470**	**$ 1,185,593**	**$ 2,685,914**	**$ 3,123,592**

Scenario B – All Properties Sold – Profit Sharing Illustration

Pro Forma Income Statement & Company Valuation - Scenario B

	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
REVENUE ASSUMPTIONS:					
MANAGEMENT FEES					
Fund I: Cash	4,645,000	3,483,750	7,908,989	5,931,741	18,112,806
Fund I: Properties:					
City Villa	16,000,000	16,000,000	16,000,000	120,080,000	-
Kingston Marina View	1,150,000	1,150,000	3,140,000	-	-
Kingston Ponds	780,000	780,000	1,219,000	-	-
Olympic Silhouette	525,000	1,520,000	-	-	-
Park Terrace	3,000,000	3,000,000	15,600,000	-	-
Roseway Lane	1,050,000	6,730,000	-	-	-
St. Marie Plaza	2,850,000	2,850,000	13,990,200	-	-
Value of Existing Fund Assets	**30,000,000**	**35,513,750**	**57,858,189**	**126,011,741**	**18,112,806**
Annual Management Fee Percentage	2.80%	2.80%	2.80%	2.80%	2.80%
Total Management Fees	840,000	994,385	1,620,029	3,528,329	507,159
PROFIT SHARING					
Sale Price(s)					
City Villa	$ -	-	-	-	$ 120,080,000
Kingston Marina View	$ -	-	3,140,000	-	-
Kingston Ponds	$ -	-	1,219,000	-	-
Olympic Silhouette	$ -	1,520,000	-	-	-
Park Terrace	$ -	-	15,600,000	-	-
Roseway Lane	$ -	6,730,000	-	-	-
St. Marie Plaza	$ -	-	13,990,200	-	-

Total Cost Basis of Each Project	
City Villa	$ 103,000,000
Kingston Marina View	$ 2,466,680
Kingston Ponds	$ 898,300
Olympic Silhouette	$ 1,140,000
Park Terrace	$ 13,000,000
Roseway Lane	$ 5,893,400
St. Marie Plaza	$ 10,964,000

Aggregate Cost Basis(s)	$ -	7,033,400	27,328,980	-	$ 103,000,000
Realized Profits	$ -	1,216,600	6,620,220	-	17,080,000
Profit Sharing	$ -	243,320	1,324,044	-	3,416,000
Total Profit Sharing	**$ -**	**$ 243,320**	**$ 1,324,044**	**$ -**	**$ 3,416,000**
Total Gross Profit					**$ 24,916,820**
Gross Revenue - Services	**$ 840,000**	**$ 1,237,705**	**$ 2,944,073**	**$ 3,528,329**	**$ 3,923,159**
Cost of Services Delivered					
Service Expense	$ 16,800	24,754	58,881	70,567	78,463
Total Cost of Services Delivered	**$ 16,800**	**$ 24,754**	**$ 58,881**	**$ 70,567**	**$ 78,463**
Gross Profit - Services	**$ 823,200**	**$ 1,212,951**	**$ 2,885,192**	**$ 3,457,762**	**$ 3,844,695**
Gross Margin - Services	**98%**	**98%**	**98%**	**98%**	**98%**
TOTAL GROSS REVENUE	**$ 840,000**	**$ 1,237,705**	**$ 2,944,073**	**$ 3,528,329**	**$ 3,923,159**
TOTAL GROSS PROFIT	**$ 823,200**	**$ 1,212,951**	**$ 2,885,192**	**$ 3,457,762**	**$ 3,844,695**
TOTAL GROSS MARGIN	**98%**	**98%**	**98%**	**98%**	**98%**
General and Administrative Expense:					
Management Salaries	$ 350,000	367,500	385,875	405,169	425,427
Administration Dept. Staff Wages	$ 90,000	108,000	129,600	155,520	186,624
Payroll Taxes & Relating Insurance	$ 52,800	57,060	61,857	67,283	73,446
Benefits Package	$ 26,400	28,530	30,929	33,641	36,723
Sales, Marketing, Advertising & Promotion	$ 50,000	53,000	56,180	59,551	63,124
Travel, Lodging, and Seminar Expense	$ 20,000	24,000	28,800	34,560	41,472
General Liability Insurance	$ 4,200	6,189	14,720	5,292	3,923
Key Person Life Insurance	$ 7,000	7,350	7,718	8,103	8,509
Asset Property Taxes	$ 400	600	2,782	2,782	2,782
Equipment Lease	$ 2,400	2,640	2,904	3,194	3,514
Office and Computer Supplies	$ 1,500	1,650	1,815	1,997	2,196
Accounting	$ 15,000	16,500	18,150	19,965	21,962
Legal	$ 25,000	27,500	30,250	33,275	36,603
Office Leases	$ 50,000	50,000	75,000	75,000	75,000
Website Hosting & IT Support	$ 6,000	6,600	7,260	7,986	8,785
Software Purchases	$ 1,500	-	2,000	-	-
Telephones & High Speed Internet Access	$ 8,000	8,800	9,680	10,648	11,713
Trade Assn. Dues, Conference & Shows	$ 2,000	2,200	2,420	2,662	2,928
Research & Development Consultants	$ 5,000	5,500	6,050	6,655	7,321
Financial Consultants	$ 5,000	5,500	6,050	6,655	7,321
Miscellaneous Other Expenses	$ 5,000	7,500	9,000	10,000	11,000
Total General and Administrative Expense	**$ 727,200**	**$ 786,619**	**$ 889,039**	**$ 949,938**	**$ 1,030,370**
EBITDA	**$ 96,000**	**$ 426,332**	**$ 1,996,153**	**$ 2,507,824**	**$ 2,814,325**

Pro Forma Income Statement & Company Valuation – Scenario B (cont.)

Capitalized Assets						
Organizational Costs, Furniture, Fixtures & Other Equipment	$	50,000	25,000	90,000	-	-
Leasehold Improvements and Building Construction	$	-	-	150,000	-	-
Total Capitalized Assets:	**$**	**50,000**	**$ 25,000**	**$ 240,000**	**$ -**	**$ -**
Note Interest	$	-	-	-	-	-
Bank Loan Interest	$	-	-	-	-	-
Machinery / Equipment Loan Interest	$	-	-	-	-	-
Building Mortgage Interest		-	-	-	-	-
Interest Expense	**$**	-	-	-	-	-
Total Income Before Taxes, Depreciation and Amortization	$	96,000	426,332	1,996,153	2,507,824	2,814,325
Less:						
Profit Sharing:	$	9,600	42,633	199,615	250,782	281,433
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Net Income before Income Taxes	$	76,400	368,699	1,759,692	2,220,196	2,496,047
Federal & State Corp. Income Tax	$	2,292	11,061	52,791	66,606	74,881
Loss Carry Forward for Tax Calculations Only	$	-	-	-	-	-
ESTIMATED NET INCOME AFTER TAXES	**$**	**74,108**	**$ 357,638**	**$ 1,706,901**	**$ 2,153,590**	**$ 2,421,165**
ESTIMATED NET OPERATING MARGINS		**8.82%**	**28.90%**	**48.38%**	**54.89%**	**61.71%**
Estimated Cash Flow From Operations: Pre-Preferred	$	84,108	372,638	1,743,747	2,190,436	2,458,011
Series A - Preferred Unit Stated Dividends	$	(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation	$	(7,411)	(71,528)	(341,380)	(430,718)	(484,233)
Estimated Cash Flow From Operations: Post Preferred	**$**	**40,697**	**181,111**	**1,282,367**	**1,639,718**	**1,853,778**
Estimated Cash Distr. to Common Unitholders	$	(22,232)	(107,291)	(512,070)	(646,077)	(726,350)
ESTIMATED NET CASH FLOW FROM OPERATIONS	**$**	**18,465**	**73,819**	**770,296**	**993,641**	**1,127,429**
CAPITALIZATION:						
SERIES -A- PREFERRED UNITS		-	-	-	-	-
Number of Preferred Units Offered and Sold		10,000	-	-	-	-
Price per Preferred Unit		100	-	-	-	-
Series A - Preferred Unit Value Issued		**1,000,000**	**-**	**-**	**-**	**-**
Series A - Preferred Unit "Call" or Redemption		-	-	-	-	**(1,100,000)**
-		-	-	-	-	-
Preferred Equity Value Issued		**1,000,000**	**-**	**-**	**-**	**-**
-		-	-	-	-	-
Estimated Cash Flow From Operations: Pre-Preferred		**84,108**	**372,638**	**1,743,747**	**2,190,436**	**2,458,011**
Series A - Preferred Unit Stated Dividends		(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation		(7,411)	(71,528)	(341,380)	(430,718)	(484,233)
Estimated Cash Flow From Operations: Post Preferred		**40,697**	**181,111**	**1,282,367**	**1,639,718**	**1,853,778**
-		-	-	-	-	-
Estimated Cash Distr. to Common Unitholders		**(22,232)**	**(107,291)**	**(512,070)**	**(646,077)**	**(726,350)**
ESTIMATED NET CASH FLOW FROM OPERATIONS		**18,465**	**73,819**	**770,296**	**993,641**	**1,127,429**
LOANS						
Loan to REIT		-	-	-	-	-
Repayment of Loan from REIT		-	-	-	-	-
COMPANY VALUATION - PRIVATELY HELD						
Estimated Private Value per Common Unit:	**$**	**3.71**	**17.88**	**85.35**	**107.68**	**121.06**
Company Valuation - Privately Held:	**$**	**370,540**	**$ 1,788,191**	**$ 8,534,504**	**$ 10,767,950**	**$ 12,105,827**
COMPANY VALUATION - PUBLICLY HELD						
Estimated Public Value per Common Unit:	**$**	**11.12**	**$ 53.65**	**$ 256.04**	**$ 323.04**	**$ 363.17**
Company Valuation - Publicly Held:	**$**	**1,111,620**	**$ 5,364,572**	**$ 25,603,513**	**$ 32,303,851**	**$ 36,317,481**
ESTIMATED INTERNAL RATES OF RETURNS						
Est. IRR on Series A Preferred Shares		**42.94%**				

Consolidated Statement of Operations – Scenario B

		Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Revenues	$	840,000	1,237,705	2,944,073	3,528,329	3,923,159
Total Cost of Services Delivered	$	16,800	24,754	58,881	70,567	78,463
Gross Profit	**$**	**823,200**	**$ 1,212,951**	**$ 2,885,192**	**$ 3,457,762**	**$ 3,844,695**
Operating expenses:						
Total General and Administrative Expense	$	727,200	786,619	889,039	949,938	1,030,370
Profit Sharing:	$	9,600	42,633	199,615	250,782	281,433
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Total operating expenses	$	746,800	844,252	1,125,500	1,237,566	1,348,649
Operating profit (loss)	**$**	**76,400**	**$ 368,699**	**$ 1,759,692**	**$ 2,220,196**	**$ 2,496,047**
Other income (expense):						
Interest Expense	$	-	-	-	-	-
Profit (loss) before income taxes	$	76,400	368,699	1,759,692	2,220,196	2,496,047
Federal & State Corp. Income Tax	$	2,292	11,061	52,791	66,606	74,881
Net profit (loss)	**$**	**74,108**	**357,638**	**1,706,901**	**2,153,590**	**2,421,165**
Net profit (loss) per Common Unit - fully diluted	**$**	**0.74**	**$ 3.58**	**$ 17.07**	**$ 21.54**	**$ 24.21**
Statement of Retained Earnings						
Beginning Retained Earnings (Deficit)	$	-	8,465	67,284	800,734	1,757,529
Net Income (Loss)	$	74,108	357,638	1,706,901	2,153,590	2,421,165
Less Shareholder Distributions						
Series A - Preferred Unit Stated Dividends	$	(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation	$	(7,411)	(71,528)	(341,380)	(430,718)	(484,233)
Common Shareholder Distributions	$	(22,232)	(107,291)	(512,070)	(646,077)	(726,350)
Total Shareholder Distributions	$	(65,643)	(298,819)	(973,450)	(1,196,795)	(1,330,583)
Net Ending Retained Earnings (Deficit)	**$**	**8,465**	**$ 67,284**	**$ 800,734**	**$ 1,757,529**	**$ 2,848,112**

Consolidated Statement of Cash Flows – Scenario B

		Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Cash flows from operating activities:						
Estimated Net Income	$	74,108	357,638	1,706,901	2,153,590	2,421,165
Depreciation & Amortization	$	10,000	15,000	36,846	36,846	36,846
Cash provided by operating activities	**$**	**84,108**	**372,638**	**1,743,747**	**2,190,436**	**2,458,011**
Cash flows from increases (decreases) in current assets/liabilities						
Accounts receivable		(8,400)	(3,977)	(17,064)	(5,843)	(3,948)
Inventory		-	-	-	-	-
Accounts payable		-	-	-	-	-
Accrued expenses		1,373	4,945	23,514	7,718	4,623
Total Cash flows from asset/liability changes	**$**	**(7,027)**	**$ 968**	**$ 6,451**	**$ 1,875**	**$ 675**
Cash outflows from investing activities:						
Total Capitalized Assets:	$	(50,000)	(25,000)	(240,000)	-	-
Loan to REIT	$	-				
Net cash from investing activities	**$**	**(50,000)**	**$ (25,000)**	**$ (240,000)**	**$ -**	**$ -**
Cash inflows from financing activities:						
Total Note Sales (Payables)	$	-	-	-	-	-
Repayment of Loan from REIT	$	-	-	-	-	-
Common Units Equity Value Issued	$	-	-	-	-	-
Series A - Preferred Unit Value Issued	$	1,000,000	-	-	-	-
Cash outflows from financing activities:						
Series A - Preferred Unit Stated Dividends	$	(36,000)	(120,000)	(120,000)	(120,000)	(120,000)
Series A - Preferred Unit Participation	$	(7,411)	(71,528)	(341,380)	(430,718)	(484,233)
Estimated Cash Distr. to Common Unitholders	$	(22,232)	(107,291)	(512,070)	(646,077)	(726,350)
Net cash flows from financing activities:	**$**	**934,357**	**$ (298,819)**	**$ (973,450)**	**$ (1,196,795)**	**$ (2,430,583)**
Net cash increase (decrease)	$	961,438	49,787	536,747	995,516	28,103
Cash and equivalents, beginning of year	$	-	961,438	1,011,225	1,547,972	2,543,488
Cash and equivalents, end of year	**$**	**961,438**	**$ 1,011,225**	**$ 1,547,972**	**$ 2,543,488**	**$ 2,571,592**

Pro Forma Balance Sheets – Scenario B

	Year 1-2008	Year 2-2009	Year 3-2010	Year 4-2011	Year 5-2012
Current Assets					
Cash & Marketable Securities	$ 961,438	1,011,225	1,547,972	2,543,488	2,571,592
Inventory	$ -	-	-	-	-
Accounts receivable	$ 8,400	12,377	29,441	35,283	39,232
Total Current Assets	**$ 969,838**	**$ 1,023,602**	**$ 1,577,413**	**$ 2,578,771**	**$ 2,610,823**
Property & Equipment					
Organizational Costs, Furniture, Fixtures & Other Equipment	$ 50,000	75,000	165,000	165,000	165,000
Machinery/Equipment	$ -	-	-	-	-
Franchise Fees (Wildcard)	$ -	-	-	-	-
Business Acquisition	$ -	-	-	-	-
Leasehold Improvements and Building Construction	$ -	-	150,000	150,000	150,000
Less: Accumulated Depreciation & Amortization	$ (10,000)	(25,000)	(61,846)	(98,692)	(135,538)
TOTAL ASSETS	**$ 1,009,838**	**$ 1,073,602**	**$ 1,830,567**	**$ 2,795,079**	**$ 2,790,285**
Current Liabilities					
Accrued expenses	$ 1,373	6,318	29,832	37,550	42,173
Long Term Liabilities					
Total Note Sales (Payables)	$ -	-	-	-	-
Loan to REIT	$ -	-	-	-	-
Machinery / Equipment Loans	$ -	-	-	-	-
Building Mortgage	$ -	-	-	-	-
Total Liabilities	**$ 1,373**	**$ 6,318**	**$ 29,832**	**$ 37,550**	**$ 42,173**
Shareholders Equity					
Retained Earnings Schedule	$ 8,465	67,284	800,734	1,757,529	2,848,112
Common Units Equity Value Issued	$ -	-	-	-	-
Preferred Units					
Series A - Preferred Unit Value Issued	$ 1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Series A - Preferred Unit "Call" or Redemption	$ -	-	-	-	(1,100,000)
Total Equity Issued	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ (100,000)
Ending Unitholders' Equity	$ 1,008,465	$ 1,067,284	$ 1,800,734	$ 2,757,529	$ 2,748,112
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**$ 1,009,838**	**$ 1,073,602**	**$ 1,830,567**	**$ 2,795,079**	**$ 2,790,285**

Sources and Uses Statement – 2008
Scenarios A & B

SOURCES:		
TOTAL GROSS REVENUE	$	840,000
Preferred Equity Value Issued	$	1,000,000
TOTAL SOUCES:	**$**	**1,840,000**
USES:		
Cost of Goods Sold	**$**	**16,800**
General and Administrative Expense		
Management Salaries	$	350,000
Administration Dept. Staff Wages	$	90,000
Payroll Taxes & Relating Insurance	$	52,800
Benefits Package	$	26,400
Sales, Marketing, Advertising & Promotion	$	50,000
Travel, Lodging, and Seminar Expense	$	20,000
General Liability Insurance	$	4,200
Key Person Life Insurance	$	7,000
Asset Property Taxes	$	400
Equipment Lease	$	2,400
Office and Computer Supplies	$	1,500
Accounting	$	15,000
Legal	$	25,000
Office Leases	$	50,000
Website Hosting & IT Support	$	6,000
Software Purchases	$	1,500
Telephones & High Speed Internet Access	$	8,000
Trade Assn. Dues, Conference & Shows	$	2,000
Research & Development Consultants	$	5,000
Financial Consultants	$	5,000
Miscellaneous Other Expenses	$	5,000
Total General and Administrative Expense	**$**	**727,200**
Interest Expense	$	-
Interest Total	**$**	**-**
Profit Sharing:	**$**	**9,600**
Federal & State Corp. Income Tax	**$**	**2,292**
Capitalized Assets		
Organizational Costs, Furniture, Fixtures & Other Equipment	$	50,000
Leasehold Improvements and Building Construction	$	-
Total Capitalized Assets:	**$**	**50,000**
Loan to REIT	**$**	**-**
Repayment of Loan from REIT	**$**	**-**
(Machinery / Equipment Loan Reduction)	**$**	**-**
(Building Mortgage Reduction)	**$**	**-**
Inventory	**$**	**-**
Shareholder Distributions	**$**	**65,643**
TOTAL USES:	**$**	**871,535**
CASH AVAILABLE BEFORE ADJUSTMENTS	**$**	**968,465**
Change in Accounts Payable & Accrued Exp	$	1,373
Change in Accounts Receivable	$	(8,400)
Net Cash available for operations	**$**	**961,438**

Notes to Pro Forma Financial Projections - Scenarios A & B

INCOME STATEMENT & CO. VALUATION

REVENUE ASSUMPTIONS:

MANAGEMENT FEES

Value of Existing Fund Assets		Represents property valuation plus cash in bank account. 1st REIT = $30,000,000.
Annual Management Fee Percentage	2.8%	Represents an average annual Management Fee expressed as a percentage of total assets under management.
Total Management Fees		Self explanatory.
Profit Sharing	20.0%	Represents the profit sharing percentage that the Company receives as per contract, expressed as a percentage.
Realized Profits		Net Profits realized from the sale of properties.
Total Profit Sharing		Self explanatory.
TOTAL GROSS REVENUE		Summation of annual average of total Management Fees plus Profit Sharing distributions
Cost of Services Delivered		
Service Expense	2.0%	Represents an average variable misc. cost of services expressed as a percentage.
Total Cost of Services Delivered		
Gross Profit - Services		Represents gross profit on services
Gross Margin - Services		Represents gross profit on services divided by gross revenue on services
TOTAL GROSS REVENUE		Summation of annual average of total Management Fees plus Profit Sharing distributions
TOTAL GROSS PROFIT		Represents gross profit on services plus gross profit on products
TOTAL GROSS MARGIN		Represents gross profit divided by gross revenue
General and Administrative Expense:		
Management Salaries	5.0%	Represents an average annual growth rate of expenses expressed as a percentage. $150k for CEO; $100k for CFO; and $100k for COO.
Administration Dept. Staff Wages	20.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Payroll Taxes & Relating Insurance	12.0%	Represents payroll taxes and related insurances based on a percentage of total payroll.
Benefits Package	6.0%	Represents benefits package expense based on a percentage of total payroll
Sales, Marketing, Advertising & Promotion	6.0%	Represents annual budgets primarily used for organizational expenses associated with promoting the Management Company.
Travel, Lodging, and Seminar Expense	20.0%	Represents an average annual growth rate of expenses expressed as a percentage.
General Liability Insurance	0.5%	Represents amount of insurance needed to cover general liability based as an average percentage of gross revenues. Each REIT has insurance burden.
Key Person Life Insurance	2.0%	Represents amount of insurance needed to cover key persons based as a percentage of the annual mgt. salary amount.
Asset Property Taxes	1.0%	Represents property taxes as a percentage of accumulated assets less depreciation.
Equipment Lease	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Office and Computer Supplies	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Accounting	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Legal	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Office Leases		Represents a standard annual budget.
Website Hosting & IT Support	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Software Purchases		Represents a standard annual budget.
Telephones & High Speed Internet Access	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Trade Assn. Dues, Conference & Shows	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Research & Development Consultants	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Financial Consultants	10.0%	Represents an average annual growth rate of expenses expressed as a percentage.
Miscellaneous Other Expenses		Represents a standard annual budget.
Total General and Administrative Expense		Summation of above figures.
EBITDA		Represents Earnings Before Income, Taxes, Depreciation and Amortization.

Capitalized Assets		
Organizational Costs, Furniture, Fixtures & Other Equipment	5	Represents useful life for depreciation/amortization purposes. Primarily used for organizational expenses associated with capitalizing the first fund.
Leasehold Improvements and Building Construction	39	Represents a standard annual budget and useful life for depreciation/amortization purposes.
Total Capitalized Assets:		
Note Interest	NA	Represents an average annual interest rate on this form of debt.
Bank Loan Interest	NA	Represents an average annual interest rate on this form of debt.
Machinery / Equipment Loan Interest	NA	Represents an average annual interest rate on this form of debt.
Building Mortgage Interest	NA	Represents an average annual interest rate on this form of debt.
Interest Expense		Summation.
Total Income Before Taxes, Depreciation and Amortization		Self explanatory.
Less:		
Profit Sharing:	10.0%	Represents the profit sharing allowance to be paid to employees
Depreciation & Amortization		Self explanatory.
Net Income before Income Taxes		Self explanatory.
Federal & State Corp. Income Tax	3.0%	
Loss Carry Forward for Tax Calculations Only		Represents the Loss Carry Forward from previous years and is for tax calculations only
ESTIMATED NET INCOME AFTER TAXES		Self explanatory.
ESTIMATED NET OPERATING MARGINS		Represents net income (loss) divided by gross revenues
Estimated Cash Flow From Operations: Pre-Preferred		Estimated cash flow from operations before the preferred units' dividends are subtracted - non deductible expense for tax purposes.
Series A - Preferred Unit Stated Dividends	12.0%	Represents stated dividend on the series A preferred units expressed as a percentage of par value. Pro rated by 30% for the first year
Series A - Preferred Unit Participation	20.0%	Represents the participation dividend on the series A preferred units expressed as a percentage of net income. Pro rated by 30% for the first year
Estimated Cash Flow From Operations: Post Preferred		Estimated cash flow from operations after the preferred unit dividends are subtracted - non deductible expense for tax purposes.
Estimated Cash Distr. to Common Unitholders	30.0%	Represents dividend to common unitholders based as a percentage of net income.
ESTIMATED NET CASH FLOW FROM OPERATIONS		Self explanatory.
CAPITALIZATION:		
SERIES -A- PREFERRED UNITS		
Number of Preferred Units Offered and Sold		Represents the preferred units for each series after each planned offering.
Price per Preferred Unit		Self explanatory.
Accumulated Series A Preferred Stock Shares		
Series A - Preferred Unit Value Issued		Self explanatory.
Series A - Preferred Unit "Call" or Redemption	110.0%	Represents the year that the preferred units are planned to be redeemed and call price expressed as a percentage of par value.
Accumulated Series A Preferred Stock Value		Represents the accumulated total preferred stock value for calculations - Assume pfd stock is redeemed at year end therefore deducted from next year's calculation not current year
Preferred Equity Value Issued		Summation
Estimated Cash Flow From Operations: Pre-Preferred		Estimated cash flow from operations before the preferred units' dividends are subtracted - non deductible expense for tax purposes.
Series A - Preferred Unit Stated Dividends	12.0%	Represents stated dividend on the series A preferred units expressed as a percentage of par value. Pro
Series A - Preferred Unit Participation	20.0%	Represents the participation dividend on the series A preferred units expressed as a percentage of net income. Pro rated by 30% for the first year
Estimated Cash Flow From Operations: Post Preferred		Estimated cash flow from operations after the preferred unit dividends are subtracted - non deductible
Estimated Cash Distr. to Common Unitholders	30.0%	Represents dividend to common unitholders based as a percentage of net income.
ESTIMATED NET CASH FLOW FROM OPERATIONS		Summation
LOANS		
Loan to REIT		Represents loan principal balance to REIT in 2007
Repayment of Loan from REIT		Represents loan principal payment from REIT in 2007
Est. Net Earnings per Common Unit		Self Explanatory
COMPANY VALUATION - PRIVATELY HELD		
Estimated Private Value per Common Unit:		Represents the value per common unit based on multiplying the earnings per common unit by a price
Company Valuation - Privately Held:		Represents the value of the company based on multiplying the value per share by the outstanding shares
COMPANY VALUATION - PUBLICLY HELD		
Estimated Public Value per Common Unit:		Represents the value per common unit based on multiplying the earnings per common unit by a price
Company Valuation - Publicly Held:		Represents the value of the company based on multiplying the value per common unit by the
ESTIMATED INTERNAL RATES OF RETURNS		
Est. IRR on Series A Preferred Shares		Self Explanatory

PRO FORMA BALANCE SHEETS

Current Assets		
Cash & Marketable Securities		Represents previous year's net ending cash balances from pro formas consolidated statement of cash
Inventory	15.0%	Represents the percentage of cost of goods sold as inventory.
Accounts receivable	1.0%	Represents the percentage of gross revenues that account for receivables.
Total Current Assets		Self explanatory.
Property & Equipment		
Business Acquisition		Represents leasehold improvement costs that must be amortized.
Machinery/Equipment		Represents accumulated assets in the specific category.
Organizational Costs, Furniture, Fixtures & Other Equipment		Represents accumulated assets in the specific category.
Leasehold Improvements and Building Construction		Represents accumulated assets in the specific category.
Less: Accumulated Depreciation & Amortization		Represents accumulated assets in the specific category.
TOTAL ASSETS		
Current Liabilities		
Accounts payable		Represents last month's of each years' total cost of goods sold.
Accrued expenses		Represents last month's of each years' profit sharing, last quarter's federal ad state corp. income tax and semi-annual interest payment on notes issued.
Long Term Liabilities		
Total Note Sales (Payables)		Represents accumulated Note liability until Note maturity.
Loan to REIT		Represents accumulated Loans to and Repayment from REIT.
Machinery / Equipment Loans		Represents accumulated equipment debt liability.
Building Mortgage		
Total Liabilities		Self explanatory.
Retained Earnings Schedule		Represents the previous years' accumulated retained earnings.
Common Units Equity Value Issued		Represents common units equity sales.
Preferred Units		
Series A - Preferred Unit Value Issued		Represents series A preferred units equity sales.
Series A - Preferred Unit "Call" or Redemption		This will be treasury stock and relected in the next year.
Total Equity Issued		Represents series A preferred units stated dividends.
Ending Unitholders' Equity		Self explanatory.
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		Self explanatory.

EXHIBIT B: SUBSCRIPTION AGREEMENT

ROUND 1

Name of Investor

SUBSCRIPTION AGREEMENT FOR
PARTICIPATING PREFERRED UNIT MEMBERS

XYZ Capital Management LLC

Pursuant to a Private Placement Memorandum dated September 01, 2007 (the "Memorandum"), on the terms and conditions set forth below, I hereby agree to become a Participating Preferred Unit-holder of XYZ Capital Management LLC, and make a capital contribution to the Company in the amount of $_____for which I shall receive Non-voting Share(s), of Participating Preferred Unit(s) in the Company. The minimum purchase amount is 100 Units for $10,000.00 with 50 Units increments thereafter for $5,000.

The capital contribution for each Unit is One Hundred U.S. Dollars ($100.00). Such capital contribution for the subscribed Unit(s) is to be tendered herewith. I understand that the Company will not escrow such moneys. (The offer to become a Participating Preferred Unit Holder hereby made shall be deemed to be accepted by the Company only upon the Company's execution of the acceptance set forth below.

A. Representations and Warranties. I represent and warrant to the Company as follows:

I declare that I am at least 21 years of age and am a bona fide RESIDENT of the United States of America or foreign government recognized as such by United States of America and I am an accredited investor as defined by the definitions below.

AND / OR
I am or represent an organization, which meets or exceeds at least one of the accreditation requirements contained within this subscription agreement.

(1) Initial all of the following that apply:

_____A bank as defined in section 3(a)(2) of the Act, or a savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; an insurance company as defined in section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000; an employee benefit plan within the meaning of the

Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;

_____A private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

_____An organization described in section 501(c)(3) of the Internal Revenue Code, corporation, or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

_____A director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

_____A natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000;

_____A natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

_____A trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in § 230.506(b)(2)(ii); and

_____An entity in which all of the equity owners are accredited investors.

(2) I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of my investment in the Company, or I have obtained the advice of an attorney, certified pubic accountant or registered investment advisor with respect to the merits and risks of my investment in the Company.

(3) I acknowledge that the Company provided me with a copy of the Memorandum, which discloses in reasonable detail all material details of the offering, at least forty-eight (48) hours before my return of this executed Subscription Agreement to the Company.

(4) I am purchasing the Participating Preferred Unit(s) solely for my own account for investment and not for the account of any other person and not for distribution, assignment, or resale to others. I do not presently intend to resell, transfer, or

otherwise dispose of the Participating Preferred Unit(s). Prior to any such sale or transfer, I will deliver to the Company a written opinion of counsel stating that the securities registration requirements of the Federal Securities Act of 1933 and of all applicable state laws including, but not limited to, any Uniform State Securities Act, have been or are being met or that an exemption from such registration is available and that the sale may proceed without violating any of the applicable state or federal securities laws.

(5) I understand and acknowledge that the Operating Agreement of the Company places severe limitations on my ability to transfer the Participating Preferred Unit(s).

(6) I acknowledge that any certificates evidencing the Participating Preferred Unit(s) shall bear a legend restricting the transfer of the Units.

(7) I and all of my advisors have had access to all information necessary to enable me to make an informed decision to become a Participating Preferred Unit-holder and a reasonable opportunity to ask questions of and receive answers from the Company concerning the terms and conditions of this offering of the Participating Preferred Unit(s). All such questions have been answered to my full satisfaction.

(8) I have the financial ability to bear the economic risk of my investment, including a possible loss of my entire investment, have adequate means of providing for my current needs and contingencies, and have no need for liquidity in my investment in the Company.

(9) The Participating Preferred Unit(s) constitutes an investment, which is suitable and consistent for my investment program, and my financial situation enables me to bear the risks of this investment.

(10) I understand that the offering has not been registered under the Securities Act of 1933, as amended (the "Act"), nor the securities laws of any other jurisdictions. Instead, the offering is made in reliance upon certain exemptions, including the exemption for federally "covered securities" under 4(2) Regulation D, 506 and the accredited investor exemption 4(6) promulgated thereunder. I am aware and understand that the Participating Preferred Unit(s) for which I have subscribed are being sold to me in reliance upon the above referenced exemptions and based upon my representations, warranties, and agreements hereunder. I am aware of the restrictions on the sale, transferability, and assignment of the Participating Preferred Unit(s) and that I must bear the economic risk of my investment hereby for an indefinite period of time because the Participating Preferred Unit(s) have not been registered under the 1933 Act. Therefore, the Participating Preferred Unit(s) cannot be offered or sold unless the offering is subsequently registered under the 1933 Act and all other applicable securities laws of other states unless an exemption from such registration is available. I further understand that no such registration by the Company is contemplated.

(11) I understand that no federal or state agency has made any finding or determination as to the fairness for investment in, or any recommendation or endorsement of, the Participating Preferred Unit(s).

(12) I acknowledge that neither the company nor any of its employees, managers, agents, or other affiliates have made any oral or written representations to me or to any of my advisors which are inconsistent with the Memorandum in any way.

(13) I have included with this Subscription Agreement my capital contribution in full to the Company for the Participating Preferred Unit(s). I understand that such moneys will not be escrowed but may be used by the Company immediately upon its acceptance of my offer to become a Participating Preferred Unit-holder.

(14) To the extent I considered it advisable, I have reviewed the merits of this investment with my tax and legal counsel and with an investment advisor.

(15) I understand and acknowledge that no public market for the Participating Preferred Unit(s) currently exists and that there can be no assurance that any public market for the Participating Preferred Unit(s) will exist in the future.

(16) All of the information that I have provided to the Company concerning myself, my financial position, and my knowledge of financial and business matters, including the information contained herein, is correct and complete in all material respects as of the date set forth at the end hereof, and I will immediately notify the Company of any adverse change in such information prior to the company accepting my offer to become a Participating Preferred Unit-holder.

(17) I agree that all of the foregoing representations, warranties, agreements, undertakings, and acknowledgments made by me shall survive my purchase of the Participating Preferred Unit(s). I further agree that if more than one person is signing this agreement, each foregoing representation, warranty, agreement, undertaking, and acknowledgment shall be a joint and several representation, warranty, agreement, undertaking, and acknowledgment of each person signing this agreement.

(18) I declare that I was not induced or solicited to invest by any form of general solicitation or general advertising, including but not limited to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over the television or radio, including any seminar or meeting in which attendees had been invited by a general solicitation or general advertising.

(19) I declare that I understand XYZ Capital Management LLC has a first right of refusal to purchase any and all Shares, which are noticed for sale or liquidation.

(20) I declare that I am not relying on the accuracy of the financial data contained within the pro forma five-year projections contained within Exhibit A of the Private Placement Memorandum dated September 01, 2007.

(21) By executing this Subscription Agreement, I hereby agree to become a "Class B Non-Voting Unit-holder" aka “Preferred Unit-holder” of the Company under the existing Operating Agreement among the Unit-holders of the Company and to be bound by the terms of such agreement as though I were an original signatory thereto.

(22) I have read the Private Placement Memorandum dated September 01, 2007 and the Operating Agreement in its entirety, including all Exhibits and schedules thereto, and I fully understand it. In particular, I understand that as a “Class B Unit holder” I will not have the right to vote on business matters. I further agree to execute and deliver to the Company such further documents as may be necessary to carry out the purposes of this paragraph.

(23) I agree to indemnify and hold harmless the Company, its promoters, Shareholders, managers, and affiliates or any one acting on their behalf from and against all damages, losses, costs, and expenses (including reasonable attorney fees) that they may incur by reason of my failure to fulfill any of the terms or conditions of this Agreement or by reason of any breach of the representations and warranties made by me herein or in any documents provided by me to the Company.

(24) This Agreement constitutes the entire Agreement among the parties with respect to the subject matter hereof and may be amended only by a written instrument executed by all of the parties.

This Agreement shall be enforced, governed, and construed in accordance with the laws of the State of Washington.

_____ _____

Investor Signature Date

_____ _____

Investor Signature Date

ACCEPTANCE:

The person named above is admitted as a Participating Preferred Unit Holder this____ day of _____ 2007.

By:_____

Paul J. Jones, CEO & General Manager

Securities Registration

Name:

Address:

Home Phone: Work Phone: Ext.

Empoyer: Position:

Social Sec. # or Tax ID:

Please Check One

Individual: ____

Joint Tenants w/ R.O.S: ____

Tenants in Common: ____

Tenants by Entirety: ____

Living Trust - Revocable: ____

Living Trust - Irrevocable: ____

Corporate: ____ Please attach corporate resolution authorizing purchase.

Other: ____ Please specify: _____

Number of Units Subscribing for: _____

Total Dollar Amount $ _____

Investor / Authorized Signature(s): _____ _____

Print Name(s): _____ _____

Date: _____ _____

Payment & Subscription Agreement is to be sent to:

(Name and address of Company or Escrow Agent)

Payment May be wired to:

(Name and address of Company or Escrow Agent)

(Name of Company's Bank)

(Company's Bank Routing Number)

(Company's Bank Account Number)

(BE SURE YOU CHECK WITH YOUR BANK ON THE ROUTING NUMBER AS SOME ARE NOT INDICATED CORRECTLY ON YOUR CHECKING ACCOUNT)

Securities Registration for Qualified Plans

Name:

Address:

Home Phone: Work Phone: Ext.

Empoyer: Position:

Social Sec. # or Tax ID:

Please Check One

IRA ____

SEP/IRA ____

SEP ____

Keogh ____

401(k) ____

Living Trust - Irrevocable: ____

Corporate: ____ Please attach corporate resolution authorizing purchase

Other: ____ Please specify:

Number of Units Subscribing for: _____

Total Dollar Amount $ _____

Investor / Authorized Signature(s): _____ _____

Print Name(s): _____ _____

Date: _____ _____

IRA/QP Administrators Signature: _____

Date: _____

Payment in the form of personal or business check, cashiers' check, IRA funds transfer (Call Co. for information on IRA investments) & Subscription Agreement is to be sent to: (Name and address of Company or Escrow Agent)

Payment may be wired to the Company's bank account by calling the Company for wire information at **(123) 456-7891.**

IRA/QP HOLDERS ACKNOWLEDGEMENT

By signing as "read and approved" on this document the IRA holder agrees to the following:

Name of Entity: XYZ Capital Management LLC

1) That this Agreement is signed by Entrust New Direction IRA, Inc. ("END-IRA") not individually but solely as agent for the Custodian under the Individual Retirement Account Plan Agreement also known as Form 5305-A. Said Agreement is hereby made a part hereof & any claims against END-IRA which may result here from, shall be payable only out of any IRA property which may be held hereunder. Any and all personal liability of END-IRA is hereby expressly waived by the parties hereto & their respective successors & assigns. All representations & undertakings are of END-IRA as agent for the Custodian as aforesaid & not individually & no liability is assumed by or shall be asserted against END-IRA personally as a result of the signing of this instrument. The grantor, as account controller, has made all representations & Warranties contained herein & END-IRA, as agent for the Custodian, is signing this document along with the grantor merely to assist the grantor in this purchase as prescribed by the Internal Revenue procedures requiring the purchase to be made by an IRA Custodian on be half of the Individual Retirement Account. END-IRA hereby disclaims all fiduciary responsibility for the investment choice and its inherent risks. The beneficial owner indemnifies and agrees to hold harmless END-IRA in following these instructions.

2) END-IRA is **not reviewing this document** and is not responsible for its content and makes no judgments as to legality, viability, appropriateness, consistency, enforceability or fairness of the content. You further acknowledge that END-IRA is not responsible for determining whether or not this document complies with IRS Code Sections 4975 and 408, which is solely your responsibility and that you have obtained competent legal and tax advice for this investment.

Read and Approved by _____IRA Holder:
_____(Print)
Account #_____

EXHIBIT C: OPERATING AGREEMENT

OPERATING AGREEMENT OF
XYZ Capital Management LLC
A Washington Limited Liability Company

This Operating Agreement is made July 30, 2007, by and among the following:

Paul Jones
Robert Smith

who are referred to individually as the "Member" and collectively as the "Members" of XYZ Capital a limited liability company (the "Company").

This Operating Agreement (the "Agreement") is intended to govern the relationship among the Members, Class A and Class B, of this Company and between the Company and the Members, pursuant to the Washington Limited Liability Company Act, as amended from time to time (the "Act").

THEREFORE, in consideration of their mutual promises, covenants, and agreements set forth below, the parties agree as follows:

Article 1
TERM, PRINCIPAL PLACE OF BUSINESS, REGISTERED AGENT, AND PERMITTED BUSINESS

1.1 Name. The name of the Company is **XYZ Capital Management LLC**

1.2 Organization. The Members have authorized the formation of the Company as a(n) Washington Limited Liability Company pursuant to the Act and have filed Articles of Organization (the "Articles") with the Washington Secretary of State.

1.3 Principal Place of Business. The principal office of the Company is located at 123 Easy Street, PO Box 430 Anywhere, Washington 98346. The Company may locate its principal office, its place of business, and its registered office at any other place or places as the Members may from time to time deem advisable. The PO box address is to be used for US mail addressed to the company; the company office is too close to the Anywhere US post office to have mail delivery per the US postal regulations.

1.4 Registered Agent. The name of the registered agent for the Company is Paul Jones (the "Agent") whose address is 123 Easy Street, PO Box 430 Anywhere, WA 98346. The Managing Members may, from time to time, change the Agent by filing appropriate documents with the Washington Secretary of State. If the registered agent ceases or fails to act, the Managing Member(s) shall designate a replacement Agent. The Managing Members shall file with the New Jersey Secretary of State the documents required by the Act with respect to any change of the Agent of his address.

1.5 Term. The term of the Company shall begin on the date that the Articles of Organization are filed with the Department and become effective under the Act, and shall continue perpetually unless its existence is sooner terminated pursuant to Article 11 of this Agreement.

1.6 Purposes. The purpose of the Company shall be for general purposes, and the Company shall have full power and authority to take all actions and do all things, which may be necessary, convenient, useful, or incidental thereto or therefore.

1.7 Definitions.

(a) "Act". The term "Act" means the laws of the State of Washington pertaining to the formation, organization and operation of a limited liability company, as amended from time to time.

(b) "Affiliate". The term "Affiliate" means any person controlling or controlled by or under common control with the Company, including, without limitation *(i)* a shareholder, partner, member, officer, director, or employee of the Company or any affiliate of the Company; *(ii)* a customer, supplier or other person who derives more than ten percent of its purchases or revenues from its activities with the Company or any affiliate of the Company, *(iii)* a person or other entity controlling or under common control with any such shareholder, partner, member, officer, director, employee, customer, supplier or other person; and *(iv)* a member of the immediate family of any such shareholder, partner, member, officer, director, employee, customer, supplier or other person.

(c) "Agent". The term "Agent" shall mean the agent designated by the Company from time to time for service of process pursuant to Washington law.

(d) "Agreement". The term "Agreement" means this Operating Agreement as amended from time to time.

(e) "Articles of Organization" or "Articles". The "Articles of Organization" or "Articles" are those Articles of the Company as properly adopted and amended from time to time by the Members and filed with the Washington Secretary of State pursuant to the Act.

(f) "Bankrupt Member". A "Bankrupt Member" is one who: *(i)* has become the subject of a decree or order for relief under any bankruptcy, insolvency, or similar law affecting creditors' rights now existing or hereafter in effect; or *(ii)* has initiated, either in an original proceeding or by way of answer in any state insolvency or receivership proceeding, an action for liquidation, arrangement, composition, readjustment, dissolution, or similar relief.

(g) "Capital Account". The term "Capital Account" means the amount of cash and fair market value of services or property that a Member has contributed to the Company as Capital Contributions pursuant to Article 5.3 hereof.

(h) "Capital Contribution". A "Capital Contribution" is any contribution of cash, property or services to Company made by or on behalf of a Member pursuant to Article 5 hereof.

(i) "Control". Control when used with respect to any specified person, means the possession, directly or indirectly, of the power to direct or cause the direction of management, policies, or activities of a person or entity, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

(j) "Fiscal Year". The Company's Fiscal Year is its taxable year.

(k) "Majority Vote". A "majority vote" of the Members shall mean that the Member or Members holding collectively more than one half (1/2) of the outstanding Membership Units have given their approval to a proposal.

(l) "Member". A Member is a Class A voting Member unless otherwise designated as other.

(m) "Class A Voting Member". A "Class A Voting Member" is any person who has signed this agreement as a "Class A Voting Member".

(n) "Class B Non-voting Member". A "Class B Non-voting Member" is any person who has signed this agreement or a subscription agreement as the designated agreement as a "Class B Non-voting Member", also known as a Preferred Member.

(o) "Person". A "Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, or government or any agency or political subdivision thereof.

Article 2
ACCOUNTING AND RECORDS

2.1 Records to be Maintained. The Company shall maintain the following records at its principal office:

(a) A current list of the full names, in alphabetical order, and last known business or residence address of each Member;

(b) Copies of the Articles of Organization, all amendments thereto, and executed copies of any powers of attorney pursuant to which the Articles or the amendments have been executed;

(c) Copies of this Agreement, all amendments hereto, and executed copies of any powers of attorney pursuant to which this Agreement and such amendments have been executed;

(d) Copies of the Company's federal, state, and local income tax returns and reports, for the three (3) most recent years, unless a greater time is required by Washington law;

(e) Copies of any financial statements of the Company for the three (3) most recent years, unless a greater time is required by Washington law; and

(f) Any other agreements or documents required by the Act or this Agreement, pursuant to Washington law;

2.2 Accounts. The Company shall maintain at its principal office appropriate books and records, kept in accordance with generally accepted accounting principles, and a record of the Capital Account for each Member in accordance with Article 5 of this Agreement. Each Member or its authorized representative(s) shall have the right to inspect and copy (at such Member's own expense) any books, records, and financial reports of the Company during normal business hours for a legitimate purpose reasonably related to the Member's membership interest in the Company.

2.3 Separateness Covenants. In order to preserve and ensure its separate and distinct identity, in addition to the other provisions set forth in this Operating Agreement, the Company shall conduct its affairs in accordance with the following provisions:

(a) The Company shall establish and maintain separate space office through which its business shall be conducted, or if office space is shared, shall allocate fairly and reasonably any overhead for shared office space.

(b) The Company shall maintain books and records separately from those of any other person or entity.

(c) The Company's members shall hold appropriate meetings (or act by unanimous consent) to authorize all appropriate limited liability company actions, and in authorizing such actions, shall observe all formalities required by its Operating Agreement, these Articles, and applicable law.

(d) The Company shall not commingle its assets with those of any other entity and shall maintain its assets in a manner such that they are separately readily identifiable.

(e) the Company shall maintain separate financial statements.

(f) The Company shall pay its own liabilities out of its own funds, including salaries of any employees.

(g) The Company shall maintain an arm's length relationship with its affiliates.

(h) The Company may guarantee or become obligated for the debts of any other entity, or hold out its credit as being available to satisfy the obligations of others.

(i) The Company may pledge its assets for the benefit of any other entity.

(j) The Company may consensually merge or consolidate with any other entity.

(k) The Company shall hold itself out as a separate entity and conduct its own business in its own name.

Exclusively for purpose of this Article 2.3, the following terms shall have the following meanings: "affiliate" means any person controlling or controlled by or under common control with the Company including, without limitation *(I)* any person who has a familial relationship, by blood, marriage or otherwise with any member or employee of the Company, or any affiliate thereof and (ii) any person which receives compensation for administrative, legal or accounting services from this Company, or any affiliate. For purposes of this definition, "control" when used with respect to any specified person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, or government or any agency or political subdivision thereof.

Article 3
MANAGEMENT OF THE COMPANY

3.1 Management by Managers. As provided in the Articles, management of the business and affairs of the Company is vested in the Managers.

3.2 Action by the Company.
The Company shall be managed by its Managers, and the Company may act only by or under the authority of its Managers, as follows:

Each Member agrees that action on behalf of the Company shall be taken only if:

(a) Such action is approved or authorized, generally or specifically, by a resolution, vote, consent or other action of the Members taken in accordance with the procedures described in this Agreement; or

(b) Such action is taken pursuant to authority delegated pursuant to Article 3.3.

Recognizing that each Member has potential apparent authority to bind the Company, each Member agrees as a matter of contract not to exercise that authority or so bind the Company absent actual authority or permission existing or obtained pursuant to this Article 4. Any Member violating the preceding sentence shall be liable for, and shall indemnify the Company and the other Members against, any damages or expenses resulting from such violation.

3.3 Delegation of Certain Management Authority. The Members may delegate to a subcommittee of Members, one or more designated Members, one or more officers of the Company, or one or more employees of the Company any management responsibility or authority. The Members may create such offices, appoint such officers and delegate thereto such responsibility or authority as the Members determine to be appropriate.

3.4 Action by the Members. The Members may act by vote, resolution or other action approved or adopted at a meeting held in accordance with this Article 3.4, by a written consent signed in accordance with this Article 3.4 or by written agreement of the holder(s) of the requisite number of Units. Rules for the conduct at meetings of the Members and for action by written consent of the Members follow:

(a) *Annual Meetings*. Annual meetings of the Members shall be held on the first day of January each year, at the Principal Office of the Company, or on such other date or at such other place as may be designated by a Majority in Interest of the Members.

(b) *Special Meetings*. Special meetings of the Members may be held on any day, when called by Members who hold at least 50 percent of all units outstanding and entitled to vote at the special meeting. Upon request in writing delivered either in person or by certified mail, return receipt requested, by any Members entitled to call a meeting of Members, the authorized Member will promptly give notice to all members entitled to notice of the upcoming meeting.

If notice is not given within seven days after the delivery or mailing of the request, the person or persons calling the meeting may fix the time of the meeting and give notice of it in the manner provided by law or by this Operating Agreement, or may cause notice to be given by any designated representative.

Each special meeting will be called to convene between 8:00 a.m. and 6:00 p.m., and will be held at the principal office of the Company.

(c) *Notice of Meetings of the Members*. The Company shall deliver or mail written notice stating the date, time, and place of any Members' meeting and, in the case of a special Members' meeting or when otherwise required by law, a description of the purposes for which the meeting is called, to each Member of record entitled to vote at the meeting, at such address as appears in the records of the Company and at least two, but no more than 30, days before the date of the meeting.

(d) *Waiver of Notice*. A Member may waive notice of any meeting, before or after the date and time of the meeting as stated in the notice, by delivering a signed waiver to the Company for inclusion in the minutes. A Member's attendance at any meeting, in person or by proxy (i) waives objection to lack of notice or defective notice of the meeting, unless the Member at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purposes described in the meeting notice, unless the Member objects to considering the matter when it is presented.

(e) *Voting by Proxy*. A Member may appoint a proxy to vote or otherwise act for the Member at a meeting pursuant to a written appointment form executed by the Member or the Member's duly authorized attorney-in-fact, provided that the appointment form is submitted to the Company for inclusion in the Company records. The general proxy of a fiduciary is given the same effect as the general proxy of any other Member.

(f) *Presence.* Any or all Members may participate in any annual or special Members' meeting by, or through the use of, any means of communication by which all Members participating may simultaneously hear each other during the meeting. A Member so participating is deemed to be present in person at the meeting.

(g) *Conduct of Meetings*. At any Members' meeting, a Majority in Interest of the Members shall preside or appoint a person to preside at the meeting and shall appoint a person to act as secretary of the meeting. The secretary of the meeting shall prepare minutes of the meeting which shall be placed in the minute books of the Company.

(h) *Quorum; Approval*. The presence of a Majority in Interest of the Members at an annual or special meeting is necessary for a quorum, unless approval of any action to be taken is required from all the Members, in which case the presence of all the Members is necessary for a quorum. Any action proposed to be taken by the Members shall be approved upon the affirmative vote of a

Majority in Interest of the Members, unless approval by all the Members is required by the Articles, this Agreement or the Act.

(i) *Action by Written Consent*. Any action required or permitted to be taken by the Members at a meeting may be taken without a meeting if the action is committed to writing and is signed by Members having aggregate Percentage Interests sufficient to approve the action if it were taken at a meeting of the Members. Notice of the written action must be promptly given to any Member whose signature does not appear on the document.

3.5 Certain Matters Requiring Unanimous Approval of Members. Notwithstanding the provisions set forth in Article 3.2, above, and in addition to other matters that require the unanimous approval of the Members under the terms of this Agreement, each of the following actions shall require the approval of all of the Members:

(a) any sale, lease, exchange, transfer, pledge or other disposition of any business of the Company or all or substantially all of the assets of the Company;

(b) the (i) commencement of a voluntary case under any Debtor Relief Law now or hereafter in effect, (ii) consent to the entry of any order for relief in an involuntary case under any Debtor Relief Law, (iii) consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Company or of any substantial part of the property of the Company, (iv) making by the Company of a general assignment for the benefit of creditors, or (v) making of any other arrangement or composition with creditors generally to modify the terms of payment of or otherwise restructure their obligations;

(c) any consolidation, merger, share exchange or amalgamation with, or the acquisition of any interest in, any other Person or its assets, other than acquisitions of goods and services in the ordinary course of business;

(d) the entering into of any transaction, including, without limitation, any purchase, sale, lease or exchange of property, or the rendering of any service, with any Affiliate of any Member; and

(e) any material modification, change or amendment to any agreement or arrangement which is the subject of the matters referred to in any provision of this Article 3.5.

3.6 Action by Remaining Members. Whenever in this Agreement or the Act provide for or require approval or other action by the remaining Members, or a Majority in Interest of the remaining Members (i.e., those Members, or a majority in Interest of those Members, other than the Member in question), the approval or

other action of the remaining Members, or a majority in Interest of those Members, may be obtained or taken by written agreement thereof.

3.7 Waiver of Partition. Each Member on behalf of such Member, its successors and its assigns, hereby waives any rights to have any Company property partitioned.

3.8 Liability. No Member shall be liable for the debts, obligations or liabilities of the Company by reason of being a Member of the Company.

Article 4
MEMBERS

4.1 Liability of Members. No Member or Preferred Member shall be liable as such for the liabilities of the Company. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under this Agreement or the Act shall not be grounds for imposing personal liability on the Members or Preferred Member for liabilities of the Company.

4.2 Conflicts of Interest. Each Member or Preferred Member may have other business interests and may engage in any other business, trade, or employment and shall not be obligated to devote more time and attention to the conduct of the business of the Company than shall be required for the supervision of the ownership, operation, and management of the Company's business and property. Neither the Company nor any Member shall have any right by virtue of this Agreement to share or participate in such other transactions.

No transaction with the Company shall be void or voidable solely because a Member or Preferred Member has a direct or indirect interest therein, so long as the material facts of the transaction and the Member's or Preferred Member's interest in the transaction are disclosed to all Members.

4.3 Indemnification of Members. The Company's obligation to indemnify its Members and or Preferred Member shall be fully subordinated to any obligations respecting the Property and shall not constitute a claim against the Company in the event that cash flow in excess of amounts required to pay holders of any debt pertaining to the Property is insufficient to pay such obligations.

4.4 Form of Certificates. Each holder of units or shares will be entitled to one or more certificates, signed by the authorized Member, which will set forth the number of units or shares held by him or her in the Company. However, no certificate for units or shares will be issued until it is fully paid. The absence or loss or destruction of a certificate will not affect a Member's rights.

4.5 Transfer of Units or Shares. Subject to the laws of Washington and the terms of this Agreement, units or shares of the Company will be transferable upon the

books of the Company by a Member by surrendering his or her certificate(s) with a properly executed assignment and with proof of the authenticity of the signatures to the assignment as the Company may reasonably require. The transferee or assignee must not be a Member and will have no right to participate in the management of the Company unless and until the Members unanimously approve the transfer or assignment in writing or at a properly- convened Members' meeting. No transfer or assignment will be approved until the prospective Member has agreed, in writing, to be bound by all terms of this Operating Agreement, as amended to that date.

4.6 Lost, Stolen or Destroyed Certificates. The Company may issue a new certificate for units or shares in place of any certificate alleged to have been lost, stolen or destroyed. The Authorized Member may, in his or her discretion, require the posting of a bond containing any terms required by the Authorized Member to protect the Company or any person injured by the execution and delivery of a new certificate.

Article 5
CONTRIBUTIONS

5.1 Initial Contributions. Each Member shall make the capital contribution in the amount set forth opposite the Member's name on the attached Exhibit "A".

5.2 Additional Contributions. No Member shall be obligated to make additional contributions.

5.3 Capital Accounts. A separate capital account ("Capital Account") will be maintained for each Member in accordance with Article 704(b) of the Internal Revenue Code and applicable Treasury Regulations.

5.4 Each Member's Capital Account will be increased by *(a)* the amount of money contributed by such Member to the Company; *(b)* the fair market value of property contributed by such Member to the Company (net of liability secured by such contributed property that the Company is considered to assume or take subject to under Article 752 of the Internal Revenue Code); *(c)* allocations to such Member of Company income and gains; and *(d)* allocations to such Member of income described in Article 705(a)(1) and (b) of the Internal Revenue Code.

5.5 Each Member's Capital Account will be decreased by *(a)* the amount of money distributed to such Member by the Company; *(b)* the fair market value of property distributed to such Member by the Company (net of liabilities secured by such distributed property that the Member is considered to assume or take subject to under Article 752 of the Internal Revenue Code); *(c)* allocations to such Member of expenditures described in Article 705(a)(2) and (b) of the Internal Revenue Code; and *(d)* allocations to the account of such Member of Company loss and deductions

as set forth in such Treasury Regulations, taking into account adjustments to reflect book value.

5.6 The manner in which the Capital Accounts are to be maintained pursuant to this Article 5 is intended to comply with the requirements of Internal Revenue Code Article 704(b) and the Treasury Regulations promulgated there under. If the manner in which Capital Accounts are to be maintained pursuant to the proceeding provisions of this Article 5.3 should be modified in order to comply with Internal Revenue Code Article 704(b) and the Treasury Regulations there under, then, notwithstanding anything to the contrary contained in the preceding provisions of this Article 5.3, the Members may alter the method in which Capital Accounts are maintained, and this Agreement shall be amended to reflect any such change in the manner in which Capital Accounts are maintained; *provided, however*, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Members.

5.7 Capital Accounts shall not bear interest.

Article 6
ALLOCATIONS AND DISTRIBUTIONS

6.1 Class A Membership Units. The Company shall consist of 100,000 units of Class A membership interest ("Membership Units"). Each Member shall initially have those Units set forth opposite the Member's name on Exhibit A. Each Member is entitled to one vote per Membership Unit owned.

6.2 Class B Membership Units. The Company shall consist of 10,000 units of Class B membership interest ("Preferred Membership Units"). Each Preferred Member shall initially have those Units set forth opposite the Member's name on Exhibit A. Each Preferred Member is not entitled to a vote per Preferred Membership Unit owned.

6.3 Allocation of Taxable Items. The determination of each Member's distributive share of all tax-related items, including income, gain, loss, deduction, credit, or allowance of the Company, for any period or year shall be made in accordance with, and in proportion to, such Member's proportion of Membership Units to the total number of Membership Units. The determination of each Preferred Member's distributive share of all tax-related items, including income, gain, loss, deduction, credit, or allowance of the Company, for any period or year shall be made in accordance with, and in proportion to, such Preferred Member's proportion of Preferred Membership Units to the total number of Membership Units and the Net Income Participation allowance as per the Offering of said Preferred Membership Units.

6.4 Distributions. Distributions may be declared on an annual basis by the Managers based on Membership and Preferred Membership Units. Distributions in anticipation of an event of dissolution or subsequent to an event of dissolution shall

be made as provided in Article 11. All other distributions shall be allocated in proportion to Membership Units.

6.5 Conversion. Class B Member may convert their Class B Units into Class A Units on a one (1) Class B Unit for two (2) Class A Unit ratio until the Call date of 12/312012, after which the conversion privilege terminates.

Article 7
DISTRIBUTIONS IN KIND

Regardless of the nature of a Member's contribution, no Member has the right to demand and receive any distribution from the Company in any form other than cash.

Article 8
MEMBERSHIP INTEREST AND MEMBERSHIP RIGHTS OF A DECEASED, INCOMPETENT, OR DISSOLVED MEMBER

If a Member who is an individual dies, is adjudicated by a court of competent jurisdiction to be incompetent to manage his person or property, the Member's executor, administrator, guardian, conservator, or other legal representative may receive the benefits of the Member's Membership Interest for the purpose of administering the Member's property. If the Member is a corporation, trust, partnership, limited liability company, or other entity and is dissolved or terminated, the powers of that Member may be exercised by its legal representative or successor.

Article 9
TAXES

Tax Matters Member. The General Manager shall serve as the "tax matters partner" of the Company pursuant to Article 6231(a)(7) of the Internal Revenue Code.

Article 10
DISSOCIATION OF A MEMBER

10.1 Dissociation. A person ceases to be a Member upon the happening of any of the following events of withdrawal:

(a) The expulsion of a Member pursuant to Article 10.2 of this Agreement, below;

(b) The Member assigns its interest to a non-Member transferee;

(c) A Member becomes a Bankrupt Member;

(d) In the case of a Member who is a natural person, the adjudication of incompetency of the Member;

(e) The dissolution and winding up of a Member which is a limited liability company, a partnership, a limited partnership, or a partnership with limited liability; the filing of a certificate of dissolution (or its equivalent) for a corporation if the Member is a corporation; the revocation of the charter, the articles, or other authority by which an entity exists under the law of the jurisdiction where the entity was formed or exists, if the Member is not a natural person; or the termination or lapse of the existence of an entity by any other means if the Member is not a natural person;

(f) In the case of a Member acting as a Member by virtue of being a trustee of a trust, the termination of the trust (but not merely the substitution of a new trustee); or

(g) In the case of a Member that is an estate, the settling of the estate.

10.2 Expulsion of a Member. A Member may be expelled from the Company if such Member commits a breach of a material provision of this Agreement, which breach is not cured within thirty (30) days of notice thereof.

10.3 Rights of Dissociating Member. Except for disassociation as a result of the assignment of interest pursuant to Article 10.1(b) above, if any Member dissociates prior to the dissolution and winding up of the Company, the Member shall be entitled to participate in the winding up of the Company to the same extent as any other Member, except that any Distributions to which the Member would have been entitled shall be reduced by the damages sustained by the Company as a result of the dissolution and winding up.

Article 11
DISSOLUTION AND WINDING UP

11.1 Dissolution. Pursuant to the Act, the following events shall cause dissolution of the Company:

(a) Expiration of the term of existence of the Company as set forth in the Articles and/or Article 1.5 of this Agreement, unless the business of the Company is continued with the written consent of a Majority-in-interest of the remaining Members;

(b) Unanimous written consent of the Members;

(c) Judicial decree of dissolution;

(d) Any other event which is required to cause dissolution under the Act.

Except as provided in Article 11.4 of this Agreement, below, as soon as possible following the occurrence of any of the events specified in this Article 11.1 which effect the dissolution of the Company, an appropriate representative of the Company shall execute and file with the Secretary of State of Washington a certificate of dissolution containing the information required by the Act.

Notwithstanding the foregoing, to the extent permissible under applicable federal and state tax law, the vote of a majority-in-interest of the remaining members shall be sufficient to continue the life of the Company.

11.2 Continuance of Company Following Dissociation. Except for disassociation as a result of the assignment of interest pursuant to Article 10.1(b), above, upon the Dissociation of a Member, if a Majority-in-interest of the remaining Members elect under 11.1(c) to continue the business of the Company, then the Dissociated Member's Units may be purchased by the remaining Members in proportion to their percentage of their Member Units or in such other proportions as they may unanimously determine. If a dissociation occurs as a result of the transfer of the Member's ownership interest in the Company pursuant to Article 11.1(b), above, that Member shall, upon the purchase of his ownership interests and notwithstanding any other provision of this Agreement, have no further rights or interests in the Company or the operation of the same under this Agreement.

11.3 Purchase Price. The price to be paid for such disassociated Member's Units hereunder (and, as is stated above, except for disassociation as a result of the assignment or transfer of ownership interest pursuant to Article 10.1(b), above) may be determined by the unanimous consent of the remaining Members and the dissociated Member or his legal representative, if unanimous consent can not be achieved, then the price to be paid for such disassociated Member's Units hereunder shall equal the capital account balance of such disassociated Member's interest as of the last day of the month ("valuation date") immediately prior to the date of the event of dissociation, adjusted by the difference between the fair market value and net book value of any real estate owned by the Company. The Fair Market Value of any real estate owned by the Company shall be determined by appraisal in accordance with the following procedure:

(a) The dissociated Member or his legal representative and the remaining Members, collectively, shall each appoint an independent appraiser, each of whose shall independently determine the fair market value of the real estate in writing. Each party shall pay the fees of its appraiser.

(b) If there is not more than a five percent (5%) variance between the appraised values determined under sub paragraph (a) above, the average of the two values shall be the fair market value of the real estate.

(c) If there is more than a five percent (5%) variance between the appraised value determined under Sub paragraph (a) above, the appraisers appointed by the parties shall select another independent appraiser who shall proceed to appraise the real estate in writing. The parties hereto shall share the cost of the third appraiser equally. The three (3) appraised values shall then be compared and the two (2) values bearing the closest monetary relationship to one another shall be averaged. The resulting amount shall be the fair market value of the real estate. If the third appraiser's value is exactly, to the penny, in between the first two (2) appraised values, then the third appraiser's value shall be the fair market value of the real estate.

(d) All appraisers appointed hereunder shall be required to be members of the Appraisal Institute (an M.A.I.) or the Society of Real Estate Appraisers (S.R.E.A.).

11.4 Payment of Purchase Price. The purchase price due from each remaining Member shall be paid by such remaining Member to the dissociated Member or the dissociated Member's legal representative as follows: TBD

11.5 Winding Up. Upon an event of dissolution without agreement to continue the existence of the Company pursuant to Article 11.1(a) or 11.1(c), the Members shall wind up all of the Company's affairs and proceed to liquidate all of the Company's assets as promptly as is consistent with obtaining their fair value; *provided, however*, that the Company may continue its business operations for a period of up to six (6) months while searching for one or more suitable buyers in order to preserve the value of the Company as a going concern and in order to produce revenues. No Member shall be ineligible to purchase any part or all of the assets of the Company solely due to such person's status as a Member.

Upon liquidation the Company's property and cash shall be distributed as follows:

(a) First, to the creditors of the Company, including Members who are creditors, to the extent permitted by law, in satisfaction of liabilities of the Company;

(b) Second, to Preferred Members (including withdrawing Preferred Members, if applicable) in accordance with positive Capital Account balances taking into account all Capital Account adjustments for the Company's taxable year in which the liquidation occurs. Liquidation proceeds shall be paid within 60 days of the end of the Company's taxable year or, if later, within 90 days after the date of liquidation. Such Distributions shall be in cash or property (which need not be distributed proportionately) or partly in both, as determined by the Members.

(c) Third, to Members (including withdrawing Members, if applicable) in accordance with positive Capital Account balances taking into account all Capital Account adjustments for the Company's taxable year in which the

liquidation occurs. Liquidation proceeds shall be paid within 60 days of the end of the Company's taxable year or, if later, within 90 days after the date of liquidation. Such Distributions shall be in cash or property (which need not be distributed proportionately) or partly in both, as determined by the Members.

The winding up of the Company shall be completed when all debts, liabilities, and obligations of the Company have been paid and discharged or reasonably adequate provision therefore has been made, and all of the remaining property and assets of the Company have been distributed to the Members.

Upon dissolution, each Member (including withdrawing Members) shall look solely to the assets of the Company for return of that Member's Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of each Member, no Member shall have recourse against any other Member.

Article 12
GOVERNING LAW

All questions with respect to the construction of this Agreement and the rights, duties, obligations, and liabilities of the parties shall be determined in accordance with the Act and all other applicable provisions of the laws of the State of Washington.

Article 13
MISCELLANEOUS PROVISIONS

13.1 Entire Agreement. This Agreement and the Articles represent the entire agreement among the Members.

13.2 Amendment or Modification of Agreement. This Agreement may be amended or modified from time to time by a written instrument approved by all of the Members.

13.3 Rights of Creditors and Third Parties under this Agreement. This Agreement is entered into among the Members for the exclusive benefit of the Company, its Members, and their successors and assignees. This Agreement is expressly not intended for the benefit of any creditor of the Company or any other Person. Except and only to the extent provided by applicable statute, no creditor or third party shall have any rights under this Agreement or any agreement between the Company and any Member with respect to any Capital Contribution or otherwise.

13.4 Severability. Every provision of this Agreement is intended to be severable. If any term or provision of this Agreement is illegal or invalid for any reason, the illegality or invalidity shall not affect the legality or validity of the remainder of this Agreement.

13.5 Title to Company Properties. Title to all Company property shall be held in the name of the Company.

13.6 Membership Interest. Each of the Members and any additional or substitute Members subsequently admitted hereby covenant, acknowledge, and agree that all Membership Units of the Company shall for all purposes be deemed personally and shall not be deemed realty or any interest in the real property owned by the Company.

13.7 Binding Effect. Except as otherwise provided in this Agreement, every covenant, term, and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, and assigns.

13.8 Gender and Headings. Throughout this Agreement, where such meanings would be appropriate:

(a) The masculine gender shall be deemed to include the feminine and the neuter, and vise versa, and

(b) The singular shall be deemed to include the plural, and vise versa.

The headings herein are inserted only as a matter of convenience and reference, and in no way define or describe the scope of the Agreement or the intent of any provisions thereof.

Article 14
ARBITRATION

Any dispute arising out of, relating to this Agreement, a breach hereof, or the operation of the business of the Company, shall be settled by arbitration in Washington , in accordance with the rules of the American Arbitration Association then existing, *provided, however,* that the discovery as provided for under the Washington Rules of Civil Procedure shall be available to all parties to the arbitration. This Agreement to arbitrate shall be specifically enforceable. The arbitration award shall be final, and judgment may be entered upon it in any court having jurisdiction over the subject matter of the dispute.
Article 14.

Article 15
DEADLOCK PROCEDURE

15.1 Procedure. When an issue and/or dispute arises by and between the Members and the Members are unable, by majority vote, to decide upon a resolution of the dispute, the Members shall declare the Company management deadlocked and the deadlocked issued shall be submitted to an Arbitrator within twenty (20) calendar days that the deadlock occurs.

15.2 Selection of Arbitrator. The Arbitrator named herein shall be selected for the purpose of adjusting disputes or grievances of the Members which are properly submitted to it. Unless otherwise agreed upon by all of the Members, one (1) Arbitrator shall, at the first meeting of the Members, be selected by the majority vote of the Members and shall serve for a period of two (2) years from the date of selection. Upon expiration of such term, the Members shall either vote to renew the term of said Arbitrator or shall vote to elect a new Arbitrator. Should the Members not vote to renew or elect a new Member, the Arbitrator elected by the Members shall continue to act as Arbitrator until such time as a new Arbitrator is elected.

The Arbitrator so elected by the majority of the Members is: To be determined.

15.3 Authority of Arbitrator. The Arbitrator shall hear and determine the dispute or controversy as promptly as possible. The decision of the Arbitrator shall be final, binding and conclusive to the Members of the Company. Such decision shall be within the scope and terms of Operating Agreement, but shall not change any of its terms and conditions. All Arbitrator hearings will be held at a place determined by the Arbitrator.

The Arbitrator shall:

A. Have no power to add to, or subtract from, or modify any of the terms of Operating Agreement, but shall be permitted to decide issues arising from the operation of the Company and/or pertain to the application of said Operating Agreement or the operation of the business of the Company.

B. Have the final decision on the deadlocked issue, and said decision shall be binding on the Members and the award of the Arbitrator shall be enforceable as the agreement of the Members, at law or in equity, in any state or federal court having jurisdiction thereon.

C. Have the sole and exclusive power and jurisdiction to determine whether or not a particular issue, dispute or complaint is arbitral under the terms of Operating Agreement.

15.4 Costs. Each of Members shall assume the compensation, traveling expense, and other expenses of its Arbitrator and witnesses called or summoned by it. Should any Member independently request that a "court reporter" be present at the hearing, the costs of the "court report" shall be borne by the requesting party, unless both parties request a "court report," then the costs shall be equally split between the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

XYZ Capital Management, LLC

by:_____S/_____
Paul J. Jones, Authorized Member

MEMBERS' SIGNATURES:

_____/S/_____(signature)
Robert Smith

EXHIBIT "A"

The Class A Member Interest Units are owned as of September 1, 2007**.**

Class A Unit-holders:	Number of Class A Units	Ownership %
Paul J. Jones	70,000	70.00%
Reserved for Class B Conversion	20,000	20.00%
Reserved for ESOP	10,000	10.00%
Total Authorized	100,000	100.00%

Amendment to XYZ Capital
Operating Agreement
7/30/07

The majority of Class A Voting Members hereby adopt the following provision:

The adoption of all the provisions contained in the Private Placement Memorandum dated September 1, 2007. If any conflict exists between the company's Operating Agreement and the Private Placement Memorandum dated September 1, 2007, the Private Placement Memorandum dated September 1, 2007 shall dominate and control.

EXHIBIT D: CURRENT FINANCIAL STATEMENTS

EXHIBIT E: OPINION OF COUNSEL

(CENTER THE TITLE)
(THIS IS AN OPTIONAL EXHIBIT, BUT CARRIES VALIDITY TO THE OFFERING)

(LAW FIRM LETTERHEAD)

Dear Sirs:

In connection with the claim of exemption from registration under the Securities Act of 1933, as amended (the "Act"), of [number] Shares / Units of [Type of Securities] (the "Shares", "Notes or "Bonds") issuable in one or more series, and such number of Shares / Units of Common Stock (the "Common Shares") as may be issuable upon conversion of the [Type of Securities], of [number] [Name of Company], a [State] [type of Company (i.e. LLC or Inc)] (the "Company"), we, as your counsel, have examined such corporate records, certificates and other documents and such questions of law as we have considered necessary or appropriate for the purposes of this opinion.

Upon the basis of such examination, we advise you that in our opinion:

1. The Company had been duly [type of company (i.e. incorporated)] and is an existing [type of company] in good standing under the laws of the State of [State].
2. As of the offering date of the securities offering document, a certificate of amendment to the Company's certificate of [type of company] in substantially the form filed as an exhibit hereto with respect to the [Type of Securities] of a series has been duly completed and filed under the Corporation Law, the terms of the [Type of Securities] of such series and their issue and sale have been duly established in conformity with the certificate of [type of company] of the Company so as not to violate any applicable law or agreement or instrument then binding on the Company. A sufficient number of [Type of Securities] of such series will be duly and validly issued, fully paid and non assessable.
3. As of the offering date of the securities offering document, a certificate of amendment to the Company's certificate of [type of company] in substantially the form filed as an exhibit hereto with respect to the [Type of Securities] of a series has been duly completed and filed under the Corporation Law, the terms of the [Type of Securities] of such series and their issue and sale have been duly established in conformity with the certificate of [type of company] of the Company so as not to violate any applicable law or agreement or instrument then binding on the Company, if the [Type of Securities] of such series are convertible, a sufficient number of Common Shares / Units have been reserved for issuance upon the conversion of the Shares / Units of such series, and the Shares / Units of such series have been duly issued and sold as contemplated in the offering, the [Type of Securities] of such series will be duly and validly issued, fully paid and non assessable.
4. When Common Shares, which are issuable upon conversion of any convertible series which have been issued in the manner described in paragraph (2), have been issued and delivered upon conversion of such Shares / Units in accordance with the applicable certificate of amendment to the Company's certificate of incorporation, such Common Shares / Units will be duly and validly issued, fully paid and non assessable.

We hereby consent to the filing of this opinion as an exhibit to the securities offering document relating to the [Type of Securities] and the Common Shares / Units and to the reference to us under the heading "Validity of [Type of Securities] in the securities offering document contained therein. In giving such consent, we do not thereby admit that we are in the category of person whose consent is required under Section 7 of the Act.

Very Truly Yours,

[law firm]