CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

ARIZONA FIRST PARTNERS 2 LLC

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70 Units of Limited Liability Company Interests at $10,000 per Unit
$100,000 Minimum Offering Amount (10 Units)
$700,000 Maximum Offering Amount (70 Units)
Minimum Investment: $50,000 (5 Units)

Arizona First Partners 2 LLC (the "Company") is an Arizona limited liability company of which Arizona First Development LLC, an Arizona limited liability company, is the Manager (the "Manager"). The Company has been formed to invest in an Arizona limited liability company, to acquire an undivided tenancy in common interest in a .75+ acre parcel of land, develop, construct, and sell 5 office condominiums, located in Phoenix Arizona, (the "Property" or the "Project").

THE UNITS OFFERED HEREBY ARE SPECULATIVE AND AN INVESTMENT IN UNITS INVOLVES SUBSTANTIAL RISKS, including, but not limited to, risks associated with the start-up nature of the Company, lack of liquidity, lack of financing and loan commitment, developing an attached home development and selling attached home units therein, lack of diversity of investment, reliance on the Manager to manage the Company, using leverage to acquire real estate, the existence of various conflicts of interest between the Manager and its Affiliates and the Company and tax risks. See "Risk Factors" and "Conflicts of Interest."

Capitalized but undefined terms utilized herein have the meanings set forth in Arizona First Partners 2 LLC Operating Agreement ("Operating Agreement"), a copy of which is attached hereto as Exhibit A. The mailing address of the Company is 5041 E Pershing Ave, Scottsdale, AZ 85254-3621. The telephone number of the Company is (602) 992-3800. The fax number of the Company is (602) 992-2428. The web site for the Company is http://arizonafirstdevelopment.com/.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. 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 THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THESE UNITS MAY ONLY BE OFFERED AND SOLD TO THOSE WHO MEET THE SUITABILITY STANDARDS FOR INVESTMENT AS EXPRESSED IN THIS MEMORANDUM. (See "SUITABILITY STANDARDS.")

The total amount of capital anticipated to be raised pursuant to this Offering will be applied as follows:

	Investment Amount	**Selling Concession**	**Proceeds to Company** (1)(2)
Minimum Investment (5 Units)	$50,000	--	$50,000
Minimum Offering (10 Units)	$100,000	$0	$100,000
Maximum Offering (70 Units)	$700,000	$0	$700,000

This Confidential Private Placement Memorandum is dated December 7, 2007

1. There are no assurances that any of the Units will be sold. The Units are being offered by the Manager. There is no firm commitment to purchase or sell any of the Units. No broker-dealers or other professional money raisers are contemplated to be used. The payments made by the subscribers will be promptly deposited into an interest bearing account with a bank where the funds will be federally insured, until the minimum number of Units is subscribed for and may not be withdrawn by subscribers. The Units are offered on a basis that if less than ten (10) Units have been subscribed for by December 7, 2008, none will be sold and all funds received will be promptly refunded, in full, together with any interest earned thereon, unless the Offering is extended for a 120-day period by the Manager in its sole and absolute discretion.

2. Amounts shown are before deduction of organizational and other expenses (including, without limitation, printing costs, attorneys' fees, accountants' fees, registration fees and filing fees) of the Offering. Arizona First Partners 2 LLC shall be responsible for the payment of all such organization and other expenses which are estimated to be approximately $70,000.

THE PURCHASE OF UNITS INVOLVES SIGNIFICANT RISKS. INVESTORS SHOULD READ IN ITS ENTIRETY AND CAREFULLY CONSIDER THE DISCUSSION SET FORTH IN "RISK FACTORS." THIS MEMORANDUM CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED UNDER THE HEADING "RISK FACTORS." RISKS OF AN INVESTMENT IN UNITS INCLUDE, AMONG OTHER THINGS, THE FOLLOWING:

1. No state or federal regulatory agency has passed on the merits or fairness of this Offering nor is it intended that they will.

2. The Manager has not secured or obtained any commitment for financing necessary to acquire and develop the Property.

3. This Offering involves the allocation of profits and possible payment of fees to the Manager none of which were determined by arm's length negotiations. (See "Summary of Compensation to the Manager and Affiliates" and "Conflicts of Interest.")

4. The Units are illiquid and not readily transferable and should only be purchased by one who can afford the consequences of a long-term investment.

5. The Company will be a new business entity developing the Project in the highly competitive real estate development industry.

6. Since this Offering involves a program to develop real estate an investment herein involves substantial risks. (See "Risk Factors.")

7. Limited liability companies are a new form of business and the laws regarding limited liability companies are not completely developed.

8. The Manager and Affiliates will be subject to certain conflicts of interest and will receive substantial compensation in connection with this Offering. Moreover, the Manager and its Affiliates will be receiving compensation for performing services on behalf of the Company and Investors. See "Conflicts of Interest" and "Summary of Compensation of the Manager and Affiliates."

9. There is no assurance that all of the Units will be sold.

10. The Company will acquire the Property and, as a result, will lack investment diversification.

11. No public market exists for the Units and it is highly unlikely that any such market will develop. Units must be considered solely as long-term investments.

THE PURCHASE OF UNITS IS SUITABLE ONLY FOR PERSONS OF SUBSTANTIAL MEANS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT IN THE COMPANY. SEE "SUITABILITY STANDARDS." INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING:

1. Prospective investors are not to construe the contents of the Memorandum as legal or tax advice. Each investor should consult his own counsel, accountant or business advisor as to legal, tax and related matters concerning his investment.

2. The securities offered hereby may be offered and sold only to investors who meet the investor suitability requirements set forth under "Suitability Standards" in this Memorandum.

3. No person has been authorized by the Company or the Manager to make any representations or furnish any information with respect to the Company or the Units, other than the representations and information set forth in this Memorandum or other documents or information furnished by the Company or the Manager upon request as described in this Memorandum. However, authorized representatives of the Company or the Manager will, if such information is reasonably available, provide additional information which a prospective investor or the investor's representative requests for the purpose of evaluating the merits and risks of the offering of Units.

4. Predicted financial results prepared by the Manager are contained in this Memorandum. Any predictions and representations, written or oral, which do not conform to those contained in this Memorandum, should be disregarded, and their use is a violation of the law. The projections contained herein are based upon specified assumptions. If these assumptions are incorrect, the projections likewise would be incorrect. No representation or warranty can be given that the estimates, opinions or assumptions made herein will prove to be accurate. Investors should closely review the Assumptions set forth in the projections.

5. Trustees, custodians and fiduciaries of retirement and other plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") or Code Section 4975 (including individual retirement accounts) should consider, among other things: (i) that the plan, although generally exempt from federal income taxation, would be subject to income taxation were its income from an investment in the Company and other unrelated business taxable income to exceed $1,000 in any taxable year, (ii) whether an investment in the Company is advisable given the definition of plan assets under ERISA and the status of Department of Labor regulations regarding the definition of plan assets, (iii) whether the investment is in accordance with plan documents and satisfies the diversification requirements of Section 404(a) of ERISA, (iv) whether the investment is prudent under Section 404(a) of ERISA, considering the nature of an investment in, and the compensation structure of, the Company and the potential lack of liquidity of the Units, (v) that the Company has no history of operations and (vi) whether the Company or any Affiliate is a fiduciary or party in interest to the plan. The prudence of a particular investment must be determined by the responsible fiduciary taking into account all the facts and circumstances of the qualified plan and of the investment.

6. This Memorandum does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer or solicitation is not authorized. In addition, this Memorandum constitutes an offer only if the name of an offeree appears in the appropriate space on the cover page and is an offer only to such named offeree.

7. This Memorandum has been prepared solely for the benefit of persons interested in the proposed private placement of the Units offered hereby, and any reproduction or distribution of this Memorandum, in whole or in part, or the disclosure of any of its contents without the prior written consent of the Company is prohibited. The recipient, by accepting delivery of this Memorandum, agrees to return this Memorandum and all documents furnished herewith to the Company or its representatives upon request if the recipient does not purchase any of the Units or if the Offering of the Units is withdrawn or terminated.

8. The Manager may reject a prospective purchaser's Subscription Agreement for any reason. Subscription Agreements will be rejected for failure to conform to the requirements of the Offering of the Units or

such other reasons as the Manager may determine to be in the best interests of the Company. Subscription Agreements may not be revoked, canceled or terminated by the subscriber, except as therein provided.

9. This Offering for Units is made exclusively by this Memorandum and the Exhibits attached hereto. This Memorandum contains a summary of certain provisions of the Operating Agreement but only the Operating Agreement contains complete information concerning the rights and obligations of the parties thereto. This Memorandum contains summaries of certain other documents, which summaries are believed to be accurate, but reference is hereby made to the actual documents for complete information concerning the rights and obligations of the parties thereto. Such information necessarily incorporates significant assumptions, as well as factual matters. All documents relating to this investment and related documents and agreements will be made available to a prospective investor or such prospective investor's advisors upon request to the Company.

10. During the course of the Offering and prior to sale, each prospective investor is invited to ask questions of and obtain additional information from the Company concerning the terms and conditions of the Offering, the Company, the Manager, the Units and any other relevant matters, including, but not limited to, additional information to verify the accuracy of the information set forth in this Memorandum. The Manager will provide such information to the extent it possesses it or can acquire it without unreasonable effort or expense.

11. The Units are offered by the Company subject to prior sale, receipt and acceptance by the Company of the relevant Subscription Agreement, the right of the Manager to reject any Subscription Agreement for Units in whole or in part, withdrawal, cancellation or modification of the Offering without notice to investors, and to certain other conditions.

12. Because the Units and the Interests are not registered under the Securities Act of 1933, as amended ("Securities Act"), or the securities laws of any state, investors must hold them indefinitely unless they are registered under the Securities Act and any applicable state securities acts, which registration the Manager does not expect to occur, or the Manager, with the advice of counsel, concludes that registration is not required under the Securities Act and applicable state laws. The Operating Agreement also contains significant restrictions on the sale, transfer or other disposition of the Units by the investor. It is highly unlikely that a public market will ever exist for the Units and no public market will exist for the Units.

13. The price per Unit has been arbitrarily determined and is not the result of an arm's length negotiation.

State Notices

The following notices are applicable in certain states where the Units, which are referred to as "securities," may be sold upon perfection of applicable exemptions. The Manager will maintain a list of states where the Units may be offered and sold. Compliance with the notice requirements of applicable state securities laws will be undertaken in additional states as needed.

Notice to Residents of all States:

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF CERTAIN STATES AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR

THE ACCURACY OR ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY 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.

THE SECURITIES ACT OF 1933 AND THE SECURITIES LAWS OF CERTAIN JURISDICTIONS GRANT PURCHASERS OF SECURITIES SOLD IN VIOLATION OF THE REGISTRATION OR QUALIFICATION PROVISIONS OF SUCH LAWS THE RIGHT TO RESCIND THEIR PURCHASE OF SUCH SECURITIES AND TO RECEIVE BACK THEIR CONSIDERATION PAID. THE COMPANY BELIEVES THAT THE OFFERING DESCRIBED IN THIS MEMORANDUM IS NOT REQUIRED TO BE REGISTERED OR QUALIFIED. MANY OF THESE LAWS GRANTING THE RIGHT OF RESCISSION ALSO PROVIDE THAT SUITS FOR SUCH VIOLATIONS MUST BE BROUGHT WITHIN A SPECIFIED TIME, USUALLY ONE YEAR FROM DISCOVERY OF FACTS CONSTITUTING SUCH VIOLATION. SHOULD ANY INVESTOR INSTITUTE SUCH AN ACTION ON THE THEORY THAT THE OFFERING CONDUCTED AS DESCRIBED HEREIN WAS REQUIRED TO BE REGISTERED OR QUALIFIED, THE MANAGER WILL CONTEND THAT THE CONTENTS OF THIS MEMORANDUM, CONSTITUTED NOTICE OF THE FACTS CONSTITUTING SUCH VIOLATION.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN GIVEN BY THE OFFERORS.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH AN OFFER IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE AN OFFER OR SOLICITATION.

NEITHER THE INFORMATION CONTAINED HEREIN, NOR ANY PRIOR, CONTEMPORANEOUS OR SUBSEQUENT COMMUNICATION SHOULD BE CONSTRUED BY THE PROSPECTIVE INVESTOR AS LEGAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OWN LEGAL AND TAX ADVISORS TO ASCERTAIN THE MERITS AND RISKS OF THE TRANSACTIONS DESCRIBED HEREIN PRIOR TO SUBSCRIBING TO SECURITIES.

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DESCRIPTION OF INVESTMENT OFFERING

The investment offer is a purchase of limited liability company units ("Units") in the Company. Each Unit represents an investment of $10,000. An investment can be made with a minimum purchase of five (5) Units. The Manager, however, reserves the right, in its sole and absolute discretion, to sell fractions of a Unit. The capital contribution must be made in cash, property or services, and may be paid by bank wire transfer, personal check, cashier's check, money order, or the deliverable of property or services. (See "How to Invest.")

LIMITATIONS ON USE OF THIS OFFERING MEMORANDUM

This Offering Memorandum is intended to assist the Manager in making a private placement of Limited Liability Company Units. The Manager has not made an application with either the Department of Real Estate or Department of Corporations for the State of Arizona or any securities regulatory agency of any state or the Securities and Exchange Commission of the United States of America for registration of this Offering and thereby obtaining a permit to offer and sell these Units. The Manager is relying on precedents which exempt this Offering from the necessity of registration. Specifically, Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"), and Regulation D promulgated thereunder pursuant to the Securities Act, and Section 25102(f) of the Arizona Corporate Securities Law of 1968, as amended.

NO BROKER, SALESPERSON OR ANY OTHER PERSON ACTING IN ANY CAPACITY WHATSOEVER WITH RESPECT TO THIS OFFERING HAS ANY AUTHORITY TO GIVE ANY INFORMATION OR TO MAKE ANY EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES, OTHER THAN THOSE WHICH MAY BE CONTAINED IN THIS OFFERING MEMORANDUM AND IF GIVEN OR MADE, SUCH INFORMATION, REPRESENTATIONS OR WARRANTIES MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ITS MANAGER

SUMMARY OF THE OFFERING

This summary of certain provisions of this Memorandum is intended only for convenient reference and is not intended to be complete. This Memorandum and the accompanying schedules and exhibits describe in detail numerous aspects of the transaction which are material to investors including those summarized below. The following summary is qualified in its entirety by reference to the full text of this Memorandum and the Schedules and exhibits hereto.

EACH PROSPECTIVE PURCHASER OF UNITS IS URGED TO READ THE ENTIRE MEMORANDUM BEFORE INVESTING IN THE COMPANY. THIS MEMORANDUM CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED UNDER THE HEADING "RISK FACTORS."

The Company: Arizona First Partners 2 LLC, an Arizona limited liability company.

Manager: Arizona First Development LLC, an Arizona limited liability company, whose address is 5041 E Pershing Avenue, Scottsdale, Arizona 85254.

Property: The Company intends to acquire an undivided tenancy in common interest in a .75+ acre parcel of land and construct for sale five (5) office condominiums located in Phoenix Arizona (the "Property" or "Project").

Suitability: Only those persons who meet prescribed suitability standards may invest. (See "Suitability Standards.")

Company Objectives: The principal objectives of the Company will be to:

1. Preserve capital;

2. Generate cash flow from operations to apply to (i) offsetting expenses and (ii) possibly reduce any outstanding balances of loans secured by the Property if applicable and (iii) possibly produce distributable cash flow.

Construction Management: All construction management and processing of building approvals shall be provided by the Manager or a licensed general contractor.

Sale of Property: The Manager expects the Company to hold the Project until such time as construction is completed and a Public Report is received from the Arizona Department of Real Estate, at which time individual units in the Project will be sold. The Manager expects the holding period of the Property and the Project to be twenty-four to thirty-six months, although the holding period may be significantly longer. Upon request, the Manager may distribute completed condominiums to the Members in redemption of their interest in the Company. Members will be allowed to identify the condominiums they receive in redemption of their interests based on the order they were admitted to the Company (first come, first serve).

Allocation of Net Income, Net Loss and Distributions: The Manager intends to make Distributions of Cash from Operations when available for Distribution. The timing of such Distribution shall be in the Manager's discretion and shall, among other things, be subject to the maintenance of adequate reserves. The Manager anticipates that Distributions of the monthly payments received by the Company will be forwarded to the Members on a monthly basis. The allocation of Net Income, Net Loss and Distributions is summarized in this Memorandum (See "Allocation of Net Income, Net Loss, Tax Credits and Other Items"), and fully set forth in the Operating Agreement which is included in this Memorandum as Exhibit A.

Members: The Company will have one type of Membership Units.

Tax Status: The Company has not applied for a ruling from the Internal Revenue Service, but is relying upon the analysis of counsel that it will be treated as a partnership and not as an association taxable as a corporation; provided, however, there can be no assurances that the Company will in fact be treated as a partnership for federal tax purposes. (See "Federal Income Tax Consequences.")

Tax Consequences: The proposed tax treatment of certain items by the Company are in areas where it is possible that the Internal Revenue Service, or state and local authorities, may interpret current laws and regulations in a manner adverse to the Company or the Members. (See "Risk Factors" and "Federal Income Tax Consequences.")

Operating Agreement: This Memorandum contains a description of the material contents of the Operating Agreement, and other agreements or documents, but each such description is deemed to be qualified and amplified in all respects by the provisions of such agreements. Copies of documents relating to the acquisition of the Property are available for examination upon request to the Manager at its offices located at 5041 E Pershing Avenue, Scottsdale, Arizona 85254-3621.

Compensation to Manager: The Manager will receive a one-time Administration Fee of ten percent (10%) of the total investment contribution from members for the formation and management of the limited liability company (See "Summary of Compensation to the Manager.")

Liability and Assessment: Subject to certain risks, after contributing cash to the Company equal to the face amount of the total number of Units purchased by him or her, no Member, without an amendment to the Operating Agreement, shall: (1) be required to lend any funds to the Company; (2) be required to make contributions to the capital of the Company in addition to his or her initial capital contribution; or (3) be liable for any of the debts of the Company over and above such contributions and any distributions.

SUITABILITY STANDARDS

The Offering is made in reliance upon the exemption from compliance with the registration requirements of the Securities Act of 1933, as amended (the "Security Act") and the rules and regulations promulgated thereunder and upon the exemption from the registration/qualification requirements of the states in which the Units hereunder are being offered. Because of the requirements contained in such exemptions, an investor must satisfy certain suitability requirements before he will be accepted as an investor into the Company.

PRIOR TO ACCEPTANCE OF ANY SUBSCRIPTION BY THE COMPANY EACH PURCHASER MUST REPRESENT IN WRITING TO THE COMPANY AND THE MANAGER BY COMPLETING AND SIGNING A SUBSCRIPTION AGREEMENT IN THE FORM ATTACHED HERETO AS EXHIBIT B THAT:

(1) He/she is 18 years of age or older or that a bona fide trust has been set up if he or she is a minor.

(2) Unless otherwise noted, he is an Accredited Investor. An "Accredited Investor" is: If a natural person, a person that has a net worth, inclusive of home, home furnishings and personal automobiles of $1,000,000 or more; or (ii) individual income of $200,000 or more; or joint income with his spouse of $300,000 or more in each of the two most recent years with the reasonable expectation of individual income in excess of that amount in the current year. If not a natural person, one of the following: (i) a corporation, a non-profit organization described in section 501(c)(3) of the Code, a Massachusetts or similar business trust, or a partnership, not formed for the purpose of acquiring the Units offered hereby, with total assets in excess of $5,000,000; (ii) a trust, with total assets in excess of $5,000,000 not formed for the specific purpose of acquiring the Units offered hereby whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of an investment in the Units; (iii) a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934, as amended; (iv) an investment company registered under the Investment Company Act of 1940 (the "Investment Company Act"); (v) a business development company (as defined in section 2(a)(48) of the Investment Company Act); (vi) a Small Business Investment Company licensed by the Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; (vii) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA"), if the investment decision is made by a plan fiduciary (as defined in section 3(21) of ERISA) which is either a bank, savings and loan association, insurance company, or registered investment advisor, 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 who are accredited investors (as defined in Rule 501 of Regulation D under the Act); (viii) a private business development company (as defined in section 202(a)(22) of the Investment Advisers Act of 1940); or (ix) an entity in which all of the equity owners are accredited investors. In the case of fiduciary accounts, the net worth and/or income suitability requirements must be met by the beneficiary of the account, or by the fiduciary, if the fiduciary directly or indirectly provides funds for the purchase of the Units.

(3) He/she understands that he/she must bear the economic risk of the investment for an indefinite period of time because no public market will exist for the Units.

(4) He/she understands the Units will not be transferable except in compliance with the provisions of the Operating Agreement.

(5) He/she is acquiring the Units for, his/her own account for investment with no present intention of dividing his/her interest with others or of reselling or otherwise disposing of all or any portion of the same.

(6) The Manager has, during the course of the offering and prior to the sale of the Units, accorded him/her and his/her representative, if any, the opportunity to ask questions and receive answers concerning the terms and condition of this offering and to obtain any additional information to the extent the Manager possesses such information or could have acquired it without unreasonable effort or expense, necessary to verify the accuracy of the information contained in this Private Placement Memorandum.

(7) He/she understand the speculative nature of the investment, and that he/she could lose his/her entire investment.

(8) He/she has had a pre-existing personal or business relationship with the Manager or has a net worth and annual income or possesses other factors that show he/she has the requisite business acumen to judge the merits of this investment.

(9) He/she has had an opportunity to discuss the tax consequences of the investment with his/her own tax advisors.

The Company may accept a maximum of 35 investors unless those in excess of the 35 limitation fall within the category of accredited investors as defined in Regulation D promulgated under the Securities Act and “not counted” as investors under Section 25102(f) of the Arizona Corporations Code, in which case an unlimited number of investors may be accepted.

The suitability standards referred to above represent minimum suitability requirements for prospective purchasers and the satisfaction of such standards by a prospective purchaser does not necessarily mean that the Units are a suitable investment for such purchaser. The Manager may, in circumstances it deems appropriate, modify such requirements.

Such representations will be reviewed to determine suitability of prospective purchasers, and the Manager will have the right to refuse subscription for Units if in its sole discretion they believe that the prospective purchaser does not meet the applicable suitability requirements or the Units are otherwise an unsuitable investment for the prospective purchaser.

HOW TO INVEST IN THE LIMITED LIABILITY COMPANY

In order to purchase any of the Units being offered, an investor must complete and execute the Subscription Agreement, a copy of which is attached as Exhibit B to this Offering Memorandum, and return it with a bank wire transfer, personal check, cashier’s check or money order for the full purchase price ($10,000 per Unit) to the office of the Manager located at 5041 E Pershing Avenue, Scottsdale, Arizona 85254-3621. The Manager may accept a contribution of property or services, or an obligation to contribute property or services in the future in lieu of cash. The Subscription to the Company may not be terminated by an investor, but the Manager reserves the right to reject a Subscription for any reason or to admit an investor who subscribes for a fraction of the Unit in the Manager’s sole and absolute discretion. A minimum of five (5) Unit must be purchased ($50,000) although the Manager has the option in the Manager’s sole and absolute discretion to accept investors who subscribed for less than the minimum. Payments may be made by bank wire transfer, cashier’s check, personal check or money order made payable to “Arizona First Partners 2 LLC.” Bank Wire Transfers are to Copper Star Bank, and the bank account and bank routing number information is attached (last page) to the Subscription Agreement.

ACCEPTANCE OF SUBSCRIPTIONS

The Manager has the right, to be exercised in its sole discretion, to accept or reject any subscription in whole or in part for a period of 30 days after receipt of the subscription. Any subscription not accepted within 30 days of receipt shall be deemed rejected.

Payment by an investor for Units of the Company will be held by the Company. If a minimum of twenty (20) Units for a total of One Hundred Thousand Dollars ($100,000) offered hereby (the "Minimum Offering") are not sold by December 7, 2008, then payments received will be refunded in full, together with any interest earned on a pro-rata basis unless the offering is not extended for a one-hundred-twenty (120) day period by the Manager in its sole and absolute discretion. No funds shall be drawn upon until the Minimum Offering is raised.

When Subscriptions have been received and accepted by the Manager for the Minimum Offering the sums subscribed, plus all interest accrued thereon, will be turned over to the Manager.

THE LIMITED LIABILITY COMPANY

Arizona First Partners 2 LLC (the "Company") is the name of the Arizona limited liability company that will acquire and develop the Property. The Manager of the Company is Arizona First Development LLC. The Manager's principal place of business is located at 5041 E Pershing Avenue, Scottsdale, Arizona 85254.

The capital securities of the Company consist of Units. Each Unit shall be the representation of a capital contribution of Ten Thousand Dollars ($10,000). A Member is required to purchase a minimum of Ten (10) Units. The Company is offering a minimum of 10 Units for an aggregate minimum capitalization of $100,000 and a maximum of 70 units for an aggregate maximum capitalization of $700,000. The Manager reserves the right to permit an investor to subscribe for a fraction of a Unit in its sole and absolute discretion.

This document is an Offering Memorandum only and is designed to disclose and inform the intended offerees of the investment proposal offered by the Manager. The specific rights of the Members are governed by the provisions of the Operating Agreement and by the laws of the State of Arizona, the laws of any other state in which this offer is made, and the United States of America.

BANK INFORMATION

The construction lender to the Company may require the Members to complete loan applications, credit reports, tax returns, and other documents. Each potential investor should be prepared to submit personal and financial information to the Company's lenders.

ESTIMATED USE OF PROCEEDS

The proceeds from the sale of these Units are to be invested and utilized as described below.

It is the intention of the Manager to raise the sum of $700,000 from the Offering. If the acquisition and development lender requires additional equity, the Manager will issue additional Units, which may dilute the holders of existing Units.

If the entire proceeds from the sale of the Units are not spent for the items described, then the balance will be held in the working capital reserve account. As of the date of this Memorandum, the Manager intends to allocate the proceeds from this Offering to the items described in the chart below The estimates below assume an Offering of $700,000 is raised.

ALLOCATIONS ARE ESTIMATES ONLY AND MAY BE SUBJECT TO CHANGE WHEN ACTUAL ALLOCATIONS ARE MADE.

	Amount	Percentage
Gross Proceeds of Offering...	$700,000	22.6%
Construction Financing	$2,400,000	77.4%
Total Gross Proceeds	$3,100,000	100.0%
Offering Expenses		
Administration Fee	70,000	(2.2)%
Amount Available for Investment......................................	3,030,000	97.8%
Land Cost (Includes Plans & Permits)	1,075,000	34.7%
Construction Cost	1,550,000	50.0%
Total Application	2,625,000	84.7%

PLAN OF DISTRIBUTION

Proceeds from Unit sales will be held by the Company. No funds shall be used by the Manager or the Company until the Minimum Offering is raised. If, the Minimum Offering has not been raised by December 7, 2008, all funds received will be returned to the subscribers therefore, with interest earned thereon, if any, unless this Offering is extended by the Manager, in its sole and absolute discretion, for an additional one-hundred-twenty (120) day period.

After the Minimum Offering has been raised, the proceeds held in escrow, together with any interest earned thereon, and all amounts subsequently received shall be turned over to the Company to be used only for the purposes described in this Memorandum.

Offers to purchase the Units shall be accepted or rejected by the Manager within thirty (30) days after their receipt and, if rejected, associated funds immediately returned. The Manager has the right to be exercised in its sole discretion, to accept or reject any subscription on whole or in part.

The Property

The Property to be acquired by the Company consists of a .75+ acre parcel of land with plans for the construction of 5 office condominiums in Phoenix, Arizona. The project is situated in the Phoenix area in close proximity to the Phoenix Children's Hospital. A map showing the area in which the Property is located in the Investment/Executive Summary, attached to this offering memorandum as part of Exhibit C.

Terms of Purchase

The Property to be acquired is from an unrelated third-party (the “Seller”) by the Company for a purchase price, including the Acquisition Fee for $1,075,000. The purchase price will be paid with cash and proceeds from a construction loan of $2,400,000. The construction loan is for the development of the Project, and includes a reserve for interest and construction of all improvements to the Property.

The Property is being sold with complete and detailed construction plans currently being reviewed for approval by city of Phoenix for the construction of all planned improvements. This means the Seller is conditionally representing the condition of the Property is suitability for the Company’s planned development. Irrespective of such, there still remains a risk the Company will not be able to consummate its planned development.

Construction Management

All management of the planned development of the Project will be provided by the Arizona First Development LLC. Such management includes coordination of efforts to obtain the necessary building entitlements,

management of the actual construction, efforts to secure necessary construction financing, and coordination of post construction sale efforts.

Projections describing estimated acquisition, renovation and conversion costs are contained in the Investment/Executive Summary Document, attached hereto as part of Exhibit C. Pursuant to such projections the estimated cost of construction is approximately $1,550,000.

Arizona First Development LLC will coordinate construction and intends to enter into contracts with a licensed general contractor on behalf of the Company. No fees other than its interest in the Company and the one-time administration fee will be paid to the Manager for such services. Affiliates of the Manager may be paid normal and customary real estate fees as duly licensed real estate broker/agents.

The Manager will obtain construction financing for the acquisition, development, and construction cost of the Project. The Company, at this time, has not engaged in any pre-sale activities nor does it intend to begin sales activities until it has the appropriate approval from the Department of Real Estate of the State of Arizona.

RISK FACTORS

THE PURCHASE OF UNITS INVOLVES RISK. IN ADDITION TO THE GENERAL INVESTMENT RISKS DESCRIBED THROUGHOUT THIS MEMORANDUM, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH IN THE SECTION ENTITLED "CONFLICTS OF INTEREST," PROSPECTIVE PURCHASERS OF UNITS SHOULD CONSIDER THE FOLLOWING POTENTIAL RISKS.

It should be recognized that the risk factors set forth below are those which, at the date of the Memorandum, seem to the Company the most likely to be significant. Prospective purchasers of Company Units should realize, however, that factors other than those set forth below may ultimately affect the investment offered pursuant to this Memorandum in a manner and to a degree which cannot be foreseen at this time.

RISK OF REAL ESTATE DEVELOPMENT

In General

An investment in real estate development is subject to additional risks not apparent in other real estate investments. In general, any real estate development is subject to three separate phases of risk. These are risks involved during the pre-construction period, risks involved during the construction period and risks involved during the post construction period. The occurrence of these risks in any of the three phases can lead to an unsuccessful project even if the other phases proceed smoothly. For example, even if the building entitlements are timely obtained and the construction is completed on schedule and within budget, the inability to timely sell or lease the condominium units that make up the Project could lead to a loss of the investment. While the Project does not involve all aspects of real estate development, some of the risks inherent to real estate development may apply.

An overriding risk factor involved in all phases of the development process is the risk of time delays. Time delays during the pre-construction period can result in, among other things, substantially higher holding costs. Time delays during the renovation period can result in, among other things, substantially higher interest costs. Time delays in the ability to generate income from the completed Project or to sell the renovated units, can result in the inability of obtaining necessary permanent (take-out) financing or in the inability to service the debt of any financing. The inability to service the Property's debt could result in foreclosure of the Property and loss of the investment.

Pre-construction Period Risk

Prior to construction all necessary building approvals must be obtained from the government entities having jurisdiction over the Project, none of which have been obtained yet with respect to the Project. Obtaining such approvals generally involves interfacing with and satisfying the concerns of government staff members as well as obtaining approvals from various commissions such as the planning commission. In order to obtain the requisite approvals, issues such as traffic creation and circulation, architectural features, and impact to the surrounding

environment from the proposed development will need to be addressed. The pre-development approval process can take substantial time and there can be no assurances that the Project as envisioned by the Manager will be approved or that any project will be approved. The Project should require a limited approval process, but as a result may be subject to some of the risk associated with the pre-construction period.

Construction Period Risk

There are numerous risks relating to construction of the Project that may result in substantial cost overruns or substantial time delays. Such risks include, but are not limited to, changes or additions during construction resulting in "extras," improper estimating by subcontractors prior to construction, delays in receipt of building materials, increases in the cost of building materials and labor, inability of subcontractors to perform work as scheduled, refusal or inability of building inspectors to timely inspect improvements or to approve improvements once inspected and deficient work performed by subcontractors. Although the estimated construction budget developed by the Manager, and provides for a contingency reserve there can be no assurances that increases of the construction cost resulting from the above described matters will not exceed such contingency amount.

Post-construction Risks

Once the Project is completed it must be sold in order to generate revenues to cover the Project's operating expenses as well as any debt service attributable to mortgages covering the Property. The rate of sales as well as the level of sales prices received will depend on the market in the area and will depend on the amount of comparable housing available at the time the Company seeks to sell the Project. The greater the amount of comparable housing the greater the competition the Company will face in its sales activities. Greater competition will result in lower sales prices and increased costs in the form of larger sales concessions (such as free upgrades). The Company does not intend to commence sales activities until substantial progress during the construction period of the Project. If any defects in construction occur, such may result in additional cost to the Company after construction is completed.

Market Conditions.

The building industry is cyclical and is significantly affected by changes in national and local economic and other conditions, such as employment levels, availability of financing, interest rates, consumer confidence and demand. The risks inherent to builders in purchasing and developing land increase as consumer demand decreases. Because of the long-term financial commitment involved in purchasing property, general economic uncertainties tend to result in more caution on the part of buyers, which tends to result in fewer purchases. Such uncertainties could adversely affect the performance of the Company. In addition, builders are subject to various risks, many of which are outside the control of the builder, including conditions of supply and demand in local markets, weather conditions and natural disasters, such as earthquakes and wildfires, delays in construction schedules, cost overruns, changes in government regulations, increases in real estate taxes and other local government fees and availability and cost of land, materials and labor. Although the principal raw materials used in the building industry generally are available from a variety of sources, such materials are subject to periodic price fluctuations. There can be no assurance that the occurrence of any of the foregoing will not have a material adverse effect on the Company. The building industry is also subject to the potential for significant variability and fluctuations in real estate values.

Competition.

The building industry is highly competitive and fragmented. Builders compete for desirable properties, financing, raw materials and skilled labor. The Company will compete for sales with other developers, individual re-sales of existing properties, available rental properties and new sales and re-sales of condominiums. The Company's competitors include large builders, many of which have greater financial resources than the Company, and small builders, some of which may have lower costs.

Financing; Leverage.

The homebuilding and renovation industry is capital intensive and homebuilding and renovation requires significant up-front expenditures to acquire land or existing buildings and begin development. Accordingly, the

Company will incur substantial indebtedness to finance its activities. The Company will borrow $2,400,000 from a lender to construct and sell the Property. In addition, the availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced nationally, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. If the Company is not successful in obtaining sufficient capital to fund its planned capital and other expenditures, the Project could be significantly delayed or even abandoned. Any such delay or abandonment would adversely affect the Company's future results of operations.

Geographic Concentration.

The Company's operations are situated in Surprise, Arizona. Adverse general economic conditions in Maricopa County could have a material adverse impact on the operations of the Company.

Undivided Interests.

The Company will each acquire an undivided tenancy-in-common interest in the Project. None of the Tenants in Common will have the right to exclusive ownership of any part of the Project. As a result, the Tenants in Common may experience management, operations or financing difficulties as a result of this form of ownership. Such difficulties may increase the possibility of defaults arising under agreements binding the Tenants in Common and/or the Project. The following decisions relating to the Project, must be approved by all of the Tenants in Common: the sale, exchange, transfer, refinancing, or leasing of the Project and approval of any property management agreement entered into by the Tenants in Common. All other decisions relating to the Project will require the approval of a majority of the Tenants in Common. If a Tenant in Common fails to respond within a specified period of time, such Tenant in Common will be deemed to have approved of the decision. However, because unanimous approval is required for certain decisions, one Tenant in Common can prevent all of the other Tenants in Common from selling or refinancing the Project or taking other actions requiring approval. If a Tenant in Common votes against or fails to consent to any action that requires the unanimous approval of the Tenants in Common when at least 50% of the Tenants in Common have voted or provided consent for such action, the Tenants in Common Agreement provides the Manager or its Affiliates with an option to purchase such dissenting Tenant in Common's interest for fair market value. The Tenants in Common Agreement does not include any other method, except with respect to an action for partition, to resolve a disagreement among the Tenants in Common regarding such a sale, exchange, transfer, refinancing or other action. Given this method of ownership and its restrictions, it is possible and may even be likely that the amount derived from a sale of an undivided interest in the Project will be less than the pro rata amount derived from a sale of the Project as a whole. In addition, the failure of any Tenant in Common to fulfill its obligations could adversely affect the Project. Moreover, subject to restrictions imposed by the Lender, the Tenants in Common may freely transfer their undivided interest; provided, however, such Purchaser must first provide the Manager and its Affiliates, and second the other Tenants in Common, with the right to make an offer to purchase such selling Tenant in Common's Interest. Each Purchaser will also be responsible for compliance with applicable securities laws with respect to any such transfer. Upon a transfer, the transferor generally will be relieved of ongoing obligations. The Lender has imposed restrictions on the transfer of undivided interests in the Project, with exceptions for certain transfers for estate planning purposes or upon the death of a Tenant in Common. Each Tenant in Common will have the right to bring an action to partition the Project. However, under the Loan documents, any partition during the term of the Loan will be a default under the Loan. Furthermore, if any Tenant in Common brings a partition action, the court may order a sale of the Project by all of the Tenants in Common with a division of proceeds, a division of the Project among the Tenants in Common or other relief. However, the Tenants in Common Agreement provides that the Manager or its Affiliates may purchase the undivided interest of the Tenant in Common bringing a partition action at fair market value. To the extent, however, that neither the Manager nor its Affiliates elects to purchase all or a portion of such interest, then the other Tenants in Common shall be entitled to purchase the interest on the same terms and conditions. Further, a bankruptcy or similar insolvency proceeding relating to any Tenant in Common or, the death, retirement, incapacity, or withdrawal of any principal, general partner, manager, guarantor or borrower and the failure to provide a substitute acceptable to the Lender, if it affects the day-to-day operations of the Property, may constitute a default under the Loan and adversely affect the Project. However, the Tenants in Common Agreement provides that the Manager or its Affiliate will have an option, but not an obligation, to purchase at fair market value the undivided interest of any Tenant in Common who is in default under the terms of the Loan documents.

Death of a Principal or a Tenant in Common.

The death, dissolution, retirement, incapacity or withdrawal of a Tenant in Common, if it affects the day-to-day operations of the Project, or results in the transfer of an interest in the Project or a Tenant in Common to certain classes of prohibited persons (for example, someone who has been convicted of a felony, has been the subject of bankruptcy proceedings, is insolvent, or has outstanding judgments against him or her). Consequently, if any of these events occur, the Lender may declare a default under the Loan, which could result in a foreclosure and the loss of all or a substantial portion of the investment made by the Tenants in Common.

Dependence On Arizona Market.

The Company conducts all of its business in Maricopa County, Arizona. There have been periods of time in Maricopa County, Arizona where economic growth has slowed and the average sales price of homes have declined. There can be no assurance that home sales prices will not decline in the future.

Risk of Material and Labor Shortages.

The Company does not anticipate that it will experience any serious material or labor shortages; however, the residential construction industry in the past has, from time to time, experienced serious material and labor shortages, including shortages in insulation, drywall, certain carpentry work and cement and fluctuating lumber prices and supply. Delays in construction of homes and higher costs due to these shortages could have an adverse effect upon the Company's operations.

Natural Risks.

Climatic conditions, such as unusually heavy or prolonged rain or other natural disasters such as earthquakes or fires, may affect the Company's operations. In addition, Arizona has periodically experienced drought conditions resulting in water conservation measures and in some cases rationing by municipalities. Restrictions by governmental agencies on future construction activity as a result of limited water supplies could have an adverse effect upon the Company's operations.

Mechanics' Liens

Arizona law provides any person who supplies services or materials to a construction project with a lien against the project securing any amounts owed to such person. Therefore, even if the Company pays a contractor its contract fees, if that sub-contractor fails to pay his sub-contractors or the material supplier who supplied the materials for the contract, then the sub-contractor and material supplier who were not paid will have mechanics' lien rights against the Property. Although the Manager intends to utilize procedures to prevent the occurrence of mechanics' liens (such as requiring mechanics' lien releases prior to payment and issuing joint-party checks) no assurance can be given that mechanics' liens will not appear against the Property. If a mechanics' lien does appear then it must be negotiated by the Company in order to obtain its release or the person holding such lien will have the right to bring an action to foreclose on the Property in order to satisfy amounts due under the lien.

Permanent Financing

Construction financing is traditionally short term (e.g. 12-18 months). Although it is the intention of the Company that buyers provide their own financing, the Company may eventually need to obtain permanent financing to "take out" the construction financing. Because of substantial losses in the financial industry and particularly the savings and loan industry, lenders have recently substantially tightened their underwriting criteria to providing loans. Furthermore, lenders presently are heavily scrutinizing the type of buyers and their credit worthiness even if the required level is met. If the Company is unable to obtain the necessary permanent financing then the construction lender may foreclose on the Property thus resulting in a loss of an investment in the Company.

Slow Growth Movement/Infrastructure Improvements

The recent rapid growth in parts of Phoenix including the area in which the Property is located has resulted in a "back-lash" by the population in these areas against growth in general. The pressure from this back-lash has resulted in substantially increased difficulties in obtaining necessary building approvals. The time to obtain such approvals has increased substantially and it is not unusual for projects to be scaled down in size and altered by government entities having jurisdiction over such projects.

In addition, because of rapid growth need for increased infrastructure improvements such as roads, water and sewage has increased. It is common for governmental entities to pass on the cost of such infrastructure improvements to developers. This has resulted in substantially higher costs involved in developing projects. It is indeed anticipated that as a condition of building approval, the Company will be required to pay for a portion of the infrastructure cost in the area where the Property is located.

Soils Suitability

Geological features or improperly compacted soil could result in a problem with the buildings. A soils report has not been prepared and the Manager does not anticipate ordering one. While there is no visible problem with the buildings or underground parking structure, and the Manager does not anticipate any problem, from a soils standpoint, no assurances of this may be given.

Leveraging

The Company will engage in leveraging to finance the acquisition of the Property and the development and construction of the Project through use of the proceeds of the acquisition and development and construction financing. The use of leveraging will permit the Company to complete the Project, the aggregate cost of which substantially exceeds the amount of investment proceeds of this Offering, and thereby may allow the Company to participate in correspondingly greater appreciation (assuming the Project appreciates in value) and profits. Potentially, however, leveraging exposes the Company to larger losses. Failure to complete construction of the Project on schedule, a decline in market value and interest rates for the Project or a significant increase in its other carrying costs and operating expenses may result in the Project's not generating enough cash to repay the principal and interest of the construction financing. If any loan is not paid when due, the Company may sustain a loss of its investment as a result of foreclosure of the deed of trust securing such indebtedness. Any such foreclosure may also have substantial adverse tax consequences for the Members. See "Federal Income Tax Consequences."

Environmental Problems

Real estate in general is subject to certain environmental risks arising from the location or site on which a project is built or from materials used in construction or stored or used on the underlying property. Although the Members of the Company has used its commercially reasonable efforts to become aware of any environmental problem with regard to the Property and will continue to do so during renovation of the Project, the occurrence of health problems, or other dangerous conditions caused by other work on the Property, may only become apparent after a lengthy period of time. Thus, there is no assurance that there are no environmental risks with respect to the Project.

No Environmental Indemnity

Federal, state and local laws impose liability on a landowner for releases or the otherwise improper presence on the premises of hazardous substances. This liability is without regard to fault for, or knowledge of, the presence of such substances. A landowner may be held liable for hazardous materials brought onto the property before it acquired title and for hazardous materials that are not discovered until after it sells the property. Similar liability may occur under applicable state law. The Seller has not agreed to indemnify the Company for any hazardous substances. If any hazardous materials are found on the Property or within the Project in violation of law at any time, the Company may be held to be jointly and severally liable with past and future owners for cleanup costs, fines, penalties and other costs. This potential liability will continue after the Company sells the Project and

may apply to hazardous materials present on the Property before the Company acquired it. If losses arise from hazardous substance contamination which cannot be recovered from the Seller or other responsible parties, the financial viability of the Project may be substantially affected.

Hazardous Materials

The Company has not conducted a Phase One environmental assessment of the Property, which resulted in minor hazardous materials findings in some units. The Company is providing for properly trained subcontractors to remove any such material and has included the cost of such removal in its renovation budget. No other hazardous materials were discovered and no additional clean-up is anticipated.

Post-Construction Environmental Problems

If the Company is unable to sell the condominiums that make up the Project in a timely manner, the Company will lease the space to tenants. Federal, state and local laws impose liability on a landowner for releases or the otherwise improper presence on the premises of hazardous substances. This liability is without regard to fault for, or knowledge of, the presence of such substances. A landowner may be held liable for hazardous materials regardless of when they are brought onto the property or by whom, including hazardous substances brought onto the property by tenants. Similar liability may occur under applicable state law. If any hazardous materials are found within the Project in violation of law at any time, the Company may be held to be jointly and severally liable for cleanup costs, fines, penalties and other costs. This potential liability will continue after the Company sells the Project. If losses arise from hazardous substance contamination which cannot be recovered from the tenants or other responsible parties, the financial viability of the Project may be substantially affected.

Need for Permits

The construction and operation of residential buildings requires a number of government permits and clearances which the Company has not yet obtained. The inability of the Company to obtain such permits and clearances in a timely manner could result in substantial delays in the renovation, sale or lease up of the Project as the Company takes appropriate action to obtain such permit or clearance. The inability to obtain a permit or clearance at all could result in the failure of the Company to complete construction on the Project or the inability of the Company to sell the building. In either case, delay or inability to complete the Project, the financial condition of the Company and the return on investment to investors could be substantially and adversely effected.

Lack of Representations and Warranties

The Company has acquired the Property with no representations and warranties from the Seller regarding the condition of the Property, the presence of hazardous substances, or other matters affecting the use or ownership of the Property. As a result, if defects in the Property or other matters adversely affecting the Property are discovered, the Company may not be able to pursue a claim for damages against the original Seller of the Property. The extent of damages that the Company may incur as a result of such matters cannot be predicted, but potentially could result in a significant adverse effect on the value of the Property.

Uninsured Losses

The Company will obtain, in the course of construction, builder’s risk insurance to cover it during the time the Project is being constructed. the Company will also arrange for comprehensive insurance, including liability, fire and extended coverage, in amounts reasonably estimated by its Manager to cover substantially the replacement value of improvements and to protect against the kinds of liability that owners and developers of real estate comparable to the Project are likely to confront. There are certain types of losses (generally of a catastrophic nature, such as earthquakes and floods, as well as punitive damages) that are either uninsurable or are not economically insurable. The Company may be jointly and severally liable for any uninsured or underinsured personal injury, death or property damage claims. In addition, the Company may be required to repay any Project loan if insurance proceeds are not adequate to fully restore any damage to the Project. Should any such uninsured loss occur, the

Company could suffer a loss of all anticipated interest, distributions or other return on the Project. A Member's risk will be limited to the amount invested.

Regulatory Matters

Future changes in land use and environmental laws and regulations, whether federal, state or local, may impose new restrictions on the development, construction or sale of the Project. The ability of the Company to raise sufficient funds and thus develop and sell the Project may be adversely affected by such regulations.

Condemnation of the Land

The Property or a portion of the Property could become subject to an eminent domain or inverse condemnation action. Such an action could have a material adverse effect on the marketability of the Project or the amount of return on investment for the Members.

Competition

The Company and the Project may encounter substantial competition from other similar developments in Phoenix, including other residential properties near the Project, including similar projects being developed in the Phoenix area. Some of such other properties may be more attractive than the Project in purchase price and location. Such competitive properties may reduce demand for the Project and result in decreased profits or in losses for the Company. (See "Conflicts of Interests.")

Lack of Diversification

The Company has no plans to invest in any properties or investments of types other than the Project. Thus, the Company is not, and will not be, diversified as to the type of investment it owns. In the event of an economic recession affecting the Phoenix economy, or the occurrence of any one of many other adverse circumstances, the ability of the Company to raise funds and therefore the ability of the Company to obtain a loan and develop and sell the Project, may be adversely affected, and therefore the return of Company capital and/or interest may be adversely affected.

No Guaranteed Cash Flow

There can be no assurance that cash flow or profits will be generated by the Project.

INCOME TAX RISK

Company Tax Status; Request for a Tax Ruling

The Company intends to file federal and state partnership information tax returns. The Manager has not, however, and does not intend to request a ruling from the Internal Revenue Service (the "IRS") that the Company will not be treated as a corporation. In the absence of such a ruling, there can be no assurance that the Company will not be treated as a corporation; such treatment will result in the loss of substantially all of the tax benefits that may flow from an investment in the Company.

Risk of Audit

Information returns filed by the Company are subject to audit by the IRS. The IRS is devoting greater attention to the proper application of the tax laws to limited liability companies, including limited liability companies investing in real estate. In this connection, the IRS has issued revised guidelines, procedures and instructions for handling cases under its tax shelter audit program.

In addition, pursuant to the 1984 Deficit Reduction Act, the Company may have to register itself as a tax shelter program with the IRS. Such registration requires disclosure of certain information relating to the identity of the investors and thus increases the risk of audit of the investor's personal returns.

An audit of the Company's return may lead to adjustments, in which event personal federal income tax returns will be effected, and may subject Members to certain interest and penalty payments due to an underpayment of federal income tax. In addition, any such tax return may lead to an audit of a Member's individual tax return which may lead to adjustments other than those relating to the investments in the Company Units offered hereby.

Substantial Underpayment Penalty

A penalty of twenty percent (20%) is imposed on any substantial underpayment of tax. In the case of a tax shelter investment, the penalty can only be reduced if there is substantial authority for the position taken and only if the taxpayer reasonably believed that the treatment of the item was more likely than not correct. The Company strongly advises each potential Member to consult his own tax advisor to be sure that he evaluates fully the proposed tax treatment of Company items. (See "Federal Income Tax Consequences.")

Risk of Loss of Deductions

The Company intends to deduct certain of the cash payments set forth in "Summary of Compensation to the Manager and Affiliates." The interpretation of the Internal Revenue Code and Treasury Regulations to be adopted by the Company is that most favorable to the taxpayer, not the Government. There is no assurance that the IRS will not contest the deductibility of some or even most of these or any other item which could result in the disallowance of some or all of the tax benefits.

There is the further risk that even if some deductions or credits are not disallowed entirely, a different tax treatment or allocation may be given various items than that which is contemplated by the Operating Agreement or reported in the Company Information Return. If such challenge were successful, the anticipated deductions would be reduced and the allocation of profits and losses to the Members for tax purposes could be adversely affected.

Transactions Entered into For Profit

In order for the Members to be entitled to all of the anticipated tax losses from the ownership and operation of the Property, the transaction must be "engaged in for a profit." While circumstances of each case differ, prospective investors should be aware that as a result of recent developments in this area, deductions attributable to investments providing substantial tax benefits may be disallowed on the grounds that there was insufficient economic benefits to be derived from the Property to support a profit motive by the Company and the Members. There can be no assurance that the IRS will not challenge the deductibility of the losses to be incurred by the Company on the grounds that there were insufficient economic profits in the transaction, apart from tax consequences.

Taxable Income In Excess of Cash Receipts

The amount of tax liability on the gain realized by a Member by reason of the sale or other disposition (including gifts) by him of his Units or by reason of a sale (including a sale pursuant to foreclosure proceedings) or other disposition of the Property may, under certain circumstances, exceed the Member's cash, if any, obtained from such sale. In addition, there is a risk that after several years of Company operations, an investor's tax liabilities during the tax year may exceed his cash distributions in such year and that, to the extent of such excess, the payment of such taxes will be an additional out-of-pocket expense for the investor.

Classification As a "Dealer"; Loss of Capital Gain

The Company intends to take the position that gains realized from the sale of the Property are taxable as ordinary income.

Disposition of Property or Membership Interest

In determining the amount of gain recognized when the Property is sold or otherwise disposed of, the Company must include in income, among other things, the amount of any indebtedness to which the Property is subject. Similarly, if a Member sells his interest in the Company, he will be required to include in income his pro rata share of the Company's non-recourse debt. In the event of foreclosure, the Company may realize taxable gain if its tax basis for the interest sold is less than the amount of the debt discharged by the foreclosure. In such event Member may not receive sufficient cash with which to pay any such tax liability.

Membership Allocations

The Company has not received an IRS ruling that the method of allocating profits and losses pursuant to the Operating Agreement will be respected for federal income tax purposes. If the IRS should determine, for example, that the allocations under the Operating Agreement do not have substantial economic effect, the deductions otherwise anticipated by the Members might not be allowable to them. Any successful challenge to the allocation of Company items could adversely affect the Members by reducing the share of Company profits, losses and credits allocated to the Members. (See “Federal Income Tax Consequences.”)

Payments To The Manager

In addition to amounts directly relating to costs incurred in obtaining the Property, the Company will make payments to the Manager, its affiliates and others for various required services to be rendered and undertakings furnished. The Manager believes that many of such payments are reasonable and deductible. However, there can be no assurance that any or all of such amounts will not be deemed by the IRS to be includible in the costs of the Property, as a non-deductible item. In such a case, the deductions available to the Company would be reduced in the early years, and increased in the later years through additional depreciation deductions. (See “Federal Income Tax Consequences.”)

Passive Loss Restriction

The 1986 Tax Reform Act restricts losses generated from passive investments from being deducted from non-passive income sources (such as salaries and other earned income). Investments as a Member are considered a passive investment and therefore such restrictions will apply to the investors. These rules result in eliminating many of the tax shelter aspects of an investment in the Company. (See “Federal Tax Consequences.”)

Substantial Tax Law Changes

The 1986 Tax Reform Act made far reaching sweeping changes to the Internal Revenue Code. The Act eliminated or substantially reduced many of the benefits previously available from a real estate investment. This may have the result of reducing real estate values and thus the ultimate return to the investors.

Furthermore, no assurance can be given that legislative, judicial or administrative changes may not be forthcoming which would adversely affect an investor’s investment in this Company. Any such changes may or may not be retroactive with respect to transactions entered into or contemplated prior to the effective date of such changes. Prospective purchasers of Company Units herein are urged to consult their own counsel or other personal tax advisor regarding the current status of any such proposals and their potential impact on the Company. (See “Federal Income Tax Consequences.”)

Complex Tax Matters

The tax affairs of the limited liability company are complex and are subject to varied interpretations. The effect of tax laws on Members will vary depending on their particular circumstances. There are tax-related risks which are not listed in this Memorandum. Prospective investors or their advisors should seek the advice of a tax attorney or accountant qualified to discuss other possible tax risks or IRS theories of attack. EACH INVESTOR

SHOULD CONSULT WITH AND RELY ON HIS OWN TAX ADVISORS WITH RESPECT TO THE POSSIBLE TAX RESULTS OF THE INVESTMENT.

For a general discussion of the tax consequences associated with an investment in this Company, see "Federal Income Tax Consequences."

State Tax Consequences

This offering Memorandum does not discuss the consequences and risks of applicable state taxes. For advice regarding such state tax consequences, the investor must seek the advice of his own tax advisor.

INVESTMENT RISK

Company Newly Formed - No Operating History

Although the Manager and its affiliates have substantial experience in the real estate industry, this Company will be newly formed and therefore has no operating history.

Return on Investment

No assurance can be given that a purchaser of Units will realize a substantial return on his investment, or any return at all, or that, he will not lose his investment. For these reasons, each prospective investor, should read this Memorandum and all supplements and exhibits thereto, carefully and should consult with his own personal attorney, accountant or business advisor prior to making any investment decision.

Company Investment Objectives

The Company investment objectives must be considered speculative and there is no assurance that the Company will fulfill them. To the extent that the Company fails to attain its investment objectives, which may be influenced by factors beyond its control, the investment results experienced by investors in the Company may be adversely affected.

Limited Transferability - Long Term Investment

Prospective investors should be fully aware of the long-term nature of an investment in the Company. Each investor will be required to represent that he is purchasing Units for his own account for investment purposes and not with a view for resale or distribution. The Units will not be registered under the Securities Act of 1933, or under state securities laws by reason of specific exemptions under the provisions of such securities laws, which depend, in part, upon the investment intent of each investor. While the Units are transferable under certain restrictive circumstances, no transfer of a Unit may be made if the transfer violates federal or state securities laws or affects the status of the Company for federal income tax purposes either by termination of the Company or causing it to be classified as a corporation or association taxable as a corporation. (See "Restrictions on Transfer" and "Summary of Company Agreement -- Transferability of Company Interests.")

Furthermore, if an investor wished to transfer his Units due to unforeseen circumstances, he would in all likelihood find a limited market therefore. This may result in a Unit holder selling his Units for substantially less than their current value, were the Units to be held until the Company sold the Property. Moreover, since the Company does not intend to make the Section 754 election, an investor may have greater difficulty in selling his units since the purchaser will obtain no current tax benefits from his investment to the extent that his cost of such investment exceeds his allocable share of the Company's basis in tax consequences upon disposition of his Units.

No Right to Manage

A Member's capital is subject to the risks of the Company's business. A Member is not permitted to take any part in the management or control of the business and he may not be assessed for additional capital contributions

once his Company Units have been fully paid. Assuming that the Company is operated in accordance with the terms of the Operating Agreement, a Member should not be liable for the liabilities of the Company in excess of his contribution and share of undistributed profits. Notwithstanding the foregoing, a Member will be liable for any distributions made to such Member, if, after such distribution the remaining assets of the Company are not sufficient to pay its then outstanding liabilities.

Additionally, to the extent that cash distributed to a Member constitutes a return of all or a portion of such Member's capital contribution, even though such Distribution was rightfully made, such Member will be liable for the Company's liability to creditors who extended credit or whose claims arose before such return.

Reliance of Management

All decisions with respect to the management of the Company will be made exclusively by the Manager. The Member will have no right or power to participate in the management of the Company. Accordingly, no person should purchase any Units unless he is willing to entrust all aspects of the management of the Company to the Manager. (See "Description of Management.")

Arbitrary Offering Price

The offering price of the Units offered hereby have been arbitrarily determined by the Manager based primarily upon the cost of the acquisition of the Property and development of the Project, the expenses to be paid as a result of this Offering, the cost of organizing the Company and other matters. The, offering price of the Units is no indication of their value or the value of the Property. No assurance is or can be given that any Unit, if transferable, could be sold for the offering price or for any amount.

Compensation to Manager and its Affiliates

The Manager and its affiliates shall receive fees and profits in connection with this Offering. Such fees may reduce the ultimate gain that an investor may be returned from a direct investment into the Property. (See "Summary of Compensation to the Manager and Affiliates.")

Financial Resources of the Manager

If the financial condition of the Manager is adversely affected, the Company may not be able to fulfill other management functions on behalf of the Company such as obtaining necessary construction and permanent financing. In such event, the Company and thus the investor's interest could suffer substantial adverse effects.

Prior Programs Sponsored by the Manager and Affiliates

The Manager and its affiliates have in the past sponsored other programs which have invested in real estate and may have liabilities in connection therewith. (See "Prior Performance of the Manager and its Affiliates.") Further, interests issued by such prior programs were not registered under federal or state securities laws in reliance upon certain exemptions therefrom and, if such exemptions were not in fact available, purchasers of such interest may have the right to rescind their purchases and to recover interest thereon and damages, if any. Although no substantial claims for rescission or damages have been made, it should be recognized that any such claim, if successfully made, could deplete the assets of the Manager and its affiliates.

Certainty of Distributions

The Company intends to make certain distributions of cash from operations which is available for distribution. Distributions, if any, shall at all times be subject to the payment of Company expenses and the maintenance of reserves and may be restricted or suspended when the Manager determines in its absolute discretion that to do so is in the best interest of the Company Distributions, if any, shall be paid only from cash flow or refinancing and not from working capital reserves.

Financial Projections

The financial projections included herein were prepared by the Manager and are based on assumptions and hypotheses made by the Manager regarding future events. Projections may not indicate the actual results which may be attained. The American Institute of Certified Public Accountants defines financial projections as "estimates of financial results based upon assumptions that are not necessarily likely." Such definition contrasts with the definition of a forecast which is an estimate of the most probable financial position. Accordingly, there is no assurance that actual events will correspond with these projections. Actual results for any period may or may not approximate such statements.

Conflicts of Interest

The principals of the Manager are employed independently of the Company and may engage in other activities. The Manager will have conflicts of interest in allocating management time, services and functions between various existing enterprises and future enterprises the Manager may organize, as well as other business ventures in which the Manager may be or become involved, including, without limitation, the development and construction of similar projects in Arizona or other states. The Manager, however, believes that the Manager will have sufficient staff, consultants and independent contractors to perform adequately its responsibilities to the Company. Such projects will be in direct competition with the Project and may compete in attracting buyers. See "Conflicts of Interest."

Receipt of Compensation Regardless of Profitability

The Manager is entitled to receive certain significant fees and other significant compensation, payments and reimbursements regardless of whether the Company operates at a profit or a loss. See "Summary of Compensation to the Manager and Affiliates."

Loss on Dissolution and Termination

In the event of a dissolution or termination of the Company , the proceeds realized from the liquidation of the assets of the Company will be distributed among the Members, but only after the satisfaction of claims of third-party creditors of the Company. The ability of a Member to recover all or any portion of such Member's investment under such circumstances will, accordingly, depend on the amount of net proceeds realized from such liquidation and the amount of claims to be satisfied therefrom. There can be no assurance that the Company will recognize gains on such liquidation.

Successive Owners of Units

As between successive owners of Units, Net Income and Net Loss will be allocated (for income tax and other purposes) as provided in the Operating Agreement, to the extent permitted under the Code, regardless of the dates upon which cash distributions are made to the Members or the amount of any such cash distributions. The purchaser or Seller of Units may, accordingly, be required to report a share of the Company's Net Income on such person's personal income tax return, even though such person receives no cash distribution during the period in which he held the Units or, if such person has received any cash distributions, even though the amounts of such distributions bear no relation to the amount of Net Income that such person is so required to report. See "Federal Income Tax Consequences" and "Allocation of Net Income, Net Loss and Distributions."

Limitation of Liability/Indemnification of the Manager

The Manager and its attorneys, agents and employees may not be liable to the Company or the Members for errors of judgment or other acts or omissions not constituting gross negligence or willful malfeasance as a result of certain indemnification provisions in the Operating Agreement. See "Summary of the Operating Agreement and "Federal Income Tax Consequences" and "Allocation of Net Income, Net Loss and Distributions." A successful claim for such indemnification would deplete the Company's assets by the amount paid.

Unrelated Liabilities of the Manager and its Affiliates

Affiliates of the Manager are managers of a number of limited liability companies and general partners of limited partnerships. The Manager is contingently liable for the obligations of partnerships of which they are the general partners, except to the extent such partnerships incur non-recourse obligations. The Manager and its Affiliates are not precluded from being general partner in other partnerships or a manager of other limited liability companies in the future. See "The Manager." If the liabilities of one of these partnerships or liabilities of a general partner attributable to a partnership exceed the assets of the Manager or its Affiliates, the contingent liabilities of the Manager and its Affiliates, as a general partner or manager of such partnership or limited liability company, could exceed the Manager or its Affiliates' net worth. If the Manager and Affiliate or one of its Affiliates is adjudicated bankrupt as a result of these partnerships or limited liability companies, a new Manager might be substituted for the Manager. See "Summary of the Operating Agreement and Federal Income Tax Consequences" and "Allocation of Net Income, Net Loss and Distributions."

Lack of Diversification.

The Company has no plans to invest in any properties or investments of types other than the loan for the Project. Thus, the Company is not, and will not be, diversified as to the type of investment it owns. In the event of an economic recession affecting the Phoenix, Arizona economy, or the occurrence of any one of many other adverse circumstances, the ability of the Company to raise funds and therefore the ability of the Company to obtain a loan and develop and sell the Project, may be adversely affected, and therefore the return of Company capital and/or interest may be adversely affected.

RISKS RELATING TO THE OWNERSHIP OF REAL PROPERTY

Competition In the Market

The Company will be in competition with many other entities or persons who may either own or develop properties somewhat similar to that of this Company. Such competition may reduce the sales rates, occupancy levels and/or the ultimate sales price of the Company's assets. The economic viability of the Property in the future will be dependent upon high demand for residential housing. There is no assurance that the Company will be capable of successfully competing with such competitors.

Reliance Upon Leverage

The Company assets will be highly leveraged due to the amount of the mortgage loans affecting the Property. Accordingly, upon completion of construction, there will be a substantial monthly obligation for debt service on the mortgage loans affecting the Property in addition to operating costs. There can be no assurance that the future income of the Company or the Company will be sufficient to meet these expenses.

General Risk of Real Estate

The Company will be subject to the risks inherent in the ownership of real property such as fluctuations in interest rates and operating expenses and variations in construction schedules, which in turn may be adversely affected by general and local economic conditions, the supply of and demand for properties of the same type, zoning laws, federal and local rent controls, other laws and regulations and real property taxes. Certain expenditures associated with real estate investments (principally mortgage payments, real estate taxes and maintenance costs) are not necessarily decreased by events adversely affecting the Company's income from the Property. the Company's ability to meet its debt service and other obligations and thereafter to make distributions to its Members will depend on these factors and, for these and other reasons there is no assurance that the Company's operations will be profitable.

Rent Control or Other Regulations

Certain jurisdictions have adopted legislation relative to rent control. There is no assurance that such legislation affecting the Property will not be proposed and possibly adopted in the future. The adoption of other rent controls or comparable legislation in the area where the Property is located could limit the rental rates which may be charged by a purchaser with respect to the Property, but without affecting operating expenses or debt service and could, therefore, adversely affect the operation of the Property or the amount realized by the Company upon sale.

Uninsured Losses

The Company will purchase comprehensive insurance, including liability and fire insurance. There are certain types of losses (generally of a catastrophic nature, such as earthquakes, floods and wars) which are either uninsurable or not economically insurable. Should such a disaster could occur resulting in damage to the Property, the Company could lose both its invested capital and its anticipated profits.

Balloon Payment

It is anticipated that the financing associated with the Property will require certain balloon payments. This may result in the Company refinancing or selling the Property before the time the Manager deems optional which may adversely affect the return on investment if the Manager had planned to refinance or sell the Property at a different time. Furthermore, if the Company is unable to refinance or sell the Property on or before the time the balloon payments are due, the Company may be subject to the risk of losing the Property through a foreclosure, thereby also subjecting the Company to the risk of losing its capital

Energy Shortages and Allocations

There may be shortages or increased costs of fuel, natural gas or electric power, or allocations thereof, by suppliers or governmental regulatory bodies in the area where the Property is located. The Manager is unable to predict the extent, if any, to which such shortages, increased prices or allocations will occur, or the degree to which such events might influence the ability of the Company to meet its investment objectives.

Sale of the Property

The sales price to be realized by the Company upon the sale or other disposition of the Property will depend upon many factors, including the interest rates charged, the availability and price of comparable properties, available financing, conditions in the real estate market in general, as well as others. There can be no assurance that the price and terms of such sale or other disposition will be such as to provide Members with a satisfactory return on their investment, or any return at all, or that there will not be a loss as a result of such transaction.

Availability And Costs of Financing

Market conditions have a direct input on mortgage rates and available mortgage financing. Although the Manager is unable to predict the resulting impact on the Company, the risk that unfavorable financing may have a negative impact on the Property is present. Additionally, the Company may find it difficult to obtain appropriate financing and the costs of such financing may be increased. Market conditions may also adversely affect the ability of the Company to sell the Property when a sale is determined to be in the best interest of both the Company and the Company, and may affect the terms of any such sale.

In order to induce lenders to extend mortgage financing in connection with the Property, the Company may grant a lender an interest in proceeds from sales or refinancings of the Property. In addition, the Company may entered into a loan agreement with a lender in which the interest rate, rather than being fixed, may increase or decrease at specified intervals (usually every six months) with the amount of such increase or decrease tied to an objective measure of the cost of money such as the discount rate established by the Federal Reserve Board.

“AS IS” Purchase

The Property is purchased “AS IS”. This means that the Seller has not made any representations or warranties regarding the suitability of the Property for the Company’s planned development. Therefore, the risk that the Property is not suitable for the Company’s planned development lies with the Company.

Easement

Various easements in favor of third parties exist on the Property. Such easements provide encumbrances against the Property. Although the Manager does not believe that such easements will inhibit the Company’s planned development, no assurance of this can be given.

Variable Interest Rates

Many commercial loans in the present market require variable as oppose to fixed interest rates. In a variable rate loan the debt service can increase substantially, if interest rates rise. The Company has no control over interest rates and there can be no assurance that a substantial rise in interest rates will not occur.

RISKS RELATING TO PRIVATE OFFERING AND LACK OF LIQUIDITY

Limited Transferability of Securities

Each Member will be required to represent that he or she is acquiring the Units for investment and not with a view to distribution or resale, that such subscriber understands the Units are not freely transferable and, in any event, that such subscriber must bear the economic risk of investment in the Units for an indefinite period of time because the Units have not been registered under the Securities Act or certain applicable state “Blue Sky” or securities laws, and that the Units cannot be sold unless they are subsequently registered or an exemption from such registration is available and unless such subscriber complies with the other applicable provisions of the Operating Agreement. There will be no market for the Units and investors cannot expect to be able to liquidate the subscriber’s investment in case of an emergency. Further, the sale of the Units may have adverse federal income tax consequences. The transfer of Units requires the prior written consent of the Manager. There are no specified circumstances relating to the granting or withholding of the required prior written consent of the Manager.

Speculative Investment

The Company’s business objectives must be considered highly speculative, and there is no assurance the Company will satisfy those objectives. No assurance can be given that the investors will realize a substantial return on their purchase of the Units, if any, or that the investors will not lose their investment completely. For this reason, each prospective investor should read this Memorandum and all Exhibits to this Memorandum, and should consult with his attorney or business advisor.

Determination of Unit Price

The purchase price of the Units has been determined primarily by the capital needs of the Company and bears no relationship to any established criteria of value such as book value or earnings per Unit, or any combination thereof. Further, the price of the Units is not based on past earnings of the Company, nor does that price necessarily reflect current market value for the assets proposed to be acquired by the Company. No valuation or appraisal of the Company's potential business has been prepared.

Offering Not Registered With Securities and Exchange Commission or State Securities Authorities

The Offering of the Units will not be registered with the Securities and Exchange Commission under the Securities Act or the securities agency of any state, and are being offered in reliance upon an exemption from the registration provisions of the Securities Act and state securities laws applicable only to offers and sales to investors meeting the suitability requirements set forth herein.

Private Offering - Lack of Agency Review

Since these Offerings are nonpublic offerings and, as such, are not registered under federal or state securities laws, prospective investors will not have the benefit of review by the Securities and Exchange Commission or any state securities commission. The terms and conditions of the Offerings may not comply with the guidelines and regulations established for real estate programs that are required to be registered and qualified with those agencies.

Private Offering Exemption - Compliance with Requirements

The securities are being offered to investors and will be sold to investors in reliance upon a private offering exemption from registration provided in the Securities Act. If the Company or the Manager should fail to comply with the requirements of such exemption, the investors would have the right to rescind their purchase of the Units if they so desired. It is possible that one or more investors seeking rescission would succeed. This might also occur under the applicable state securities or "Blue Sky" laws and regulations in states where the Units will be offered without registration or qualification pursuant to a private offering or other exemption. If a number of Members were successful in seeking rescission, the Company and the Manager would face severe financial demands that would adversely affect the Company as a whole and, thus, the investment in the Units by the remaining Members.

Availability of Exemptions for Other Offerings

Other offerings by Affiliates of the Manager have been made in reliance upon exemptions under federal and state securities laws; however, no assurance can be given that such exemptions were available or that the compliance requirements were met. If exemptions were not available for those offerings, the Manager or manager of such programs could incur significant liability, including return of amounts paid. Because the shareholders and officers of the Affiliates of the Manager are also shareholders and officers of the Manager or managers of those programs, the management resources of the Manager could be adversely affected by liabilities incurred by those programs. See "Prior Performance of the Manager and its Affiliates."

Purchase of Securities by the Manager

The Manager and its Affiliates may purchase Units subject to certain limitations. Upon any such acquisition of Units, the Manager or its Affiliates will have the same rights as other Members in respect of the Units owned by it, including the right to vote on all matters subject to the vote of Members. Should a Manager acquire a Unit, the percentage interest of the Manager in the profits, gains, losses, deductions and credits of the Company will increase as against a corresponding reduction in the interest of the other Members.

Pro Forma Budget/Projected Aggregate Cash Flow

Any pro forma budget or projected cash flow included in this Memorandum are forward-looking statements that involve significant risk and uncertainty and all other materials or documents supplied by the Manager should be considered speculative and are qualified in their entirety by the assumptions, information and risks disclosed in this Memorandum. The assumptions and facts upon which such projections are based are subject to variations that may arise as future events actually occur. The projections included herein are based upon assumptions made by the Manager regarding future events. There is no assurance that actual events will correspond with these assumptions. Actual results for any period may or may not approximate such statements. The Company's actual results may differ significantly from the results discussed therein. Potential investors are advised to consult with their tax and business advisors concerning the validity and reasonableness of the factual, accounting and tax assumptions. Neither the Manager nor any other person or entity makes any representation or warranty as to the future profitability of the Company or of an investment in a Unit.

No Representation of Members

Under the Operating Agreement, each of the Members acknowledge and agree that counsel representing the Company, the Manager and its Affiliates does not represent and shall not be deemed under the applicable codes of professional responsibility to have represented or to be representing any or all of the Members in any respect.

Investment by Tax-Exempt Investors

In considering an investment in Units of a portion of the assets of a trust of a pension or profit-sharing plan qualified under Section 401(a) of the Internal Revenue Code and exempt from tax under Section 501(a), a fiduciary should consider (i) whether the investment satisfies the diversification requirements of Section 404 of the Employee Retirement Income Security Act of 1974 ("ERISA"); (ii) whether the investment is prudent, since the Units are not freely transferable and there may not be a market created in which he can sell or otherwise dispose of the Units; and (iii) whether Units or the underlying assets owed by the Company constitute "Plan Assets" under ERISA. See "Investment by Qualified Pension and Profit Sharing Trusts, and Individual Retirement Accounts and Other Tax-Exempt Organizations."

CONFLICTS OF INTEREST

The Company, the Manager and its affiliates are subject to various conflicts of interest arising out of their various relationships with one another. None of the agreements are arrangements, including those relating to compensation between the Company and the Manager and its affiliates are the result of arm's length negotiations. These conflicts include, but are not limited to, the following:

The Manager and Affiliates are affiliated with Other Real Estate Companies

The Manager may engage for its own account, or for the account of others, including other limited partnerships or limited liability companies, in other business ventures, real estate or otherwise. The Manager and its affiliates may serve as general partner of other partnerships or managers of other limited liability companies and intend to form other limited liability companies and limited partnerships in the future.

Competition by the Company with Other Companies for Management Services

The Manager and its affiliates may have conflicts of interest in allocating management time, services and functions, among various existing projects, limited liability companies, partnerships and any future partnerships and limited liability companies which may be organized by the Manager, as well as other business ventures in which they are or may become involved. The Manager and its affiliates believe that they have sufficient staff personnel to be fully capable of discharging its responsibilities to all partnerships and projects for which they are responsible. However, the Company will not have independent management and it will rely on the Manager and its affiliates for the operation of the Company and the development and operation of the Property. Further, the Manager will devote only so much of its time to the business of the Company as in its judgment is reasonably required.

Lack of Separate Representation

The Company and the Manager are not represented by separate counsel and it is not anticipated that they will be represented by separate counsel in the future. However, should a dispute arise between the Company and the Manager, the Manager will cause the Company to retain separate counsel for such matters.

Manager's Purchase of Units or Property

The Manager may itself or with its affiliates purchase Units for the same price and upon the same terms as will other purchasers and be admitted to the Company as Members.

Receipt of Compensation by Manager and Affiliates

Neither the amount of compensation to be paid to the Manager or affiliates, nor the terms and conditions of payment were determined by arm's length negotiations, but involved conflicts of interest. (See "Summary of Compensation to the Manager and Affiliates.")

Manager as Lender

The Manager may lend funds to the Company to allow the Company to close escrow on the Property. The terms of such loan will not be negotiated pursuant to arms length negotiations.

FIDUCIARY RESPONSIBILITY

The Manager is accountable to the Company as a fiduciary and consequently must exercise good faith and integrity in handling Company affairs. A Member may institute legal action on behalf of himself or all other similarly situated Members (a class action) to recover damages for a breach by a Manager of his fiduciary duty or on behalf of the Company (a derivative action) to recover damages from third parties. In addition, (i) Members may have the right, subject to procedural and jurisdictional requirements, to bring class actions in courts to enforce their rights under the federal securities laws; and (ii) Members who have suffered losses in connection with the purchase or sale of their Units may be able to recover such losses from a Manager where the losses result from a violation by the Manager of the anti-fraud provisions of the federal securities laws.

Since the foregoing summary involves a rapidly developing and changing area of the law, Members who believe that a breach of fiduciary law by the Manager has occurred should consult with their own counsel.

The Operating Agreement indemnifies the Manager and its affiliates against liability for losses to the Company resulting from errors in judgment or other acts or omissions whether or not disclosed, unless gross negligence, intentional misconduct, or violation of fiduciary duty is involved. As a result of this indemnification Agreement, a purchaser of Units offered hereby may be entitled to a more limited right of action than he would otherwise have received on a purchase of Units absent the limitation in the Operating Agreement.

MEMBERS SHOULD NOTE THAT IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION, INDEMNIFICATION FOR LIABILITIES ARISING UNDER THE SECURITIES ACT OF 1933 IS AGAINST PUBLIC POLICY AND THEREFORE, UNENFORCEABLE.

SUMMARY OF COMPENSATION TO THE MANAGER AND AFFILIATES

The following table summarizes types and estimated amounts of compensation and allocation to be paid to the Manager and/or affiliates. NONE OF THE FEES WERE DETERMINED BY ARM'S LENGTH NEGOTIATIONS. The Manager and its affiliates shall at all times during the term of the Company be reimbursed for operating or other costs incurred or advanced by them on behalf of the Company. Payments mentioned herein and in the Operating Agreement are stated as aggregate sums payable to the Manager, unless otherwise indicated. For a description of expenses which may be incurred by the Company, see the Operating Agreement and the Subscription Agreement.

COMPENSATION	AMOUNT
Formation and administration of LLC company.	Ten percent (10%) of Member contribution.
Real Estate Commissions (payable by Brokers)	Fixed or Six percent (6%) of lease/sale price.
Construction management (payable by Contractor)	Fixed or percentage of Contractor Overhead, Profit or Contingency Allowance.

INVESTMENT OBJECTIVES AND POLICIES

The Company's principal investment objective is to invest the net proceeds of this Offering the Project to achieve the following:

1. Preserve Capital
2. Earn a return on the Investors' funds.

Distributions

Although the Company intends to distribute net cash from operations to the Members, the timing and ultimate amount of such distributions will depend upon receiving timely payments from the sale of Units. Therefore, the timing of any such distributions cannot be predicted at this time. In the event the Manager does elect to make distributions of net cash it is anticipated that such distributions will be on an "as available" basis.

Sale of the Property (When it Occurs)

The determination of when condominium units that make up the Project should be sold or otherwise disposed of will be made by the Manager in its sole discretion and will be made after consideration of all relevant factors, including performance and development of the Property, potential price increases, tax consequences to the Company and market conditions with a view toward achieving maximum capital appreciation and higher annual yield from the Property. It is not anticipated that any sale will occur prior to completion of renovation of the project although no assurances of this may be given. When possible, the Company intends to dispose of the assets that make up the Project entirely for cash.

In connection with the sale or disposition of condominium units that make up the Project or the Property it is possible that a portion of the sale may be represented by a promissory note or notes evidenced by security acceptable to the Company.

In most circumstances the promissory notes taken as partial payment will be represented by notes executed by the Buyer secured by a junior lien on the Property sold, but only if the Company believes such terms are favorable. The terms of payment of such obligations will be largely determined by custom in the local area and the then prevailing economic conditions.

THERE CAN BE NO ASSURANCE THAT THE PROPERTY OR THE UNITS THAT MAKE UP THE PROJECT WILL BE SOLD AT A PRICE WHICH WILL RESULT IN A PROFIT TO THE COMPANY OR THAT THEY WILL NOT BE SOLD AT A PRICE WHICH WILL RESULT IN A LOSS, WHICH MAY ADVERSELY IMPACT THE ABILITY OF THE COMPANY TO REPAY THE LOAN TO THE COMPANY.

Resale of Units

In the event of a resale of Units by a Member, the Manager will assess the transferring Member a transfer fee not to exceed $250 per unit. In addition, where the transferring Member utilizes the services of a broker or Manager in effecting the sale of his/her Units, it is to be expected that such broker or Manager will charge the transferor and/or the transferee customary commissions for the service rendered. See further restrictions on the sale of the Company Units in the section entitled "Restrictions On Transfer."

General Restrictions

The Company will not make loans or investments in real estate mortgages other than in connection with the original loan, or a modification thereto.

Development and Operation of the Property

The Property will be developed and operated by the Company. The financial success of the Company in meeting its objectives shall, to a major extent, depend on the success of the Company to properly construct and operate the Property. Excessive construction or operating costs, failure to fully lease the premises, inability to obtain financing, or substantial defaults in rent payments, are some of the factors which would make it difficult for the Property to generate operating income in excess of operating expense and debt service. (See "RISK FACTORS"). In the event the Property fails to produce operating income in excess of operating expenses and debt service, the Company may be required to obtain additional financing or refinancing or to issue additional or other classes of Units. In addition, if the Property was to continue to produce operating cash deficits, such fact would adversely affect a possible sales price which might be realized by the Company upon the sale of the Property, which in turn may adversely impact the Company's ability to repay the loan to the Company.

PROSPECTIVE PURCHASERS OF UNITS ARE ENCOURAGED TO PERSONALLY VISIT THE PROPERTY AND TO REVIEW THE DOCUMENTATION FOR THE PROPERTY AND THE PROJECT.

Disposition

The Company, after making an initial determination that the Property should be considered for sale, will then review the relevant considerations, including the impact of sales on the Company's operations. When the Company approves the sale, Arizona First Development or one of its affiliates will then assume responsibility for executing the sale. This will generally entail the preparation of marketing and advertising material for use, either directly to prospective buyers or through brokers, and negotiation of acceptable terms of sale and effecting the sale transaction. The ultimate decisions as to the price and terms of sale will be made by the Manager.

Reserves

The Company may maintain cash reserves in such amount or amounts as may be deemed appropriate by the Manager. Such reserves may be maintained, in an interest-bearing account with a commercial lender or may be invested in governmental bonds, certificates of deposit or other highly liquid securities where there is reasonable safety of principal. Upon the termination of the Company, all amounts remaining in the reserve, account, together with any interest earned thereon, shall be distributed to the Members.

Changes In Investment Objectives And Policies

Members have limited voting rights with respect to the implementation of the investment objectives and policies of the Company as these are the responsibilities solely of the Manager. However, the Members may by a vote by those holding at least 75% of the Units amend the Operating Agreement in such a manner as to affect the investment objectives and policies of the Company. The Manager may make any changes in the investment objectives and policies described above without a Majority Vote, or any vote, of the Members.

DESCRIPTION OF MANAGEMENT

The Manager of the Company is Arizona First Development LLC, an Arizona limited liability company, having David Haney, as its Manager. The Manager's principal business includes real estate development, real estate investment and sponsoring of various real estate investment programs. The address of the Company is 5041 E Pershing Avenue, Scottsdale, Arizona 85254. A brief summary of the types and amounts of real estate projects in which the Manager has been involved is presented in the section entitled "Prior Performance of the Manager and its Affiliates."

The Company will be newly formed and has no history of operations. The Company will be managed by the Manager and the Members shall have no right to participate in the management of the Company or its business.

MANAGEMENT OF THE MANAGER

David Haney is 56 years old, was born in Southern California, and now lives in Arizona. He has 3 children and 7 grandchildren, and enjoys playing golf. David has been entrepreneurial since graduating high school in 1969. During the 70's David starting a janitorial company with 25 trucks/crews, an asphalt company with 10 crews, the general partner in several real estate limited partnerships (i.e. custom homes, subdivisions, condominiums). During the 80's, David participated in franchise development with several franchisors in the specialty food, real estate, construction and direct mail advertising industries. During the 90's, David founded a software development company with more than 40 employees, 700 clients, and $3 million in annual sales. David holds an Arizona real estate license and is the manager of Arizona First Development LLC, and other affiliate limited liability companies.

ALLOCATION OF NET INCOME, NET LOSS AND DISTRIBUTIONS

Distributions from the Company shall be 50% to the Manager and 50% to the Members made pro rata to each Member based upon the number of Units owned by each Member.

Taxable allocations shall be made in accordance with distributions. Distribution shall be made at such time or times as determined by the Manager in its discretion and in all cases shall be subject to maintenance of reasonable reserves in the Manager's sole discretion. When possible the Manager will attempt to make distributions on a quarterly basis.

DESCRIPTION OF PROPERTY AND PROJECT

Attached to this Memorandum as Exhibit C is an Investment/Executive Summary, describing the Property and Project.

ACCOUNTING MATTERS

Method of Accounting

Subject to the Manager's discretion, the Company shall maintain its books and records and report its income tax results on the accrual method of accounting.

Fiscal Year

The fiscal year of the Company shall be the calendar year, unless subsequently changed by the Manager as permitted by the Internal Revenue Code.

Depreciation - Cost Recovery

The Company shall use such methods of depreciation as are allowed by the Internal Revenue Code of 1986, as amended and as considered appropriate by the Manager. (See "FEDERAL INCOME TAX CONSEQUENCES.")

Distributions as Return of Capital

It is anticipated that any Distributions, if made, in the initial years of the Company may be a return of capital and not investment income determined in accordance with generally accepted accounting principles. During the initial years, it is anticipated that the Company will show a Net Loss as determined in accordance with generally accepted accounting principles.

ERISA CONSIDERATIONS

In General

In considering an investment in the Company of the assets of an employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Securities Act of 1974 ("ERISA")) or an individual retirement account ("IRA"), a fiduciary or any other person responsible for investment of the plan or IRA investments, taking into account the facts and circumstances of such plan or IRA, should consider, among other things: (i) whether the investment is in accordance with the documents and instruments governing such plan or IRA, (ii) the definition of plan assets under ERISA, (iii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA (or other applicable law), (iv) whether, under Section 404(a)(1)(B) of ERISA (or other applicable law), the investment is prudent, considering the nature of an investment in and the compensation structure of the Company and the fact that there is not expected to be a market created in which the Units can be sold or otherwise disposed of, (v) that the Company has had no history of operations, (vi) whether the Company or any affiliate is a fiduciary or a party in interest to the plan or IRA, (vii) the need to annually value the Company Units, and (viii) whether an investment in the Company will cause the plan or IRA to recognize UBTI. See "Federal Income Tax Consequences and Investment by Qualified Pension and Profit Sharing Trusts, Individual Retirement Accounts and Other Tax-Exempt Organizations". The prudence of a particular investment must be determined by the responsible fiduciary or other person (usually the trustee, plan administrator, or investment manager) with respect to each employee benefit plan or IRA, taking into account all of the facts and circumstances of the investment.

Potential employee benefit plan and IRA investors should also take into consideration the limited liquidity of an investment in the Company as it relates to applicable minimum distribution requirements of the Code. If the Units are held in the IRA or employee benefit plan at the time mandatory distributions are required to commence to the IRA beneficiary or plan participant, applicable law may require the in kind distribution of Units. Such distribution must be included in the participant's or beneficiary's taxable income for the year of receipt of the Units (at then current fair market value) without any cash distributions with which to pay the tax liability.

ERISA provides that Units may not be purchased by an employee benefit plan if the Company or an affiliate of the Company is a fiduciary or party in interest (as defined in Sections 3(21) and 3(14) of ERISA) to the plan unless such purchase is exempt from the prohibited transaction provisions of Section 406 of ERISA. Under ERISA, it is the duty of the fiduciary responsible for purchasing the Units not to engage in such transactions.

Section 4975 of the Code has similar restrictions applicable to transactions between disqualified persons and an employee benefit plan or IRA, which could result in the imposition of excise taxes on the Company or loss of tax-exempt status of the IRA.

Plan Asset Regulations

An investment in the Company by an employee benefit plan or IRA could also violate ERISA or the Code if, under applicable Department of Labor ("DOL") regulations, the Company assets are considered to be assets of the plan or IRA. The DOL has promulgated final regulations ("DOL Regulations"), 29 C.F.R. Section 2510.3-101, that define what constitutes "Plan Assets" in a situation in which an employee benefit plan or IRA invests in a limited partnership, or other similar entity. If assets of the Company are classified as Plan Assets, the significant penalties discussed below could be imposed under certain circumstances.

Under the DOL Regulations, if an employee benefit plan or IRA invests in an equity interest of an entity that is neither a publicly offered security nor a security issued by an investment company registered under the Investment Partnership Act of 1940, its assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established that the entity is an "operating company," or equity participation in the entity by benefit plan investors is not "significant."

The Units will not qualify as publicly offered securities nor will they be issued by an investment company registered under the Investment Partnership Act of 1940.

Nonetheless, if one of the exceptions described below is satisfied, Company assets may avoid being classified as Plan Assets. Company assets may be excluded from Plan Assets under the DOL Regulations if the Company is an "operating company." The term "operating company" includes an entity that is a "real estate operating company," as defined in the DOL Regulations. Under the DOL Regulations, an entity is a "real estate operating company" if:

(i) for any day during a 90-day annual valuation period at least 50% of its assets, valued at cost (other than short-term investments pending long-term commitment or distribution to investors), are invested in real estate which is managed or developed by such entity and with respect to which such entity has the right to substantially participate directly in the management or development activities, and

(ii) the entity, in the ordinary course of its business, is engaged directly in real estate management or development activities. Example (8) in the DOL Regulations indicates that an entity may still qualify as a "real estate operating company" when management of the entity's real estate may be done by independent contractors if the entity retains certain control over the independent contractor and frequently consults with and advises the independent contractor.

The Manager does not believe that the Company should satisfy the definition of an operating company. However, because this determination involves questions of fact regarding future activities, complete assurance on this issue cannot be provided. Further, it should be noted that it is possible the Company would not qualify as a real estate operating company in each year of its existence. That is, the fact that the Company satisfies the real estate operating company rules in one year has no bearing on its ability to satisfy such rules in later years.

If the Company is classified as a "real estate operating company," an investment by an employee benefit plan or IRA in the Company should be treated only as an investment in an equity interest in the Company and not as an investment in an undivided interest in each of the Company's assets.

If the Company does not qualify as an "operating company" under DOL Regulations, an employee benefit plan or IRA investment in the Company will be treated as an investment in an equity interest in the Company, and not as an investment in an undivided interest in each of the underlying assets, only if equity participation in the Company by benefit plan investors (i.e., employee benefit plans and IRAs) is not "significant." Under the DOL Regulations, equity participation in the Company by benefit plan investors would be "significant" on any date if, immediately after the most recent acquisition of any equity interest in the Company, 25% or more of the total value of the Units is held by benefit plan investors. In determining whether the 25% benefit plan investors' ownership is met, the ownership of any person with discretionary authority with respect to Company assets is disregarded. The Manager does not anticipate that 25% or more of the total value of the Units will be acquired by benefit plan investors.

Impact of Company's Holding Plan Assets

In the event that the Company is deemed to hold Plan Assets, additional issues relating to the Plan Assets, and "prohibited transaction" concepts of ERISA and the Code arise. Anyone with discretionary authority with respect to Company assets could become a "fiduciary" of the employee benefit plans or IRA's within the meaning of ERISA. As a fiduciary, such person would be required to meet the terms of the employee benefit plan or IRA regarding asset investment and would be subject to prudent investment and diversification standards. Any such fiduciary could be a defendant in an ERISA lawsuit brought by the DOL, an employee benefit plan participant or another fiduciary to require that Company assets and the investment and stewardship thereof meet these and other ERISA standards.

In addition, if the Company is deemed to hold Plan assets, investment in the Company might constitute an improper delegation of fiduciary responsibility to the Manager and expose the fiduciary of an employee benefit plan investor to co-fiduciary liability under ERISA for any breach by the Manager of its ERISA fiduciary duties.

Section 406 of ERISA and Section 4975(c) of the Code also prohibit employee benefit plans from engaging in certain transactions with specified parties involving Plan Assets. Code Section 4975(c) also prevents IRAs from engaging in such transactions.

One of the transactions prohibited is the furnishing of services between a plan and a "party in interest" or a "disqualified person." Included in the definition of "party in interest" under Section 3(14) of ERISA and the definition of "disqualified person" in Section 4975(e)(2) of the Code are "persons providing services to the plan." If the general partner or certain entities and individuals related to the Manager has previously provided services to an employee benefit plan or IRA investor, then the Manager could be characterized as a "party in interest" under ERISA and/or a "disqualified person" under the Code with respect to such benefit plan investor.

If such a relationship exits, it could be argued that, because the Manager shares in certain Company distributions and tax allocations in a manner disproportionate to its capital contributions to the Company, the Manager is being compensated directly out of Plan Assets rather than Company assets for the provision of services, i.e., establishment of the Company and making it available as an investment to the employee benefit plan or IRA. If this were the case, absent a specific exemption applicable to the transaction, a prohibited transaction could be determined to have occurred between the employee benefit plan or IRA and the Manager.

If the Company's assets are treated as Plan Assets, a prohibited transaction would also occur if a party with whom the Company enters into a transaction is a "party in interest" or "disqualified person" with respect to an employee benefit plan or IRA.

Another type of transaction prohibited by ERISA and the Code is one in which fiduciaries of an employee benefit plan or the person who establishes an individual retirement account engage in self-dealing. Accordingly, Affiliates of the Manager are not permitted to purchase Units with assets of any benefit plan investor if they (i) have investment discretion with respect to such assets or (ii) regularly give individualized investment advice which serves as the primary basis for the investment decisions made with respect to such assets.

If the Company's assets are treated as Plan Assets and if it is determined that the acquisition of a Unit by an employee benefit plan (or another transaction of the Company) constitutes a prohibited transaction, then any party in interest, which may include a fiduciary or sponsor of an employee benefit plan, that has engaged in any such prohibited transaction could be required to: (i) restore to the employee benefit plan any profit realized on the transaction; (ii) make good to the employee benefit plan any losses suffered by the employee benefit plan as a result of such investment; (iii) pay an excise tax equal to 15% of the amount involved (i.e., the amount invested in the Company) for each year during which the investment is in place; and (iv) eliminate the prohibited transaction by reversing the transaction and making good to the Company any losses resulting from the prohibited transaction. Moreover, if any fiduciary or party in interest is ordered to correct the transaction by either the IRS or the DOL and such transaction is not corrected within a 90-day period, the party in interest involved could also be liable for an additional excise tax in an amount equal to 100% of the amount involved (i.e., the amount invested in the Company), for each taxable year commencing with the year in which the 90-day period expires and ending with the year in which the prohibited transaction is corrected. Also, the DOL could assert additional civil penalties against a fiduciary or any other person who knowingly participates in any such breach.

With respect to investing IRAs, the tax-exempt status of the IRA could be lost if the investment (or another transaction of the Company) constitutes a prohibited transaction under Section 408(e)(2) of the Code. If the IRA were to lose its tax-exempt status, the entire value of the IRA would be considered to be distributed and taxable to the IRA sponsor.

Annual Valuation

A fiduciary of an employee benefit plan subject to ERISA is required to determine annually the fair market value of each asset of the plan as of the end of the plan's fiscal year and to file an Annual Return/Report on Form 5500 reflecting that value. When no fair market value of a particular asset is available, the fiduciary is required to make a good faith determination of that asset's "fair market value" assuming an orderly liquidation at the time the determination is made. In addition, a trustee or custodian of an IRA must provide an IRA participant with a

statement of the value of the IRA each year. In discharging its obligation to value assets of a plan, a fiduciary subject to ERISA must act consistently with the relevant provisions of the plan and the general fiduciary standards of ERISA.

To assist fiduciaries (and IRA Trustees and custodians) in fulfilling their valuation and annual reporting responsibilities, the Company will provide reports of the Company's annual determination of the current value of Units in the Company to those fiduciaries (including IRA trustees and custodians) who identify themselves to the Company as such and request the reports. The Company valuation may be, but is not required to be, performed by independent appraisers.

There can be no assurance (i) that the value established by the Company could or will actually be realized by the Company or an investor upon liquidation (in part because appraisal or estimated values do not necessarily indicate the price at which assets could be sold and because no attempt will be made to estimate the expenses of selling any assets of the Company), (ii) that investors could realize such value if they were to attempt to sell their Units, or (iii) that such valuation complies with the requirements of ERISA or the Code.

The Company is likely to generate unrelated business taxable income ("UBTI"). See "Federal Income Tax Consequences and Investment by Qualified Pension and Profit Sharing Trusts, Individual Retirement Accounts and Other Tax-Exempt Organizations."

SUMMARY OF THE OPERATING AGREEMENT

The rights and obligations of the Members in the Company will be governed by the Operating Agreement, which is set out in its entirety as Exhibit A to this Memorandum. The description which follows is only a summary of certain portions of the Operating Agreement and does not purport to be a complete description thereof. Prospective investors should read the entire Operating Agreement prior to making any investment decision.

EACH PROSPECTIVE PURCHASER SHOULD READ THE OPERATING AGREEMENT IN FULL BEFORE SUBMITTING A SUBSCRIPTION AGREEMENT TO THE COMPANY.

Management of the Company

The Manager will be solely responsible for the management and control of the Company and have the exclusive management and control of all aspects of the business of the Company. Members shall have only the right to vote on certain matters affecting the basic structure of the Company.

Voting Rights of Members

The voting rights of Members are set forth in the Operating Agreement, which is attached to this Memorandum as an exhibit. A Member shall have the right to cast one vote for each Company Unit owned by him. The Members by a vote of those holding 100% of the Units, shall have the right to vote upon certain matters affecting the basic structure of the Company, which are:

(a) Removal of a Manager.

(b) Termination and dissolution of the Company.

(c) Any merger or roll-up of the Company.

(d) Amendment of the Operating Agreement.

(e) Admission of a Manager.

The Members shall have no right to vote on the following matters:

(a) Sale, exchange, lease, mortgage, pledge or other transfer of all or a substantial part of the assets of the Company except as provided above.

(b) The incurrence of indebtedness by the Company.

(c) A change in the nature of the Company business.

(d) Transactions in which the Manager has an actual or potential conflict of interest with the Members or the Company.

(e) Admission of a member

Liabilities of Members' Non-Assessibility of Interests

A Member's capital is subject to the risks of the Company's business. A Member is not permitted to take any part in the management or control of the business and he, after paying his full capital contribution plus any deferred amounts, may not be assessed additional capital contributions. Assuming that the Company is operated in accordance with the terms of the Operating Agreement, a Member should not be liable for the liabilities of the Company in excess of his contributions and share of undistributed profits. Notwithstanding the foregoing, a Member will be liable for any Distributions made to such Member if, after such Distribution, the remaining assets are less than the Company's liabilities, exclusive of liabilities to the Manager. Additionally, to the extent that cash distributed to a Member's capital contribution, even though such Distribution was rightfully made, such Member will be liable to the Company for any sum not in excess of such return of capital together with interest thereon, necessary to discharge the Company's liabilities to creditors who extended credit or whose claim arose before such return.

Transferability of Membership Interest

Members shall have no right to assign, transfer, convey or encumber any of their interest in the Company or any portion thereof without first obtaining the prior written consent of the Manager. Furthermore, any contemplated sale or transfer must first receive approval by counsel acceptable to the Manager that all applicable securities laws have been complied with.

The Company and the Manager shall be entitled to treat the transferor, or assignor of the Company interest as the absolute owner thereof in all respects or Distributions required hereunder which are made in good faith to such transferor or assignor until such time as a written instrument of Assignment has been (i) physically received by the Company, with an appropriate transfer fee; (ii) recorded on its books; (iii) restrictions on Assignment have been complied with; and (iv) the effective date of the Assignment has passed. The effective date of the Assignment shall be the first day of the month following the day on which the last of (i) - (iii) shall occur.

The offering of Units herein is pursuant to the limited offering exemption contained in Regulation D promulgated under the 1933 Federal Securities Act and the exemption from qualification contained in Section 25102(f) of the California Corporation Code. As such, the transfer of the Units is subject to certain restrictions, including, but not limited to, a required holding period, which must be satisfied before the transfer can be consummated. Furthermore, even if such restrictions are satisfied, it is not anticipated that a market for the Units will develop. Therefore, Members should anticipate that the Units will not be able to be liquidated. The Manager will not be obligated to redeem or repurchase Units.

All costs and expenses incurred by the Company in connection with the transfer of Units shall be paid by the transferring Member.

No Units may be sold, assigned or exchanged if such Units when added to the total of all other Units sold or exchanged within the period of 12 consecutive months prior to the proposed date of sale or exchange would, in the opinion of counsel for the Company, result in the termination of the Company under the Internal Revenue Code

unless the Company and the transferring Holder shall have received a ruling by the Internal Revenue Service that the proposed sale or exchange will not cause such termination.

Indemnification of Manager

The Operating Agreement provides that the Company shall indemnify and hold harmless the Manager, its officers, directors, employees, agents and assigns, and affiliates from any loss or damage incurred by them in connection with the business of the Company, including costs and reasonable attorney's fees and any amounts expended in the settlement of any claims or loss or damage, provided that such loss or damage did not arise as a result of gross negligence, willful misconduct, or violation of a fiduciary duty, and, provided further, that any such indemnification shall be recoverable only from the assets of the Company and not from the assets of the Members.

Allocation of Net Income, Net Loss and Distributions

For a complete description of the manner in which the Taxable Net Income, Taxable Net Loss and Distributions will be allocated among the Members, see the Operating Agreement.

Term and Dissolution

The events whereby the Company may be terminated and dissolved are as follows:

(a) A Vote by the Manager and the Members owning 100% of the Units to dissolve and terminate the Company.

(b) The expiration of the term of the Company.

Upon dissolution of the Company, the Manager may distributed completed condominiums to the Members upon request. Completed condominiums will be made available to the Members in dissolution based on the order in which the Members were admitted to the Company (first come, first serve).

Meetings

The Manager may at any time call for a meeting of Members on matters on which they are entitled to vote. It shall call for such meeting or vote following receipt of written request therefore from Members holding 10% or more of the outstanding Units.

The foregoing is only a summary of certain aspects of the Operating Agreement which is included in its entirety as Exhibit A to this Memorandum. Prospective investors and their counsel are encouraged to read the entire Operating Agreement and prior to making any investment decision.

RESTRICTIONS ON TRANSFER

The Units offered hereby have not been registered under the Securities Act or the securities laws of Arizona or any other state. The Units are being offered and will be sold without benefit of registration under the federal or state securities acts by reason of specific exemptions from registration provided by such acts.

The availability of such exemptions is dependent, in part, upon the "investment intent" of the investors and the exemptions would not be available if any one investor were purchasing the Units with a view to the redistribution thereof. Accordingly, each Investor when executing the Subscription Agreement, will be required to acknowledge that its purchase is for investment, for its own sole account, and without any view to the sale or other disposition thereof.

Investors have not been granted the right to require the registration of their interests under either the Federal Securities Act or any state securities acts; the Company has no present intention of registering these

interests; and, in view of the nature of the transaction, it is highly unlikely that there will be any such registration in the future.

In order to ensure compliance with Regulation D promulgated by the Securities and Exchange Commission, the following legend shall be contained on the face of any certificate representing the Membership Units.

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTION FROM THE REGISTRATION PROVIDED IN SECTION 4(2) AND REGULATION D UNDER THE ACT. AS SUCH, THE PURCHASE OF THIS SECURITY WAS NECESSARILY WITH THE INTENT OF INVESTMENT AND NOT WITH A VIEW FOR DISTRIBUTION. THEREFORE, ANY SUBSEQUENT TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE UNLAWFUL UNLESS IT IS REGISTERED UNDER THE ACT OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE. FURTHERMORE, IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN, WITHOUT THE OPINION OF COUNSEL FOR THE COMPANY THAT THE PROPOSED TRANSFER OR SALE DOES NOT AFFECT THE EXEMPTIONS RELIED UPON BY THE COMPANY IN ORIGINALLY DISTRIBUTING THIS SECURITY.

The Company shall make a notation in its records of the foregoing limitations on transferability and legend requirements. In addition, the transfer of the Units is subject to various approvals by the Manager and to the satisfaction of certain conditions contained in the Operating Agreement. (See the Operating Agreement attached hereto as Exhibit A.)

LITIGATION

There is no pending or threatened litigation against the Manager, or affiliates which the Manager believes is of a material nature and which could negatively affect the net worth of the Manager.

REPORTS TO MEMBERS

The Company will furnish to each Member certain reports, statements and tax information, and Company federal income tax returns.

FINANCIAL INFORMATION

Financial projection are contained in the Investment/Executive Summary, attached hereto as Exhibit C.

ADDITIONAL INFORMATION

Additional information, regarding this Offering, including all supplemental documentation purchase contract, escrow agreements architect contract, governmental filings and forms, and financial statements of the Manager, may be reviewed at the offices of the Manager located at 5041 E Pershing Ave, Scottsdale, AZ 85254.

FEDERAL INCOME TAX CONSEQUENCES

In General

The following constitutes a discussion of certain federal income tax considerations affecting the Company, its Members and investments in real estate generally. It is impracticable to present a complete and detailed explanation of the federal income tax treatment of a limited liability company engaged, directly or indirectly, in real estate operations of the type described in this offering or the tax treatment of investments in such limited liability companies. Accordingly, the following is not intended to be an exhaustive discussion of all the tax considerations of such an investment. In addition, parts of the following discussion are provided for information purposes and do not

involve issues upon which counsel is opining. Prospective investors should, therefore, review the following discussion carefully in order to avoid misunderstandings as to which issues counsel is opining.

Except as otherwise stated, the tax matters discussed below are based upon the Internal Revenue Code of 1986 (hereinafter referred to as the "Code"), the applicable Treasury Regulations promulgated thereunder, current positions of the Service contained in published Revenue Rulings and Revenue Procedures, and existing judicial decisions. No ruling from the Internal Revenue Service (hereinafter referred to as the "Service") regarding either the tax aspects or the status of the Company as a partnership, however, has been or will be requested. The description of the tax aspects discussed herein is based largely on counsel's interpretation of existing law.

No assurance, however, can be given that the Service, courts, or other authorities will concur with the discussing expressed below or with any other statements concerning the issues discussed herein; nor can any assurance be given that future legislative or administrative changes or court decisions will not significantly modify present law or the interpretations of it set forth below. Any such changes may or may not be retroactive with respect to transactions effected prior to the date of such changes.

Accordingly, prospective investors should not consider the discussion or the opinions of counsel which follows as substitutes for careful, individual tax planning, and are expressly cautioned that the income tax consequences of an investment, including this investment, are complex and vary considerably among individual investors. There are significant tax risks associated with the acquisition, construction, holding, and disposition of real estate and, prospective investors are strongly urged to consult their own tax advisors with regard to their particular tax situations.

CAUTION: THE INCOME TAX CONSIDERATIONS OF AN INVESTMENT IN A LIMITED LIABILITY COMPANY ARE COMPLEX. THIS DISCUSSION, MERELY SUMMARIZES CERTAIN MATERIAL TAX CONSEQUENCES OF SUCH AN INVESTMENT, AND REVIEWS THOSE TAX ISSUES UPON WHICH COUNSEL CANNOT OPINION. ACCORDINGLY, PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR FOR INDIVIDUAL TAX PLANNING PURPOSES.

The period for assessing deficiencies attributable to Company tax items will not expire until 3 years after the Company files, or is required to file (whichever is later) its return for the taxable year in which the item arose, and the Manager may agree to a further extension of such period on behalf of any Members and the Company.

Tax Status of the Company

There have been recent changes relating to the determination as to whether a limited liability company will be taxed as a partnership or a corporation. Treasury Regulations have recently been issued which provide that a limited liability company will be classified as a partnership for federal income tax purposes as long as an election is not made to treat the limited partnership as an association taxable as a corporation. The Manager has represented that no such election has been or will be made.

If the Company is treated as a partnership for federal income tax purposes, each Members will be required to include in income his distributive shares of income, gain, deductions and loss of the Company. Consequently, each Member will be subject to tax on his distributive share of Company income, whether or not the Company actually distributes cash in an amount equal to the income.

Taxation of Members

The following summarizes some of the federal income tax consequences to the Members based upon the assumption that the Company will, at all times, be classified as a partnership for federal income tax purposes. The Code has recently been amended by the Tax Reform Act of 1976 (the "1976 Act"), the Revenue act of 1978 (the "1978 Act"), the Economic Recovery Tax Act of 1981 (the "1981 Act"), the Tax Equity and Fiscal Responsibility Act of 1982 (the "1982 Act"), the Tax Reform Act of 1983 (the "1983 Act"), the Tax Reform Act of 1984 (the "1984 Act"), the Tax Reform Act of 1986 (the "1986 Act"), the Revenue Act of 1987 (the "1987 Act"), the Technical and Miscellaneous Revenue Act of 1988 (the "1988 Act"), the Omnibus Budget Reconciliation Act of

1989 (the "1989 Act"), the Revenue Reconciliation Act of 1990 (the "1990 Act"), the Reconciliation Act of 1993 (the "1993 Act"), the Taxpayer Relief Act of 1997 (the "1997 Act"), the IRS Restructuring and Reform Act of 1998 (the "1998 Act"), and Economic Growth and the Relief Act of 2001 (the "2001 Act"). The adoption of applicable Treasury Regulations under these Acts, and the interpretations thereof by the Service and the courts, could affect the statements which follow.

Taxation of Members on Company Profits and Losses.

Each Member will be required to report on his federal income tax return his distributive share of Company income, gains, losses, deductions or credits (hereinafter referred to collectively as "Tax Items"). Thus, he will be taxed on his distributive share, of the Company's taxable income, if any, including his share of Company interest income, if any, from the escrow account or from interim investments, whether or not such income is distributed to him. Consequently, a Member's tax liability may exceed any cash distributed to him in a particular year. On the other hand, each Member will be entitled to deduct on his individual income tax return his distributive share of the Company's net losses, if any, limited by the passive loss rule, the at risk rule and his/her adjusted tax basis. See "Limitation on Losses and Credits from Passive Activities" below and note that the 1986 Tax Act substantially restricts the deductibility of losses and credits from business activities in which the taxpayer does not materially participate, e.g., a limited partner's interest in a limited partnership. As this will result in negative tax consequences to investors of this Company, prospective Members are advised to consult their personal tax advisors on the effect, of this law on their individual tax situation.

A Member's share of losses in excess of the adjusted basis of his Company Interest will be carried forward and allowed as a deduction in succeeding years to the extent that the adjusted basis of his Company Interest exceeds zero in those years. Because the Company is not a taxable entity, it will not be entitled to the net operating loss deduction under Section 172 of the Code. A Member, however, will be entitled to use his distributive share of the Company's Tax Items in computing his individual net operating loss deduction. Although the method for determining the character of the Company's Tax Items in the hands of a Member remains an unresolved legal issue, business and non business Tax Items of the Company should generally retain the same character when included by a Member in the computation of his individual net operating loss deduction.

In the case of rental real estate activities in which an individual actively participates, up to $25,000 of losses (and credits in a deduction-equivalent sense) from all such activities are allowed each year against portfolio income and salary and active business income of the taxpayer. Members subject to the rules described below will not be actively participating in the Company's rental real estate activities and, therefore, will not be able to deduct any Company Net Loss against their portfolio or active business income.

Certain taxpayers can deduct losses and credits from rental real estate activities against other income, such as salaries, interest, dividends, etc. A taxpayer qualifies for this exception to the passive loss rules described above if: (1) more than half of the personal services performed by the taxpayer in trades or businesses during a year are performed in real property trades or businesses in which the taxpayer materially participates; and (2) the taxpayer performs more than 750 hours of services during the year in real property trades or businesses in which the taxpayer materially participates. In the case of a joint return, one spouse must satisfy both requirements. A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing or brokerage trade or business. In determining whether a taxpayer performs more than half his personal services in real property trades or businesses, services performed as an employee are disregarded unless the employee is a more than 5% owner of the employer.

Allocations of Company Tax Items.

Net Income and Net Loss will be allocated as set forth in the Operating Agreement. Although such allocations are permitted under partnership law, the Code and Treasury Regulations require that such allocations satisfy certain requirements. Section 702 of the Code provides that, in determining income tax, a Member must take into income his or her "distributive share" of the Company's income, gain, loss, deduction or credit. The Members may specially allocate their distributive shares of such profits and losses, thus redistributing tax liability, by provision in the Operating Agreement. However, the IRS will disregard such an allocation, and will determine a

partner’s distributive share in accordance with the partner’s interest in the Company, if the allocation lacks “substantial economic effect.”

Treasury Regulations on the allocation of items of partnership income, gain, loss, deduction and credit under Section 704(b) of the Code are concerned with whether an allocation of partnership tax items has “substantial economic effect.” Under the Treasury Regulations, an allocation has economic effect only if, throughout the term of the partnership, the partners’ capital accounts are maintained in accordance with the Treasury Regulations, liquidation proceeds are to be distributed in accordance with the partners’ capital account balances, and any partner with a deficit capital account following the distribution of liquidation proceeds is required to restore the amount of that deficit to the Company for payment to creditors or distribution to partners in accordance with their positive capital account balances. If the partners’ obligations to restore deficit capital account balances is limited, the partnership agreement must contain a “qualified income offset” provision, as described in the Treasury Regulations.

The Treasury Regulations also require that the economic effect of the allocation be “substantial.” In general, the economic effect of an allocation is “substantial” if there is a reasonable possibility that the allocation will affect substantially the dollar amounts to be received by the partners from the partnership, independent of tax consequences. The economic effect of an allocation is not substantial, however, if, at the time the allocation becomes part of the partnership agreement, (1) the after-tax economic consequences of at least one partner may, in present value terms, be enhanced compared to such consequences if the allocation were not contained in the partnership agreement, and (2) there is a strong likelihood that the after-tax economic consequences of no partner will, in present value terms, be substantially diminished compared to such consequences if the allocation were not contained in the partnership agreement. In determining the after-tax economic benefit or detriment to a partner, tax consequences that result from the interaction of the allocation of such partner’s tax attributes that are unrelated to the partnership will be taken into account.

The Treasury Regulations provide that allocations of loss or deduction attributable to non-recourse liabilities of a partnership (“non-recourse deductions”) cannot have economic effect because, in the event there is an economic burden that corresponds to such an allocation, the creditor alone bears that burden. Thus, non-recourse deductions must be allocated in accordance with the partners’ interests in the partnership. Allocations of non-recourse deductions are deemed to be made in accordance with the partners’ interests in the partnership if, and only if, the following conditions are satisfied:

1. Throughout the full term of the partnership, the partners’ capital accounts are maintained in accordance with the Treasury Regulations, and upon liquidation of the partnership, liquidating distributions are required to be made in accordance with the positive capital account balances of the partners.

2. Beginning in the first taxable year in which there are non-recourse deductions and thereafter throughout the full term of the partnership, the partnership agreement provides for allocations of non-recourse deductions among the partners in a manner that is reasonably consistent with allocations, which have substantial economic effect, of some other significant partnership item attributable to the property securing non-recourse liabilities of the partnership.

3. Beginning in the first taxable year of the partnership in which the partnership has non-recourse deductions and thereafter throughout the full term of the partnership, the partnership agreement contains a “minimum gain chargeback,” as defined in the Treasury Regulations.

4. All other material allocations and capital account adjustments under the partnership agreement are recognized in accordance with the Treasury Regulations.

The Operating Agreement requires that the Members’ Capital Account balances be maintained in accordance with the Treasury Regulations, and liquidation proceeds are to be distributed to the Members, in proportion to their positive Capital Account balances. The Operating Agreement contains a “minimum gain chargeback” provision, and the non-recourse deductions are to be allocated under the Operating Agreement in a manner that is reasonably consistent with allocations, i.e., in accordance with allocations of Net Loss, Members are

not required to restore a deficit capital account balance. The Operating Agreement, however, contains a "qualified income offset" provision.

Basis of Membership Interests.

A Member's allocable share of any Company net loss will not be deductible to the extent it exceeds the adjusted basis of his interest in the Company at the end of the Company's taxable year in which the loss occurs. If a Member's allocable share of any loss so exceeds his adjusted basis, the excess may become deductible in a later tax year to the extent he acquires positive adjusted basis through subsequent Company profits, additional contributions to the Company's capital, or otherwise. The adjusted basis of a Member's Membership Interest is also important because it determines the gain or loss, if any, realized upon complete or partial disposition of his Membership Interest and the amount of cash distributions which the Company may make to a Member without generating additional income tax to him.

Generally, the tax basis of a Member's interest is equal to his/her cost (which is a nondeductible capital expenditure), decreased by his/her share of Company distributions and losses and increased by his/her share of Company income. The basis must also be reduced by the Member's share of investment credit basis reduction and increased by investment credit recapture adjustment resulting from an early disposition of property.

The adjusted tax basis of each Member's interest will include cash subscription and assessment payments, net taxable income retained by the Company and the Member's share (in the ratio for sharing profits) of any bona fide debt of the Company for which no Member has any personal liability (non-recourse liability), to the extent of the fair market value of the property pledged on such loan. Non-recourse liabilities are liabilities, to which Company assets are subject, but for which no Member or Manager is liable. Treasury Regulation Section. 1.752-1(e) provides that a limited partner's share of non-recourse liabilities is in proportion to his interest in the partnership "profits"; the term "profits" is not defined further. The basis of a Member's Membership Interest is reduced by his proportionate share of reductions in non-recourse liabilities of the Company. Recourse (personal liability) borrowings from independent parties allocated to a Member may also be included in his basis and "at risk" amounts, but only to the extent the Member is personally obligated for such debt.

The basis of a Membership Interest is reduced by his proportionate share of reductions in non-recourse liabilities of the Company. Such a reduction in basis can occur, for example, by a decrease in his share of Company profits, by amortization of a non-recourse mortgage loan, by the sale of property accompanied by payment of all or part of a non-recourse mortgage loan, by foreclosure or transfer of property subject to a non-recourse mortgage loan, or by a Member's sale or other disposition of his Membership Interest. These principles apply to each Member in determining the tax basis for his Membership Interest.

Limitations on Losses and Credits from Passive Activities.

Under changes made by the 1986 Act, deductions from passive activities, to the extent that they exceed income from all such activities (exclusive of portfolio income), generally may not be deducted against other income of the taxpayer. Similarly, credits from passive activities, under the law, are limited to the tax allocable to the passive activities. Losses and credits suspended by these new rules, however, may be carried forward and used in the next taxable year to the extent there is income or tax generated from the passive activities. When an investor disposes of his entire interest in an activity, any remaining suspended loss incurred in the activity (if any) is allowed in full.

Passive activities are defined to include trade or business activities in which the taxpayer does not materially participate. This law would thus cover the activities of this Company as to investors who are Members. Consequently, investors will be limited in the amount of losses they may deduct and credits they may take, to the income earned and taxes owed from passive activities. There can therefore be no tax shelter benefits (deductions against other income of the investor) from this investment for Members. Interest attributable to passive activities is not treated as investment interest.

Any passive loss, which is disallowed for a taxable year and carried forward may be allowed in a subsequent year only to the extent there is net passive income in the subsequent year (or the activity is disposed of).

Cash Distributions and Reduction of Liabilities.

If the cash distributions to a Member by the Company in any year plus his share of any reduction in the liabilities of the Company do not exceed the adjusted basis of his Membership Interest immediately prior thereto, the distribution (or reduction in liabilities) will not be taxable to him, but it will reduce the tax basis of his Membership Interest by the same amount. Any distribution (or share in reduction of liabilities) in excess of a Member's adjusted basis of his/her interest will be taxable as ordinary income to the extent of his/her distributive share of previously deducted, but unpaid tax items, depreciation recapture and other "unrealized receivables."

"At Risk" Provisions of the Code.

The amount of losses which may be claimed by an investor in the activity of constructing and holding real property was limited by the 1986 Tax Act to the amount which the investor has "at risk" with respect to such activity. For this purpose, the amount at risk is generally equal to the sum of money and the adjusted basis of property (subscription and assessment payments) contributed to the activity, plus borrowed amounts for which the taxpayer is personally liable, depletion in excess of the basis of the property and net taxable income retained by the Company. The amount at risk does not normally include cash payments which represent the proceeds of a non-recourse loan secured by an interest in the property or by a Member's Company interest, or which represents the proceeds of any loan from a person or entity with an interest in the Company or its property (other than a creditor) or from a person or entity related to the Company or the Member. However, under the 1986 extension of the at risk rules to real property an exception has been created for qualified non-recourse financing which is secured by real property used in the activity. Under this rule, real estate ventures may obtain financing from an otherwise qualified lender who has an equity interest in the venture, provided that the terms of financing are commercially reasonable and substantially similar to those made to unrelated parties. Seller financing is not treated as qualified non-recourse financing. The extension of the at risk rules to real estate is effective for property acquired after December 31, 1986.

The amount at risk will not include amounts for which the Company or Member is protected from loss through a contractual arrangement. A Member's "at risk" amount is decreased by his share of Company losses and distributions, and is increased by his share of Company income.

The "at risk" limitation does not apply at this time to corporations, except corporations electing under Subchapter S, personal holding companies and closely held corporations where five or fewer, individuals own, directly or indirectly, more than 50% of the stock.

Deductions disallowed under the "at risk" limitation in one year can be allowed in later years (without limitation) if the Member's amount at risk increases as a result of his contributing additional capital to the Company or Company income being allocated (but not distributed) to him. Conversely, deductions allowed in one year may be "recaptured" as income in a later year to the extent that a Member's "at risk" amount falls below zero (as a result of distributions to him or the allocation to him of losses).

Deductibility of Payments to the Manager.

THIS PARAGRAPH RELATES TO THE DEDUCTIBILITY OF CERTAIN FEES AND EXPENSES PAID BY THE COMPANY. BECAUSE THE DEDUCTIBILITY OF EACH PARTICULAR ITEM TO BE CLAIMED BY THE COMPANY TURNS ON SPECIFIC FACTUAL CIRCUMSTANCES SURROUNDING SUCH ITEM, MANY OF WHICH ARE PRESENTLY UNKNOWN, AND BECAUSE THE LAW IN THIS AREA IS UNCERTAIN, ANY OPINION AS TO THE DEDUCTIBILITY OF ANY SUCH ITEM ISN'T AVAILABLE.

To be deductible, payments for services must be ordinary and necessary expenses, reasonable in amount and for services performed during the taxable year in which paid or accrued, but not for future year's services. Moreover, to be deductible, compensation paid to a Manager must meet not only these general tests, but must also be compensation determined without regard to limited liability company income. In no event can the compensation

be deducted if the services rendered represent an expense required to be capitalized. To some extent these tests raise factual issues (e.g., whether the amount paid is reasonable), and the Commissioner of IRS has stated publicly that the deduction of fees paid to general partner in limited partnerships will receive close scrutiny when partnership returns are audited. The Service may also assert that some or all of the fees paid represent an interest in Company profits. Any such characterization could affect those tax consequences to Members that are based on profit interests.

The Company intends to deduct certain fees (including a management fee, a real property disposition fee and an installment sale servicing fee) to be paid to the Manager on the basis that such fees will constitute ordinary and necessary expenses of carrying on the business of the Company and will otherwise comply with the requirements stated in the preceding paragraph. To the extent this fee is considered to be attributable to the ordinary management and administration of the Company's affairs, it will be currently deductible by the Company. However, this fee will not be currently deductible to the extent it is attributable to the acquisition of a capital asset. Expenses incurred in connection with the organization of the Company, or the offer and sale of Units and additional Membership Interests, including amounts paid as Organization, Syndication, and Acquisition Fees will be capitalized and, to the extent permitted, depreciated or amortized.

If the federal income tax information return filed by the Company is audited, however, no assurance can be given as to what extent the deductions claimed for these fees will be allowed. Any disallowance by the Service which is not successfully rebutted will have the effect of increasing the taxable income or decreasing the taxable loss of each Member in the year in question. Counsel for the Company will not participate in the determination of the deductibility of the fees which will be paid to the Manager.

Limitations on Deductibility of Interest.

The Code imposes various limitations upon the availability, amount, and timing of interest deductions. See generally Sections 163, 265, and 461. For example, Section 163(d) of the Code, as revised by the 1986 Tax Act, places a limitation upon the deductibility of interest on funds borrowed to acquire or carry investment assets. Such interest is deductible by non-corporate taxpayers only to the extent it does not exceed the taxpayer's net investment income for the taxable year. Investment interest is interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. Investment interest does not include: (1) interest taken into account under the passive loss rules to determine the taxpayer's income or loss from a passive activity; (2) interest allocable to rental real estate in which the taxpayer actively participates; or (3) qualified residence interest. Expenses in excess of income from property subject to net-lease property are no longer allowed as a deduction under section 163(d). They are now subject to the passive-loss rules.

If it is determined that the limitation on the deductibility of investment interest applies, then depending on a Member's investment interest from other sources, all or a portion of such expense may be disallowed as a deduction in the taxable year in question. Investment interest which is disallowed as a deduction may be carried over to subsequent years subject to certain limits.

Section 265(2) of the Code disallows any deduction for interest paid by a taxpayer on indebtedness incurred to purchase or carry obligations that yield tax-exempt interest. Similarly, section 265(4) of the Code disallows any deduction for interest paid by a taxpayer on indebtedness incurred to purchase or carry shares of stock in a regulated investment company that distributes tax-exempt interest dividends. The Service announced in Revenue Procedure 72-18, 1972-1 C.B. 740, that the proscribed purpose would be inferred with respect to indebtedness incurred to finance "portfolio investments," which include limited liability company interests. This has been extended to interests in limited liability companies. Consequently, if a Member owns or acquires such tax-exempt obligations or stock, the Service might seek to disallow, as a deduction, all or a portion of the Member's share of interest deducted by the Company on the ground that such interest amounts to interest on indebtedness incurred to purchase or carry obligations or stock that yield tax-exempt interest or dividends. The 1984 Tax Act contains a provision extending the disallowance to situations in which the borrowing was incurred to enable certain related parties to "purchase or carry" tax-exempt securities.

Tax Liabilities in Later Years.

In later years of Company operations the net income of the Company for tax purposes is more likely to exceed amounts available for distribution than during the earlier years of Company operations. Such a situation will typically arise at the "crossover point", i.e., the point in time when the Company's non-deductible mortgage amortization payments on its properties exceed its cost recovery allowance deductions. This, in the past, was principally due to the use of an accelerated method of cost recovery (resulting in larger deductions in early years), together with an annual increase in the amount of non-deductible principal amortization payments and a corresponding decrease in the amount of deductible interest payments (which will typically occur in level payment mortgages on limited liability company properties). To the extent a Member's tax liabilities exceed cash distributions, such excess would be a non-deductible out-of-pocket expense to the Member.

Company Syndication and Organization Fees; Start-Up Expenditures.

No deduction is allowed for the cost of organizing the Company, but at the election of the Company certain qualified organizational costs can be amortized ratably over a period of not less than 60 months. The cost of syndicating the Company, i.e., the expenditures incurred in connection with the issuing and marketing of the interests in the Company, such as commissions, professional fees and printing costs, are neither deductible nor amortizable. There can be no assurance that the Internal Revenue Service may not attempt to re-characterize as nondeductible syndication fees certain costs and expenses not treated as such by the Company.

Section 195 of the Code provides that "start-up expenditures" may, at the election of the taxpayer, be amortized ratably over a period of not less than 60 months (beginning with the month in which the business begins). Start-up expenditures are costs paid or incurred before, and in anticipation of, the start of a business in an activity for profit or the production of income, but does not include any amounts with respect to which a deduction is allowable under IRC sections 163(a), 164 and 174. The determination of whether an item is a proper start-up expenditure is based on the facts and circumstances of each case.

The Company expects to amortize certain expenses incurred by the Company as organizational or start up expenses. There is, however, some risk that these amortized expenses after review by the Internal Revenue Service may be disallowed. If the Internal Revenue Service were successful in such disallowance, such amounts would be capitalized and would provide no tax benefits to, except to decrease taxable gain upon the sale of the Company.

The Company may also claim as a deduction certain expenses incurred by the Company. The Internal Revenue Service may disallow any such deductions as not having been incurred in connection with an existing trade or business of the Company. If the Internal Revenue Service were successful in such disallowance, such amounts, to the extent that they would qualify as start-up expenditures, would be available as deductions only through amortization over a 60-month period, provided a proper election has been made.

Tax-Exempt Use Property.

The 1984 Tax Act limits depreciation deductions and investment tax credit available with respect to certain property that constitutes Tax-exempt Use Property. Real property that is Tax-Exempt Use Property must be depreciated using the straight-line method over the greater of (i) 40 years or (ii) 125% of the lease term instead of the 19-year accelerated method generally provided by ACRS for property placed in service before the end of 1986. Such real property is not eligible for the rehabilitation tax credit either. Personal property that is Tax-Exempt Use Property must be depreciated using the straight-line method over the greater of (i) the property's ADR ("Class Like Asset Depreciation Range") midpoint life (12 years if there is no ADR life) or (ii) 125% of the lease term. The ADR midpoint life of personal property varies with the precise nature of the property but it is usually significantly longer than the 3 and 5 years lives allowed under ACRS.

Tax-Exempt Use Property includes personal property leased to a tax-exempt entity and real property leased to a tax-exempt entity if (i) all or part of the real property was financed with tax-exempt bonds and the tax-exempt entity participated in such financing, (ii) the lease includes a fixed or determinable purchase price or sale opinion involving the tax-exempt entity, (iii) the lease has a lease term in excess of twenty years or (iv) the lease is a part of

a sale-leaseback and the tax-exempt entity used the property before the lease. Various exceptions are provided. Tax-Exempt Use Property also includes the proportionate share of property owned by a limited liability company which includes both tax-exempt and non-tax-exempt entities as members and in which any allocation of limited liability company items is not a qualified allocation. A qualified allocation is one in which a tax-exempt entity's allocated share of each item of taxable income, gain, loss, deduction, credit and basis is the same and never varies during the entire Period that the tax-exempt entity is a member (except as provided in Treasury Regulations) which has substantial economic effect.

Should the Company include any tax-exempt entities as Members, the allocation to these entities would probably not be a qualified allocation since the tax-exempt entities' share of Taxable Income and Tax Losses from operations may vary from their share of Taxable Income from a sale or a financing, and a proportionate share of the Company's property, probably equal to the proportion of Units owned by Members who are tax-exempt entities to all Units owned by Members, would be Tax-Exempt Use Property.

Treatment of Interest.

The Company or limited liability companies in which the Company participates may be required by prospective lenders as a condition to obtaining financing to pay certain amounts commonly referred to as "points", which may be considered pre-payments of interest for Federal income tax purposes. The Code provides that interest pre-payments by a cash basis taxpayer may not be deducted currently, but must be capitalized and deducted over the period of the loan (i.e., a cash basis taxpayer is required to deal with prepaid interest in the same manner as an accrual basis taxpayer).

The 1984 Tax Act requires that accrued but unpaid interest be computed on an economic yield basis, i.e., based on the equivalent compound interest rate assuming that unpaid interest is added to principal. The result of such computation is that interest deductions in the early years of a loan may be less than those computed using a simple interest rate and correspondingly larger in later years. In the case of seller financing, the 1984 Tax Act provides that if the stated interest on purchase money debt does not meet a certain test rate, part of the principal of the debt would be recharacterized as interest. The result would be a decrease in basis, including basis for depreciation, with a corresponding increase in interest deductions. The 1984 Tax Act also provides that accrued but unpaid interest on debt is not deductible if the lender is a related party, which, because of its method of accounting, need not include the interest income into taxable income.

Treatment of Rent.

The Company may receive income from the rental of real property and may itself pay rent respect to ground leases or other transactions. The tax treatment of such rental income or rental expenses may be affected by Code Section 467, which was enacted by the 1984 Tax Act.

Section 467 provides that if any lease calls for increasing or deferred rents over the lease term, the lessor and lessee must recognize income or loss on the accrual method of accounting. In the case of deferred rents, the amount to be recognized is to be computed using present value principled, and interest is deemed to accrue with respect to any unpaid rent.

Section 467 also imputes a level rent, with an interest component for any level rent amount not paid currently, for sale-leaseback transactions and certain long-term leases (generally, in the case of real estate, leases with a term in excess of 13.5 years), where a principal purpose for increasing the rents is tax avoidance. The level rent is that amount which, if paid annually, would have the same present value (discounted at a rate to be set by the Treasury Department) as the actual rent payments due under the lease (discounted at the same rate). If a lease is subject to the rent leveling provisions, the lessor's imputed rental income will generally be higher in the early years of the lease term, and lower in the later years of the lease term, as compared with the actual rent payments due under the lease. Whether a lease has the principal purpose of tax avoidance is to be determined based upon all the facts and circumstances. The Conference Committee Report on the 1984 Tax Act directs the Treasury Department to promulgate regulations setting forth rent increases which will not be treated as having a principal purpose of tax

avoidance, which are to include rent increases determined with reference to a price index like the Consumer Price Index, a percentage of the lessee's receipts, or amounts paid to third parties.

A sale-leaseback transaction or long-term lease that is exempted from the rent leveling provisions is, however, subject to the Section 467 recapture provision. That provision provides that any gain realized upon the disposition of the leased property must be recaptured as ordinary income to the extent that the lessor has not reported rental income equal to that which the lessor would have had to report up until the date of such disposition if the lease had been subject to the rent leveling provisions. It is not clear whether the recapture provision applies to leases under which rental increases are contingent, nor how the recapture amount is to be computed in that case if the recapture provision applies.

Construction Expenses.

The Company will be engaging in the construction of improvements on the property it will purchase. Many of the expenditures made in connection with the construction of such improvements, including the cost of construction, interim and standby loan fees, leasing commissions, appraisal fees and mortgage premiums, among other costs, are not deductible in the year of payment. Instead, such expenses will be capitalized and to the extent allowable, depreciated or amortized. Under the Code, real property construction period interest and taxes must similarly be capitalized in the year paid or incurred.

SALE OR DISPOSITIONS OF COMPANY PROPERTY OR UNITS

Gain or loss on the sale or other disposition of Property, will be computed at the Member level by each individual Member, using the allocable adjusted basis in his or her share of the Property.

Disposition of the Property and Dissolution of the Company.

The property sold or exchanged by the Company will be held primarily for sale. Any gain or loss on the sale or other taxable disposition of such property would constitute ordinary income or loss.

Under the 1984 Tax Act, the character of the Company's gain or loss on its disposition of contributed unrealized receivables, inventory and capital loss assets in the hands of the contributing Member will, under some circumstances, be the same as if the contributing Member had disposed of it.

The Company's gain or loss on inventory will always be treated as ordinary. It will also have ordinary gain or loss on a taxable disposition of contributed inventory within five years of the contribution. (If it is disposed of more than five years after the contribution, the character of the gain or loss is determined at the company level.) On the disposition of a contributed capital asset within five years of receipt, however, any loss recognized by the Company will be capital to the extent of the Member's unrealized loss potential.

If the Company transfers the contributed property to a transferee who takes a substituted basis, the contributed property remains tainted in the transferee's hands. What's more, any property (other than C corporation stock received through a tax-free incorporation) received by the Company in which it takes a substituted basis is also tainted.

Through a combination of the use of leverage (borrowing) in connection with the acquisition of properties by the Company and the use of depreciation, each Member's adjusted basis in Company property may be less than the amount of indebtedness attributable to such property. Upon the voluntary or involuntary transfer of such property, whether by sale, foreclosure, deed in lieu of foreclosure, or any other means, the amount of the outstanding indebtedness in such a case would constitute an amount realized by the Members. Furthermore, each Member will be deemed to have been relieved of his share of such indebtedness, and the amount thereof will be treated as a cash distribution to the Member. Consequently, the amount of income upon which a Member will be taxable in the year of transfer, and the federal income tax attributable thereto, may substantially exceed the net cash proceeds, if any, distributed as a result of the transfer. Thus, an event which in fact generates little or no cash may nonetheless generate substantial amounts of taxable income.

Under Section 708(b)(1)(B) of the Code, a limited liability company will be considered to have terminated if within a 12-month period there is a sale or exchange of 50% or more of the total interest in limited liability company capital and profits. Such a termination results in the closing of the limited liability company's taxable year for all members, and the limited liability company properties are regarded as distributed to the members and reconveyed to the limited liability company, which is then treated as a new limited liability company. In the case of a Member reporting on a fiscal year other than the calendar year, the closing of the tax year of the Company may result in more than 12 months' net income or loss of the limited liability company being includible in his taxable income for the year of termination. In addition, each Member will realize taxable gain to the extent that any money considered distributed to him (including any net reduction in his share of Company liabilities) exceeds the adjusted basis of his Company interest.

Other consequences of a premature termination of a limited liability company include the following: (1) the new limited liability company's tax basis for its properties may change; and (2) new tax elections required to be made at the limited liability company level must be made by the new limited liability company.

Disposition of Units.

Upon the sale or other transfer of a Unit in the Company by a Member who is not deemed to be a "dealer" in Units and who has held his Company interest for more than 12 months (generally), the difference between the total amount realized and the adjusted basis of the Units will constitute long-term capital gain or loss, as the case may be. However, that portion of the amount realized (including his share of Company liabilities assumed by the transferee or from which the Member is otherwise relieved) allocable to "inventory items" and "unrealized receivables," as defined in Section 751 of the Code, will be treated as ordinary income. Included in "unrealized receivables" is depreciation recapture determined as if the selling Member's proportionate share of all the properties in which the Company has an interest, had been sold at that time. Furthermore, as indicated above, the Member will be deemed to have realized an amount equal to his share of the Company's liabilities of which he is deemed to have been relieved by virtue of the disposition.

Under the 1984 Tax Act, a transferor of a company's interest involving unrealized receivables or inventory, items must notify the limited liability company of the transfer and the company must file an information return with the Internal Revenue Service. Recognition property is any property on which gain would be recognized at the corporate level in (i) distributions of LIFO inventory, (ii) distributions of appreciated property in redemption of stock, and (iii) distributions in complete liquidation under Section 337--as well as sales to a third party pursuant to a tax-free liquidation.

Section 754 Election.

It is uncertain whether the Company will file under Section 754 of the Code an election to adjust the basis of Company property in the case of a transfer of a Unit by sale or exchange or upon the death of a Member. The effect of such an election would be that, with respect to the transferee Member only, the basis of Company property would either be increased or decreased by the difference between the transferee's basis for his Company Interest and his proportionate share of the Company's adjusted basis for all Company property. Any increase or decrease resulting from such adjustment would be allocable among the Company's assets in accordance with rules established under the Code. After such adjustment, the transferee Member's share of the adjusted basis of the Company's property would equal the adjusted basis of his Unit.

If the Company does not make such an election, upon a disposition of Company property subsequent to a transfer of a Unit, taxable gain or loss to the transferee will be measured by the difference between his share of the gross proceeds of such sale and his share of the Company's tax basis in the property (which, in the absence of a Section 754 election, will be unchanged by the transfer of the Company interest to him), rather than by the difference between his share of such proceeds and the portion of the purchase price, if any, for the Unit that was allocable to the property. As a consequence, if the purchase price for his interest exceeds his share of the adjusted basis for all Company properties a purchaser of a Unit may be subject to tax upon the portion of the proceeds, which represents, as to him, a return of capital. However, his basis for the Unit will reflect his purchase price and, accordingly, in the event of a taxable sale or other disposition of the Unit, such purchase price will, notwithstanding

the Company's failure to make a Section 754 election, be taken into account in determining his gain or loss on such sale or other disposition.

It should also be noted that the Manager’s decision not to make the Section 754 election may adversely affect the marketability of Units.

MISCELLANEOUS

Foreclosure

In the event of a foreclosure of a mortgage or deed of trust on the Property, the Company would realize gain, if any, in an amount equal to the excess of the outstanding mortgage over the adjusted tax basis of the Property, even though the Company might realize an economic loss upon such a foreclosure. In addition, the Members could be required to pay income taxes with respect to such gain even though they receive no cash distributions as a result of such foreclosure.

Lack of Profit Motive

There are various provisions of the Code, which severely limit (or in some cases entirely disallow) deductions generated by activities not engaged in for profit or undertaken with no reasonable expectation of profit. For example, section 183 of the Code provides, as a general rule, that no deduction (other than for interest and real estate taxes) is allowable for “activities not engaged in for profit.” If it were therefore determined that the Company's or a Member’s investment was not entered into for profit, tax losses otherwise available to a Member (but see passive loss rules above) may be reduced.

The Alternative Minimum Tax

Since 1983, taxpayers have been subject to the current alternative minimum tax (hereinafter referred to as the “Alternative Minimum Tax”) to the extent it exceeds the taxpayer’s regular federal income tax liability. The Alternative Minimum Tax is currently imposed on a two tiered graduated rate to the extent a non-corporate taxpayer’s alternative minimum taxable income incurred by certain tax preference items exceeds certain exemption amounts. The lower tier consists of a 26% rate on the first $175,000 of AMTI in excess of the exemption amount. The upper tier consists of a 28% rate on AMTI that is greater than $175,000 above the exemption amount.

Among the tax preference items taken into account by an individual for this purpose are:

(1) Accelerated depreciation on all property placed in service after 1986; and

(2) certain itemized deductions.

The Alternative Minimum Tax is only imposed to the extent that the sum of all tax preference items exceeds $35,750 for single individuals, $49,000 for married couples filing joint returns and surviving spouses, and $22,500 for married individuals filing separate returns. This exemption is phased out at a rate of $0.25 on the dollar for alternative minimum taxable income in excess of certain amounts.

Itemized deductions that are deductible in determining alternative minimum taxable income include charitable contributions, medical expenses, casualty losses, home mortgage interest and other interest to the extent of qualified net investment income.

For purposes of the alternative minimum tax only, interest expense of a member or shareholder related to a limited business interest will be treated as an itemized deduction, and income and, apparently, although it is not completely clear, non-preference deductions from the limited business interests will be treated as investment income and deductions. A limited business interest includes a limited liability company interest and, unless the shareholder actively participates in management, stock in a Subchapter S corporation. This provision will apply to an interest

expense of a Member on any borrowings related to his investment in this Company. In addition, a Member's non-preference deductions from the Company activities could affect the deductibility for alternative minimum tax purposes of other interest expenses. This provision, however, will not affect the deductibility for regular income tax purposes of interest expenses related to limited liability company or limited partnership investments.

The general effect of the alternative minimum tax is that if tax preference deductions, or other similarly treated items such as interest related to limited business interests and certain itemized deductions, are significant in relation to other taxable income, no tax benefit may result from additional preference deductions and the benefit from additional deductions which are not tax preference items may be less than the marginal tax rate otherwise applicable.

Note also that the 1986 Tax Act creates a new Alternative Minimum Tax for Corporations, similar to the one described above for individuals, but at a single 20% rate.

Because of the individual nature of these taxes, potential corporate and individual investors are strongly urged to consult their tax advisors to assess the impact of this investment as it may pertain to these taxes.

Tax Elections and Tax Reporting

The Company will file an annual tax return using the calendar year as its taxable year. The Company will make various elections affecting the computation of federal income tax deductions, some of which are binding on the Members in their reporting of their shares of Company income, gains and losses. Among other elections, the Company will elect the method of cost recovery, which, in the Manager's judgment, is in the best interest of all the Members.

As a result of the tax accounting complexities inherent in, and the substantial expense that would be attendant to, making the election upon a transfer of the Company interest or the death of a Member to adjust the tax basis of Company property provided by Sections 734, 743 and 754 of the Internal Revenue Code, the Manager may decide, for administrative reasons, not to make such an election on behalf of the Company. The absence of any such election and the lack of power to compel the making of such an election may result in a reduction in the value of a Member's interest in the Company to any potential transferee.

Investment by Qualified Pension and Profit Sharing Trusts, Individual Retirement Accounts and Other Tax-Exempt Organizations

Tax-exempted organizations, including employee pension or profit sharing trusts and Keogh Plan trusts which are qualified under Section 401 of the Code ("Employee Trusts") and individual Retirement Accounts ("IRAs"), are generally exempt from Federal income taxation. However, tax-exempt organizations, including Employee Trusts and IRAs, are subject to taxation on their "unrelated business taxable income," as defined in Section 512 of the Code. Unrelated business taxable income does not in general include rents from real property, gain from the sale of property other than inventory or property held primarily for sale to customers in the ordinary course of business, interest, dividends and certain other types of passive investment income, unless such income is derived from "debt-financed property" as defined in Section 514 of the Code.

Section 514(c)(9) of the Code excludes, subject to certain exceptions, investments in real property by Employee Trusts qualified under Section 401 of the Code, but not by IRAs or other tax-exempted organizations, from the definition of "debt-financed property". Under this provision, qualifying Employee Trusts which finance the acquisition or improvement of real property are not treated as having "debt-financed property" and thereby unrelated business taxable income, provided: (1) the acquisition price of the property is fixed in amount at the date of acquisition; (2) the amount of any indebtedness and its repayment are not dependent upon revenue, income or profits derived from the property; (3) the property is not leased to the seller of the property or to a related person; (4) the property is not acquired from, or leased to, certain "disqualified persons" with respect to the Employee Trust as defined in Section 4975 of the Code; and (5) the Seller or a related person or any such "disqualified person" does not provide non-recourse financing in connection with the transaction which is either subordinate to any other indebtedness on the property or bears interest at a rate which is significantly less than the rate available from an

unrelated third party. It is possible, however, that this provision may be construed to be applicable only to investments by Employee Trusts which involve the direct ownership of real property, and not to indirect investments in real property through partnerships, limited liability companies or joint ventures such as this Company. The Company has not obtained an opinion of counsel on this question, because of the absence of any applicable regulations, rulings or judicial decisions.

There can be no assurance that the Company will comply with the requirements of the above provisions of Section 514(c)(9) of the Code, nor can there be any assurance that any or all of the Company's investments will not constitute "debt-financed property" or that all or a portion of any income or gain of the Company relating to such properties will not constitute unrelated business taxable income to Employee Trusts which purchase Units. Properties acquired by the Company on a leveraged basis will constitute "debt-financed property" to tax-exempted organizations other than qualifying Employee Trusts.

In computing unrelated business taxable income, a tax-exempted organization, including an Employee Trust or IRA, may deduct a proportionate share of all expenses which are directly connected with the "debt-financed property" and is also entitled to an annual exclusion of $1,000 with respect to unrelated business taxable income. Even though a portion of the income of a tax-exempted organization is unrelated business taxable income, income from other sources which is not unrelated business taxable income will not be subject to Federal income tax. In addition, the receipt of unrelated business taxable income by a tax-exempted organization generally will not affect its tax-exempted status if the investment is not otherwise inconsistent with the nature of its tax exemption.

A prospective investor which is an Employee Trust or IRA is strongly urged to consult its legal and/or tax advisor concerning the unrelated business taxable income considerations discussed above.

Tax Legislation and Other Changes in the Tax Law

In the future, other tax legislation may be proposed. Some of these changes, if enacted into law, may have a significant effect on investments of the type concerned here. There can be no assurance such legislation will not be passed by Congress and have a negative impact on the tax consequences to the Members of this Company in the future. Any such legislation may or may not be retroactive with respect to transactions occurring prior to the effective date thereof. Each potential Member should seek, and must rely on, the advice of his own tax advisor with respect to the possible impact on his investment of all proposed or potential tax legislation or administrative or judicial action.

Negligence Understatement Penalty

A penalty is imposed for negligence or disregard of rules and regulations and the substantial understatement of tax liability. The amount of this penalty is 20% of the underpayment of tax due to the negligence or disregard of rules and regulations and substantial understatement. A substantial understatement is defined as an understatement that exceeds the greater of (i) $5,000 or (ii) 10% of the true tax liability of the taxpayer. "Negligence" is any failure to make a reasonable attempt to comply with the Internal Revenue Code. A penalty is also imposed if the taxpayer disregards rules or regulations in a careless, reckless or intentional manner. The understatement penalty is not imposed if the taxpayer reasonably believed, that the tax treatment of such items was more likely than not the proper treatment and substantial authority exists for that treatment. In addition, in certain limited circumstances, the penalty may not be imposed if the facts relevant to the tax treatment of the item are disclosed on the taxpayer's tax return or a statement attached thereto.

Changes in Audit Procedure

The 1982 Tax Act made significant changes in the procedures for auditing limited liability company. Under this Act, audits will be conducted at the Company level in a single proceeding rather than in separate proceedings with each member. The Service will generally discuss matters with the Manager who will be designated as the "Tax Matters Partner." Each Member will be offered the same settlement terms as every other Member. The Tax Matters Member has the power to extend the statute of limitations applicable to a company tax issue. In the event that the results of an audit are disputed, the Tax Matters Member has the right to file for judicial review of the administrative

determination, and, if he so files, no other member may file suit, but may join in that suit. If the Tax Matters Member does not file suit, any other member may do so but only the first suit so filed will be allowed to proceed and all members may participate in that suit.

Tax Information

Within 75 days after the end of the Company's tax year, the Manager will send each Member a report containing all information necessary for the preparation of federal and state income tax returns. Each investor will be responsible for filing his own individual income tax returns.

Tax Shelter Registration

The 1984 Tax Act enacted two special provisions with respect to tax shelters. First, it requires the promoters of tax shelters to maintain lists of investors and to make such lists available to the IRS. Second, it requires that the tax shelter register with and furnish certain information to the IRS. The IRS will provide the tax shelter with a registration number which the tax shelter will furnish to its investors and which the investors are required to report in their tax returns on Form 8271. A tax shelter for this purpose is defined generally as an investment in which, at the close of any of the first five years after the date in which the investment is offered for sale, any investor can expect that his aggregate deductions plus 200% of his aggregate tax credits will exceed twice his actual investment (not including amount borrowed by the tax shelter itself). Treasury Regulations indicate that his computation is to be made without regard to the gross income to be derived from the investment. This Company may thus be a tax shelter for this purpose. Prospective investors should be aware that registration of the Company, should it be made, does not indicate that the Company or its claimed tax benefits have been reviewed, examined or approved by the IRS. Provisions contained in the 1986 Act have modified the tax shelter ratio computation and increased the penalties for failure to comply.

As part of the tax shelter registration rules, any investor who transfers his units has several obligations. The investor must maintain a record for seven years showing this transferee's name, address, taxpayer identification number, the date on which he transferred the interest and the name, address and tax shelter registration number of the Company. Alternatively, the investor must send such information to the Manager. Secondly, the investor must furnish his transferee with a notice relating to the tax shelter registration which includes (i) the name, registration number, taxpayer identification number of the Company, (ii) a prominent legend in bold and conspicuous type stating that the registration number must be included on any return on which the investor claims any deduction, loss, credit, or other tax benefit, or reports any income, by reason of the tax shelter, (iii) a prominent legend in bold and conspicuous type stating that the issuance of the registration number does not indicate that the Internal Revenue Service has reviewed, examined, or approved the investment or the claimed tax benefits and (iv) a statement referring to the obligation of the transferee to maintain a record of any future transfer.

STATE AND LOCAL TAXES

In addition to the federal income tax consequences described above, prospective Members should consider potential state and local tax consequences of an investment in the Company. The Company or the Members or both may be subject to state and local taxes in the jurisdiction in which the Company may be deemed to be doing business or in which they reside or own property or other interests. Such taxes may include real property taxes, income taxes, estate or inheritance taxes, taxes on intangible property, or other types of taxes. A Member's share of the gains or losses of the Company may or may not be taken into consideration for state or local income tax purposes depending upon applicable state laws, local ordinances and regulations. Depending upon location of the properties of the Company and on applicable state and local laws and ordinances, deductions which are available to the Member generally for Federal income tax purposes may not be available to a particular Member for state or local income tax purposes because of location of his domicile or the sources of his income. In addition, to the extent that the Company does business in certain jurisdictions, estate or inheritance taxes may be payable to such jurisdiction upon the death of a Member. Although a Member may be subjected to income taxes, estate or inheritance taxes or both in states in which the Company does business, as well as his own state of domicile, usually the taxes paid in the other states are creditable or deductible in determining the tax liability in the state of domicile.

EACH INVESTOR IS ADVISED TO CONSULT WITH HIS/HER OWN TAX ADVISOR FOR ADVICE AS TO FEDERAL, STATE AND LOCAL TAX LAWS MAY RELATE TO AN INVESTMENT IN THIS COMPANY.

EXHIBIT A

OPERATING AGREEMENT

(Copy Provided Upon Request)

EXHIBIT B

SUBSCRIPTION AGREEMENT

(Copy Provided Upon Request)

EXHIBIT C

INVESTMENT/EXECUTIVE SUMMARY

(Copy Provided Upon Request)