

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## SECURITIES DISCLOSURES

The securities offered hereby have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state and are being offered and sold in reliance on exemptions from the registration requirements of the Securities Act and such laws.

Furthermore, the securities offered hereby have not been approved or disapproved by the Securities And Exchange Commission or other regulatory authority of any state, nor have any of the foregoing authorities passed upon the accuracy or adequacy of this document or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

## IMPORTANT CONSIDERATIONS

This memorandum is being furnished to prospective investors to consider an investment in the Fund. Due to its confidential nature, this memorandum may not be reproduced or used for any other purpose. By accepting delivery of this memorandum, each prospective investor agrees that he, she or it will not divulge its contents to any person other than his, her or its attorney, accountant or other representative, if any, and will return it with all accompanying documents to the Manager upon request if the investor does not make an investment in the Fund.

The securities offered hereby will be offered in a transaction not involving a public offering in reliance upon the exemption from registration afforded by section 4(2) of the Securities Act and the regulations promulgated thereunder, and may only be offered and sold to certain qualified investors. Subscribers will be required to represent that they are familiar with and understand the terms of this offering, and that they meet certain suitability requirements.

This memorandum does not constitute an offer or solicitation by or to anyone in any jurisdiction in which such an offer or solicitation would be unlawful. In addition, this memorandum constitutes an offer only if the Offerer is a qualified Offeree under applicable securities laws.

This memorandum contains a summary of the material terms of certain documents. However, the description of the documents summarized herein is incomplete and should not be relied upon by any investor without a complete reading of all of such documents and a full understanding of their contents. All documents relating to an investment in the interests (and any additional information in connection with this offering that is available or can be obtained without unreasonable expense) will be made available to the Offeree provided with this memorandum or to his, her or its representatives, if any, upon request. The Manager and its representatives will be available to the Offeree or to such representatives to provide answers to questions concerning this offering. Neither the Fund nor the Manager has authorized, and Offerees should not rely upon: (a) any representations (whether oral or written) other than those set forth in this memorandum and the enclosures hereto or (b) any additional information (whether oral or written) except that contained in documents prepared and delivered to the Offeree by the Fund prior to a monthly transaction date.

Prospective investors should not construe the contents of this memorandum as individual legal, tax or investment advice. Each investor should consult his, her or its own counsel, accountant or business advisers as to legal, tax and related matters concerning this investment.

No offering literature or advertising material will be employed in the offering of the interests, except the information contained in this memorandum, the operating agreement, the subscription

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materials, any investment summary and adviser profiles, other enclosures, and the cover letter or letters accompanying such documents.

This offering will continue until terminated by the Manager. The Manager in the exercise of its sole discretion, reserves the right to suspend the offering temporarily and to reopen the same without such action being considered a closure or termination of the offering, or the commencement of a new offering. Furthermore, in connection with the offer and sale of the interests, the Manager reserves the right, in its sole discretion, to reject any subscription, in whole or in part, or to allot to any prospective investor a lesser interest than the one subscribed for by such investor.

The information contained in this memorandum is intended to be current as of the date of this memorandum. No representation or warranty is made as to the accuracy or completeness of such information, and nothing in this memorandum is, or will be relied on as, a promise or representation as to the future.

### **ALL STATES**

The presence of a legend for any given state reflects only that a legend may be required by that state and should not be construed to mean an offer or sale may be made in any particular state. This Memorandum may be supplemented by additional state legends. If you are uncertain as to whether or not offers or sales may be lawfully made in any given state, you are advised to contact the Manager for a current list of states in which offers or sales may be lawfully made.

### **NOTICE TO CALIFORNIA RESIDENTS**

These securities have not been registered under the 1933 act, or qualified under the California Corporation's code by reason of specific exemptions thereunder relating to the limited availability of the offering. These securities cannot be sold, transferred or otherwise disposed of to any person or entity unless subsequently registered under the 1933 act and qualified under the California Corporation's code, if such registration and qualification is required.

### **FOR FLORIDA RESIDENTS ONLY**

When sales are made to five or more persons in Florida, any sale in Florida made pursuant to section 517.061(11) is voidable by the purchaser in such sale either within 3 days after the first tender of consideration is made by such purchaser to the issuer, an agent of the issuer, or an escrow agent or within 3 days after the availability of that privilege is communicated to such purchaser, whichever occurs later.

### **SPECIAL U.S. TAX DISCLOSURE**

The taxpayer (and each employee, representative, or other agent of the taxpayer) may disclose to any and all persons, without limitations of any kind, the tax treatment and tax structure of the transactions and all materials of any kind (including opinions or other tax analysis) that are provided to the taxpayer relating to such tax treatment and tax structure.

### **SPECULATIVE NATURE OF INVESTMENT**

Investment in the Units is speculative and by investing, each Member assumes the risk of losing the entire investment. The Fund has no operations as of the date of this offering and will be solely dependent upon the Manager. There can be no assurances that the Fund's investment return

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objectives will be realized, or that significant capital losses will not occur. Accordingly, Investors must be able to bear the loss of their entire investment.

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this memorandum constitute "Forward-Looking Statements" within the meaning of section 27A of The Securities Act Of 1933, as amended. And section 21E of The Securities Exchange Act Of 1934, as amended. All statements that address expectations or projections about the future, including statements about investments, market position, expected expenditures and financial results, are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "projects," "indicates," and similar expressions. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Accordingly, actual results or performance of the Fund may differ significantly, positively or negatively, from forward-looking statements made herein. Unanticipated events and circumstances are likely to occur. Factors that might cause such differences include, but are not limited to, those discussed under the heading "Additional Risk Factors," which investors should carefully consider. The Fund will undertake no obligation to update any forward-looking statements.

**OPERATING AGREEMENT  
OF  
SPECIAL NEEDS HOMES, LLC**

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

THIS OPERATING AGREEMENT is made as of January 1, 2019 of Special Needs Homes, LLC (the "Company"), a CALIFORNIA limited liability company ("SPECIAL NEEDS HOMES, LLC").

The Manager is David Satosky. David Satosky may change the operating entity under which of Special Needs Homes, LLC is operated, but he will always remain the person operating the fund.

The Members are admitted as members of the Company.

## **Background**

The Manager formed the Company as a limited liability company.

The Manager filed Articles of Organization (the "Articles of Organization") with the Secretary of State of the State of California. These have yet to be processed. As this document is required to open a bank account and start business, the date of these documents will be provided to the members at the first quarterly report.

David Satosky is hereby authorized to sign the Articles of Organization as Manager of Special Needs Homes, LLC.

The parties hereby agree as follows:

## **1 THE COMPANY**

### **1.01 NAME**

The name of the Company will be Special Needs Homes, LLC. The business of the company will be conducted in that name or any other the Manager deems necessary or appropriate to comply with any legal or other requirements of the United States of America, the State of California or any other jurisdiction in which operations of the Company are conducted.

### **1.02 REGISTERED AGENT AND OFFICE**

The registered agent for the service of process and the registered office shall be that Person and location reflected in the Articles as filed in the office of the Secretary of State.

The Registered Agent is to be determined.

The Manager, may, from time to time, change the registered agent or office through appropriate filings with the Secretary of State. In the event the registered agent ceases to act as such for any reason or the registered office shall change, the Manager shall promptly designate a replacement registered agent or file a notice of change of address as the case may be. If the Managers shall fail to designate a replacement registered agent or change of address of the registered office, any Member may designate a replacement registered agent or file a notice of change of address.

### **1.03 PRINCIPAL OFFICE**

The principal office is:

31271 Via Del Verde

San Juan Capistrano CA 92675

The Company may have a principal place of business and other offices as the Manager may designate.

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## **1.04 PURPOSE**

The investment objective of the Fund is current cash flow and capital appreciation. The Fund will buy real estate, improve properties as necessary, hold them for rental cash flow, and resell them for profit at the time of liquidation.

## **2 TERM**

The Company will operate until one of the following two conditions is met:

- the ten-year holding period has expired, or
- as long as the Manager is willing and able to operate the fund.

Members will receive the balance of their accounts at termination of the fund subject to the limitations of Section 7.

### **2.01 CLOSING DATE**

The Fund will be closed to all new investment on December 31, 2019 or earlier at the Manager's discretion.

## **3 MANAGER AND MEMBERS**

### **3.01 MANAGER**

The Manager is David Satosky who will serve as operations Manager until his resignation or dissolution of the fund.

### **3.02 MEMBERS**

The Manager hereby agrees to the admission of new Members to the Company on the Closing Date. A data list will be maintained by the Manager in order to identify the Members being so admitted by name, address, and Capital Contribution of such Member. A current schedule of Members will be kept at the principal office of the Company. The interests of the Members in the Company are described herein.

### **3.03 LIABILITY OF MEMBERS**

No Member will be liable to creditors of the Company for the repayment, satisfaction and discharge of any debts, liabilities and other obligations of the Company in excess of the amount of such Member's Capital Account at such time.

### **3.04 ADMISSION OF NEW MEMBERS**

This is a closed fund. No new members will be admitted after the closing date.

#### **4 INVESTMENT PLAN AND TYPICAL TRANSACTION**

##### **4.01 PHILOSOPHY AND STRATEGY**

The investment objective of the Fund is to profit from real estate appreciation and rental cash flow while providing a high quality, home-like environment for special needs adults where they secure their housing and build wealth.

The Fund will be opportunistic and invest in direct property ownership, mortgage notes, or other assets to meet its objectives.

##### **4.02 RISK OF LOSS**

The risk of loss to the Fund comes primarily from market risk at resale. The current state of the market is falling prices. If prices continue to fall and fail to recover, and if the investor wants to liquidate their holdings while prices are depressed, the investor may experience loss of original capital.

##### **4.03 SHARED PROFITS AND ALIGNMENT OF INTERESTS**

The primary compensation for the Manager is from shared profits with the Fund at time of liquidation. This creates an alignment of interests whereby the manager is strongly encouraged to generate positive returns for the investors.

##### **4.04 USE OF PROPERTY AND FUND DEBT**

Debt may be used at the discretion of the Manager to increase fund returns.

##### **4.05 INVESTOR'S PURCHASE OF PROPERTIES FROM THE FUND**

Any investor in the Fund may also purchase a property from the Fund at the Manager's sole discretion. The Fund must obtain a price equal to the net asset value of the property. The manager will charge a 3% commission, but the 3% that would typically be a buyer's agent commission will be retained as Fund profit to compensate for the lost rent revenue while the capital is redeployed.

##### **4.06 MANAGER'S RIGHT TO ADJUST FEES AND TERMS**

Market conditions are constantly changing, and the fees and terms of a typical transaction may require changes in order to ensure the continuing success of the Company. The Manager reserves the right to adjust compensation to any and all parties to the transaction as he sees fit.

##### **4.07 LONG-TERM CAPITAL GAINS**

It is the goal of the Manager and Company to hold properties for twelve (12) months or more. However, unexpected circumstances may arise and properties may be subject to shorter holding periods.

All profits of the company will be long-term capital gains for tax purposes. It is not the intent of this fund to flip properties or any purposes that will require a shorter term holding period.

##### **4.08 RIGHT TO TAKE LOSSES**

The Manager at his sole discretion can liquidate any property at a loss to free up working capital to pursue other opportunities. If a property has been held for sale and a buyer willing to purchase at a

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breakeven or better price cannot be found, the Manager will continue to lower the asking price until the property is sold.

## 5 MANAGEMENT, EXPENSES, AND FEES

The acting Manager of the Fund is David Satosky. The Manager has experience in every aspect of the Fund's operation. However, it may be in the best interest of the Fund to have the Manager supervise the work of others and work as a team to deliver potentially profitable deals to the Fund. The Manager will hire outside consultants as necessary to perform Fund functions. The Fund will have no employees.

### 5.01 MANAGER: DAVID SATOSKY

#### Credentials:

- 30 years in real estate financing and investment,
- 20+ years' experience in fundraising and charity work,
- Experienced multi-family real estate property rehabilitation,
- Experienced property manager,
- Brother of Special Needs adult.

### 5.02 ADVISOR: LAWRENCE ROBERTS

#### Credentials:

- Manager of Apple Blossom Arbitrage LLC and Radiant Homes II, LLC, a \$2,500,000 opportunity fund.
- Project manager on over 50 residential improvement projects sold at a profit.
- Project Manager responsible for evaluation, acquisition, development, and disposition of over \$100 million in real estate assets.
- Licensed California Real Estate Agent #1868521
- Master of Science in Land Development - Texas A&M University 1994
- Father of Special Needs Adult

### 5.03 ADVISOR: SHEVY AKASON

#### Credentials:

- Top producing real estate agents with over 1,000 completed transactions since 2007.
- Investor and project manager on over 100 residential improvement projects sold at a profit.
- Active property manager and investor.



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## 5.04 ADVISOR: JOSEPH WEBER

### Credentials:

- Attorney, licensed in California since 1988;
- Managing partner, Weber Firman, Costa Mesa, CA, 1997 to present;
- Author of the book "Credit Limits," about the proliferation of the universal credit card;

## 5.05 MANAGER COMPENSATION

The Manager and Management Team receives compensation as follows:

- 20% of appreciated fund value (profit) at time of liquidation or redemption.

Manager may take compensation personally, or it may be put to a business entity with which Manager has an interest. Manager will determine whether to take any income personally or funnel it through an entity at his discretion.

## 5.06 MANAGER'S INDIRECT COMPENSATION

The Manager also acts as the Executive Director of a Special Needs Charity and receives compensation from the Charity. Charity charges a management fee equal to 10%-15% of the net operating income on specific projects in lieu of yearly management fees charged to the fund.

The Manager and agents acting on behalf of the Manager or other brokers will receive compensation from Company transactions. The compensation to Manager may be direct or indirect from participation in the transaction. This compensation will be due and paid the Manager and the Manager's agents irrespective of any profits or losses associated with the transaction. It is possible for the Manager to earn compensation on a transaction in which the Company loses money.

## 5.07 MANAGER'S EXCLUSIVE CONTROL

The Company will be managed by the Manager. No Member or the legal representative of any deceased, adjudicated incompetent or adjudicated bankrupt Member has any right to participate in the control of the affairs of the Company or act for or bind the Company.

## 5.08 MANAGER'S DELEGATION OF POWERS

Manager may appoint a vice president of operations. The designee has the power to enter into contracts on the Company's behalf.

## 5.09 MANAGER'S POWERS

The Manager, at his sole discretion, has the following powers to act on behalf of the Company:

- To purchase, improve, and sell real estate;
- To enter into contracts;
- To incur expense for office space, if necessary;

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- To engage and compensate attorneys, independent accountants, brokers, consultants, experts, contractors or such other persons;
- To open, maintain and close bank accounts and draw checks and other orders.
- The Manager need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost in selecting brokers to execute transactions. In selecting brokers, the Manager may or may not negotiate "execution only" commission rates; thus, the Company may be deemed to be paying for other services provided by the broker which are included in the commission rate.
- The Manager may establish such reserves from Company funds as the Manager, in its sole discretion, may deem necessary or advisable for Company operations and for the payment of Company obligations and liabilities, contingent or fixed.
- The Manager may determine the fair Market Value of any or all of the Company's Properties or other assets or property, all of which valuations and determinations will be final and binding on the Company and all Members.
- The Manager may, to the extent permitted by applicable federal and state securities laws, solicit the purchase of and sell membership interests in the Company to potential investors.
- The Manager is empowered to resolve, in his sole discretion, any ambiguity regarding the application of any provision of this Agreement in the manner he deems equitable, practicable, and consistent with this Agreement and applicable law; provided that such resolution will be reasonable and will not discriminate unfairly against any Member.
- The Manager is authorized to take any other action required or permitted, directly or indirectly, by any other provision of this Agreement.

The Manager will not use Company funds for purposes other than fulfilling the primary objective of purchasing, improving and selling real estate and related expenses of operating the fund.

The Manager and other business associates with whom the Manager has business relationships will receive compensation from transactions related to the funds primary purpose of buying and selling real estate.

### **5.10 LIMITATIONS ON MANAGER POWERS**

The Manager will not have the authority without the written approval of all of the Members to:

- do any act in contravention of the Articles of Organization or this Agreement;
- do any act which would make it impossible to carry on the ordinary business of the Company, other than to dissolve the Company pursuant to Section 10 hereof;
- confess a material judgment against Company property or assign rights to specific Company property for other than a Company purpose.

### **5.11 ADDITIONAL MANAGER RIGHTS**

In addition to the right and power of the Manager to manage the Company as provided herein, the Manager will have the right, on behalf of the Company, to execute and file any and all reports,

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schedules, notices and other instruments or documents required to be filed by the Company under any applicable federal or state law, rule or regulation, or deemed, in the judgment of the Manager, to be necessary or appropriate under the circumstances.

Subject to any restrictions imposed by law, each Member agrees to furnish promptly upon request any information concerning such Member and its Affiliates as the Manager reasonably believes necessary or desirable in order to comply with filing requirements arising under applicable laws, rules and regulations; and the Manager is authorized to disclose such information concerning each Member as it determines, in its sole discretion, is required under the circumstances. Each Member agrees that, at the request of the Manager, it will keep current any such information previously furnished and that the Manager may rely on the accuracy and current status of such information in making any filing on behalf of the Company.

### **5.12 ASSETS**

Any asset owned by the Company may be registered in the name of the Company. Any corporation, brokerage firm or transfer agent called upon to transfer any assets to or from the name of the Company will be entitled to rely upon instructions or assignments signed or purporting to be signed by the Manager or its agent without inquiry as to the authority of the person signing or purporting to sign such instructions or assignments or as to the validity of any transfer to or from the name of the Company.

### **5.13 EXPENSES**

The Company will be responsible for, and will pay, all auditing, accounting, tax preparation, legal, interest, and other out-of-pocket fees, expenses and taxes incurred by or on behalf of the Company including, without limitation, all such out-of-pocket fees and other expenses incurred by the Manager (or its owners, agents or designees, and including any persons or entities acting for or on behalf of the Manager before the Company's formation) on behalf of the Company.

### **5.14 FORMATION EXPENSES AND FRONT-LOAD FEES**

The Manager will be entitled to receive out of Company funds reimbursement of all out-of-pocket and other amounts expended by it on behalf of the Company in connection with (i) the formation of the Company and (ii) the offering and sale of Membership Interests in the Company, including, but not limited to, legal, accounting, printing, qualification, travel and miscellaneous out-of-pocket and other expenses.

The fund may, at Manager's discretion, pay any agent or third party who refers investors more than a nominal amount. Payment and fee may be contingent on whether the referral results in a transaction, however the referral fee is not based on the amount of the transaction but a flat fee.

### **5.15 GOOD FAITH, TIME, AND ATTENTION OF THE MANAGER**

The Manager and its trustees, officers, directors, consultants and employees will devote such time to the Company and its objectives, purposes and powers as will be reasonably necessary in the opinion of the Manager to achieve the objectives of the Company. The Manager, however, is required to devote to the Company only that amount of time and attention that the Manager in its sole discretion deems reasonably necessary to achieve the Company's objectives.

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### **5.16 OTHER BUSINESS INTERESTS OF THE MANAGER**

The Manager may engage in any business activity outside the fund, even if such activity is in competition with the fund. The Manager may participate in any investment or activity for his own account or for another fund, even if such activity is an opportunity that meets the investment parameters of the fund. The manager does not anticipate engaging in such activity, but he reserves the right to do so.

### **5.17 TERMINATION, RESIGNATION, INCAPACITY, OR DEATH OF MANAGER**

The Manager may not be terminated, but he may resign from such position with 30 days' written notice. In the event of Manager Resignation, the fund will be dissolved and the remaining balance of Member's accounts will be returned. If the Manager is not incapacitated or dead, he will stay on until the Fund is properly dissolved.

### **5.18 EXCULPATION**

Neither the Manager nor any limited or general partner, agent, beneficial owner, shareholder, trustee, member, consultant, director, officer, employee, consultant or Affiliate of the Manager nor any beneficial owner or direct or indirect limited or general partner, agent, beneficial owner, shareholder, trustee, member, director, officer, employee, consultant or Affiliate of any of the foregoing persons will be liable, responsible or accountable in damages or otherwise to the Company or to any Member for any act or failure to act pursuant to this Agreement or otherwise, except where such act or failure to act constitutes willful misconduct, gross negligence, fraud or bad faith. The Manager and such other persons will be entitled to rely upon the opinion or the advice of counsel, public accountants or other experts experienced in the matter at issue; such an opinion or such advice will afford full protection for the Manager and such other persons with respect to any act or failure to act by the Manager or such other persons in good faith reliance on such an opinion or such advice; and such an act or failure to act will in no event subject the Manager or any such other person to liability to the Company or any other Member.

The Manager will not be personally liable for the return of any Member's Capital Contributions or any additions to any Member's Capital Account or any portion thereof.

Notwithstanding any provision of this Agreement to the contrary, neither the Manager nor any limited or general partner, agent, beneficial owner, shareholder, trustee, member, consultant, director, officer, employee, consultant or Affiliate of the Manager nor any beneficial owner or direct or indirect limited or general partner, agent, beneficial owners, shareholder, trustee, member, director, officer, employee, consultant or Affiliate of any of the foregoing persons will be liable to the Company or any Member for indirect, special, consequential or punitive damages or losses of any kind whatsoever (including but not limited to lost profits), whether or not foreseeable and regardless of whether the claim for loss or damage is made in negligence, for breach of contract or otherwise.

### **5.19 INDEMNIFICATION**

The Company will indemnify, defend and hold harmless the Manager and each Affiliate, trustee, member, officer, director, employee, consultant, direct or indirect beneficial owner, general or limited partner, stockholder or agent of the Manager or any such person to the fullest extent permitted by law, from and against any loss, damage, liability (including, without limitation, tax liabilities,

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and interest and penalties associated therewith), cost or expense (including attorneys' fees and expenses) arising out of or in connection with any act or failure to act or alleged act or failure to act by an Indemnified Person arising out of, in connection with or in any way related to the Company or the affairs of the Company; except that the Company will not indemnify any Indemnified Person for any loss, damage, liability, cost or expense arising from the willful misconduct, gross negligence, fraud or bad faith of such Indemnified Person, as to which indemnification is barred under applicable laws. Such attorneys' fees and expenses will be paid by the Company as they are incurred upon receipt of an undertaking by or on behalf of the Indemnified Person to repay such amounts if it is ultimately determined by a court or other tribunal that such Indemnified Person is not entitled to indemnification.

### **6 CAPITAL CONTRIBUTIONS**

#### **6.01 INITIAL CAPITAL CONTRIBUTIONS**

Each Member has or will pay to the Company the aggregate amount of such Member's Capital Contribution in the form specified in this section. Such contribution will be credited to the Capital Account of each such Member.

The minimum initial Capital Contribution of a Member will be \$5,000; except that the Manager may, in its sole discretion, permit any Member to make a smaller initial Capital Contribution upon such terms and conditions, if any, as the Manager may deem appropriate; and further except, that the Manager may increase the minimum initial Capital Contribution for new Members to any amount greater than \$5,000 in his sole discretion.

#### **6.02 FORM OF CONTRIBUTION**

Capital contributed by any Member to the Company will be in the form of check, cashier's check, money order, or wire transfer. Hard currency or securities are not acceptable.

#### **6.03 NO ADDITIONAL CONTRIBUTIONS**

Once the fund is closed, no additional contributions will be allowed.

#### **6.04 USE OF CAPITAL**

The aggregate of all such contributions, net of expenses, will be available to the Company to carry out the objectives, purposes and powers of the Company.

#### **6.05 NO RIGHT TO SPECIFIC PROPERTY**

No Member will have the right to demand to receive specific property, or priority over any other Member.

#### **6.06 NO RETURN OF CAPITAL CONTRIBUTIONS OR INTEREST**

No Member is entitled to a return of its Capital Contribution or interest on its Capital Contribution or its Capital Account, except as is specifically provided herein. Each Member will look solely to distributions from the Company as provided for herein.

## 7 ALLOCATION OF GAINS AND LOSSES

### 7.01 ACCOUNTS

There will be established for each Member, on the books and records of the Company, a single account (the "Capital Account") , which will initially have a balance of zero and which will be adjusted and maintained as set forth in this 5.17. The Capital Accounts will be adjusted and maintained at all times strictly in accordance with Section 704 of the Code and Treas. Reg. 1.704-1(b) (2) (iv) (including, without limitation, Treas. Reg. 1.704-1 (b) (2) (iv) (d3, 1.704-1 (b) (2) (iv) ( j and 1.704-1.704-1(b) (2) (iv) (g)). The Manager is expressly authorized to make appropriate amendments to the allocations of items pursuant to this Section 7 if necessary in order to comply with Section 704 of the Code or Treas. Reg. 1.704-1(b) (2) (iv).

Each Member's Capital Account will be increased by the amount of the initial contribution by such Member to the Company.

Each Member's Capital Account will be reduced by the amount, if any, of all distributions (or deemed distributions) made to such Member, and the amount, if any, of all Net Losses allocated to such Member's Capital Account.

### 7.02 ALLOCATION OF NET PROFITS AND NET LOSSES

Except as otherwise provided herein, Net Profits will be distributed and Net Losses will be allocated to the Capital Accounts of the Members as of the close of business on the last day of each quarter in accordance with their respective Percentage Interests for such quarter (except that the Manager may allocate items of deduction or expense which are paid or incurred by a Member to such Member).

## 8 DISTRIBUTIONS AND WITHDRAWAL OF CAPITAL

### 8.01 FIVE-YEAR FREEZE ON DISTRIBUTIONS

There will be no distributions of moneys from the fund except at the discretion of the Fund Manager during a five-year period beginning at the closing date of the fund. The Fund Manager may, but is not obligated to, distribute operating profits from operations. In the event these profits are not distributed, the investor may incur tax liability without any cash distribution to pay the taxes.

### 8.02 WITHDRAWAL OF CAPITAL CONTRIBUTIONS

All petitions for return of Capital Accounts must be in writing to the Manager and acknowledged by same.

In the event a Member petitions to Manager for release of Capital Contribution, **and the manager at his sole discretion agrees to the distribution**, the manager has one year to liquidate sufficient Company holdings to return member's Contributed Capital. In the event sufficient working capital is released prior to the one-year period and the Manager deems returning the amount of the Capital Account will not disrupt the workings of the Company, the Manager may at his sole discretion return the funds during the one-year waiting period.

As an alternative to property liquidation to release investor funds, the Manager may buy out the Member. The value of properties will be determined by brokers opinion of value or automated valuation model, and the recovery amount will be 90% of the determined value to simulate commissions

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and closing costs. The Manager may obtain mortgage debt on the property to purchase to fund the redemption.

### **8.03 CONSEQUENCES UPON WITHDRAWAL**

Upon any Member's withdrawal of the entire balance of his or its Capital Account: such Withdrawing Member will withdraw from the Company as of the Withdrawal Date; the Manager will amend Schedule 1 to reflect the withdrawal of such Withdrawing Member; and such Withdrawing Member's Percentage Interest will be zero on and after the first day of the first Fiscal Year commencing after such Member's Withdrawal Date.

Upon any Member's withdrawal of less than the entire balance of his or its Capital Account, such Member's Percentage Interest will be reduced to reflect such Member's continuing interest in the Company, and such Member's Capital Account balance will likewise be adjusted. All such adjustments will be done in such a manner and at such time so that on and after the first day of the first Fiscal Year commencing after such Member's partial withdrawal, the Percentage Interests of the Members properly reflect such partial withdrawal.

### **8.04 WITHDRAWAL COSTS**

In connection with any withdrawal or exclusion, all expenses incurred by the Company, including but not limited to accounting, legal and other professional fees and expenses, will be borne by the Member who is excluded or withdrawing. A statement of expenses will be provided with the check returning the Member's Interest in the Company.

## **9 TRANSFER OF MEMBERSHIP INTERESTS**

### **9.01 RESTRICTIONS ON TRANSFER**

No Member, directly or indirectly, may voluntarily or involuntarily sell, transfer, assign, pledge, dispose of, grant a security interest in, mortgage, hypothecate, encumber or permit to suffer any encumbrances on all or any portion of his interest in the Company, whether by operation of law or otherwise, without the prior written consent of the Manager, which the Manager may withhold in its sole discretion.

No Member will, without the prior written consent of the Manager, which the Manager may withhold in its sole discretion, Transfer or permit any person holding a direct or beneficial interest in such Member to Transfer such interest if (i) as a result of such Transfer, the number of security holders of the Company for purposes of the Investment Company Act will be increased, (ii) any such Transfer, by itself or combined with other Transfers, would result in a termination of the Company under Section 708 of the Code, or (iii) any such Transfer, by itself or combined with other Transfers, would result in the Company being classified as a "publicly traded partnership" under Section 469(k) of the Code or under Section 7704 of the Code.

Any Transfer made other than in accordance with the terms of this Agreement (a "Void Transfer") will be void, and neither the Company nor the Manager will be required to recognize any equitable or other claims to such interest on the part of the Transferee thereof.

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## **9.02 TRANSFEREE'S AGREEMENT TO BE BOUND**

Any Transfer of all or any part of a Member's interest in the Company (with the prior written consent of the Manager) will not be effective until such Transferee executes an appropriate supplement to this Agreement pursuant to which such Transferee agrees to be bound by the terms and provisions of this Agreement as an assignee of the Transferor's interest.

## **9.03 OPINIONS; EXPENSES; OTHER CONDITIONS**

Any Transfer of all or any part of an interest in the Company will not be effective until the Transferor (if the Manager, at its sole discretion, so requests) (i) pays the Company's expenses (including attorney's fees) in connection with such Transfer, and (ii) delivers to the Company an opinion, satisfactory in form and substance to the Manager, from counsel satisfactory to the Manager, to the effect that the transaction will not violate the Securities Act, or any other applicable federal or state securities laws.

The Transferor and the Transferee of the Transferor's interest will, at the request of the Manager, make all filings required to be made by them, respectively, with any governmental agency or other authority in connection with such Transfer, and the Manager is authorized to make such filings on their behalf if not timely made by them.

## **9.04 TRANSFEREE'S CAPITAL ACCOUNT**

Any Transferee will assume the Capital Account balance (and any and all characteristics and attributes associated therewith) and all other rights or responsibilities under this Agreement of the Transferor in the Transferor's capacity as a Member.

## **10 DURATION AND TERMINATION OF COMPANY**

### **10.01 LIQUIDATING EVENTS**

The Company will dissolve and commence winding up and liquidating upon the first to occur of any of the following events (each a "Liquidating Event") :

- the election to dissolve and terminate the Company made in writing by the Manager;
- the receipt by the Manager of the written consent of all of the Members to dissolve the Company;
- the time there are no Members; provided further that the personal representative of the last remaining Member or its designee or nominee will not be admitted as a Member; or
- the entry of a decree of judicial dissolution.

### **10.02 WINDING UP**

Upon the occurrence of a Liquidating Event, the Company will liquidate in an orderly manner as promptly as will be practicable under the supervision and control of the Manager. The Manager may on behalf of the Company prosecute and defend suits, whether civil, criminal or administrative, gradually settle and close the Company's business, dispose of and convey the Company's property, discharge or make reasonable provision for the Company's liabilities, and distribute to the Members any remaining assets of the Company.



# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## **10.03 DISTRIBUTIONS UPON DISSOLUTION**

Upon the occurrence of a Liquidating Event, the Manager will, out of Company assets, make distributions in the following manner and order:

- to pay consulting fees and services required to obtain an accurate accounting of Company funds;
- to establish such reserves as the Manager deems reasonably necessary for any contingent or unforeseen liabilities or obligations of the Company, which reserves may be paid over to escrow agent to be held for disbursement in payment of any such liabilities or obligations for distribution of the; and
- to the Members in accordance with their respective positive Capital Account balances. Such amounts will be paid by the end of the Fiscal Year in which such liquidation occurs (or, if later, within 90 days after the date of such liquidation).

## **10.04 DISTRIBUTIONS IN CASH**

All distributions to a Member by the Company upon dissolution of the Company or otherwise may be made in cash via check drawn on a company account.

## **11 BOOKS OF ACCOUNT AND REPORTS**

### **11.01 BOOKS OF ACCOUNT**

The Company will use the cash method of accounting for federal income tax purposes. All properties held by the Company will be valued at the total cash investment rather than estimated or appraised resale value. Profits or losses are not recognized until final sale.

The Company will keep accurate and complete books of account. The accounts of the Company will be kept in accordance with generally accepted accounting principles (GAAP) in the United States of America. Upon written request, the Manager will make such books of account available for Member inspection at such reasonable times as the Manager may determine.

### **11.02 MEMBER REPORTS**

The books of account and records of the Company will be audited as of the end of each Fiscal Year by independent certified public accountants selected by the Manager.

In accordance with tax filing deadlines, the Manager will deliver the appropriate paperwork for Member's federal income tax returns, including a Schedule K1 statement showing the Member's share of taxable income, gain, loss, deductions and credits for the Fiscal Year, and the amount of any distributions made to or for the account of the Member pursuant to this Agreement. Such information will be delivered as soon as possible after the close of the Fiscal Year.

The Company will pay any additional audit or accounting fees incurred by the Manager in preparing the Manager's financial statements occasioned by the Manager's role in the Company.

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## **11.03 FINAL ACCOUNTING**

Within ninety (90) days after the date on which the Company is dissolved, an independent certified public accountant selected by the Manager will prepare a statement setting forth the financial position of the Company and stating each Member's Capital Account balance.

## **11.04 CONCLUSIVENESS OF AUDIT AND ACCOUNTING**

The determination by the independent certified public accountants selected by the Manager relating to accounting matters will be final and binding upon all Members.

## **11.05 TAX ELECTIONS**

The Manager will have the power to make, to not make or to revoke any elections now or hereafter required or permitted to be made by the Code (including, without limitation, an election under Section 754 of the Code) or any state or local law.

## **11.06 TAXABLE YEAR**

The taxable year of the Company will be a year ending December 31 except for the first taxable year will begin on the date of formation of the Company.

## **11.07 PROPRIETARY INFORMATION**

The method of operation of the Manager and his investment strategies and selections are confidential and proprietary to the Manager. For the period that this Agreement remains in effect each Member agrees for himself and his successors and assigns (i) always to keep secret and confidential all such information and (ii) never to use, or permit the use of, any such information in any fashion for his personal benefit or the benefit of any third person. The Manager will be entitled to equitable relief in the event of any violation, threatened or actual, by any Member, and each Member agrees that money damages are not an adequate remedy for any such violation.

## **12 MISCELLANEOUS**

### **12.01 WAIVER OF PARTITION**

Each Member hereby waives any right of partition or any right to take any other action which otherwise might be available to him for the purpose of severing his relationship with the Company or his interest in assets held by the Company from the interest of the other Members.

### **12.02 AMENDMENTS; OTHER ACTIONS OF MANAGER**

Subject to the Act, this Agreement may be amended by the written consent of both: (a) the Manager, in its capacity as such, and (b) a Majority in Interest of the Members; except that no such amendment will, without the approval of each Member affected thereby, change or alter this Section, change the Capital Account of any Member or his rights of withdrawal with respect thereto (except as required by law), or modify the manner of allocation of profits, losses or distributions to which any Member is entitled.

Notwithstanding the foregoing, the Manager, without the consent of the Members, may amend this Agreement in any respect if the Company is advised at any time by its legal counsel that any of

## DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

the provisions set forth herein are unlikely to be respected for federal income tax purposes or contrary to common law.

In addition, the Manager, without the consent of the Members, may amend this Agreement to correct any mistakes or ambiguities, in order that it will more accurately reflect the agreement among the Members.

Any amendments made by the Manager will be deemed to have been made pursuant to the Manager's fiduciary obligations to the Company and to the other Members, and no such amendment will give rise to any claim or cause of action against the Manager by any Member.

Notwithstanding anything to the contrary contained herein, the Manager is authorized to take such actions as may be necessary or appropriate, including, without limitation, amending this Agreement, to assure that the Company is not classified as a "Publicly Traded Partnership" under Section 7704 of the Code and the Treasury Regulations promulgated thereunder, or as an "investment company" required to be registered under the Investment Company Act.

### **12.03 INSURANCE**

The Manager may cause the Company to purchase and maintain, at the expense of the Company, insurance on behalf of the Manager or any agent appointed by the Manager against any liability asserted against it or him or incurred by it or him in any such capacity or arising out of its or his status as such, whether or not the Company would have the power to indemnify it or him against such liability.

### **12.04 BINDING EFFECTS; BENEFITS**

This Agreement will be binding upon and inure to the benefit of the parties hereto and their legal representatives, successors and assigns, as applicable.

### **12.05 HEADINGS**

The section and other headings of this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement.

### **12.06 COUNTERPARTS**

This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which will be deemed to be an original and all of which together will be deemed to be one and the same agreement. This Agreement will become binding when one or more counterparts hereof, individually or taken together, will bear the signatures of all of the parties reflected hereon as signatories.

### **12.07 ARBITRATION**

Any dispute or controversy arising out of or relating to this Agreement will be determined and settled by arbitration in California in accordance with prevailing Commercial Arbitration Rules of the American Arbitration Association. The award rendered by the arbitrator may be appealed de novo to any court of competent jurisdiction. The expenses of the arbitration, any court proceeding or appeal will be borne equally by the parties to the arbitration, court proceeding or appeal; provided that each party will pay for and bear the costs of its own experts and legal counsel.

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## **12.08 BENEFIT PLANS**

The Company will not knowingly engage in any transaction with respect to a Benefit Plan Member which would result in a violation of ERISA by the Company, the Manager or such Benefit Plan Member. The Company and the Manager may rely on any representation made by a Member as to any matter subject to ERISA or 4975 of the Code and will be fully protected in so relying. Any such Member will indemnify and hold harmless the Manager and the Company for any liability or costs whatsoever resulting from such Member's representation.

Department of Labor Regulation 2510.3-101 promulgated under ERISA provides that, subject to certain exceptions, a Benefit Plan that acquires an equity interest in an entity that is neither a publicly-offered security nor a security issued by a registered investment company will be deemed to have acquired an undivided interest in each of the underlying assets of the entity ("plan assets"), thereby subjecting the person who controls the assets of the entity to fiduciary liability with respect to the Benefit Plan. If the Company's assets become "plan assets," the Manager will take appropriate steps so that the Manager and the Company will comply with all the applicable provisions of ERISA and the Code, or in the alternative, redeem such Member's interest in the Company in the Manager's sole discretion.

## **12.09 GOVERNING LAW**

This Agreement will be governed by and construed both as to validity and enforceability in accordance with the laws of the State of California.

## **12.10 SEVERABILITY**

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms or provisions of this Agreement. Any provision deemed unenforceable will be construed in such a fashion as to be enforceable to the maximum extent permitted by applicable law.

## **12.11 MODIFICATION; WAIVER**

Except as otherwise contemplated hereby, no amendment or modification of, or waiver of any provision of, this Agreement or any part hereof and no notice or consent required or permitted to be given pursuant to this Agreement will be valid or effective unless in writing and signed by the party or parties sought to be charged; and no waiver of any breach or condition of this Agreement will be deemed to be a waiver of any other subsequent breach or condition, whether of like or different nature.

## **12.12 INTERPRETATION**

No provision of this Agreement is to be interpreted for or against either party because that party or that party's legal representative drafted such provision.

## **12.13 THIRD PARTY BENEFICIARIES**

Notwithstanding anything to the contrary contained herein, no provision of this Agreement is intended to benefit any party other than the parties hereto and will not be enforceable by any other party.

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## **12.14 ENTIRE AGREEMENT**

This Agreement constitutes the entire understanding and agreement among the parties, and supersedes all prior and agreements and understandings, inducements or conditions, express or implied, oral or written, except as herein contained.

## **12.15 INFORMATION REGARDING MEMBERS AND ACCOUNTS**

The Manager will provide to any Member information regarding Members or accounts requested by such Member subject to the following:

Information regarding Members and accounts may be inspected upon the reasonable written demand of any Member to the Manager or its duly authorized representative, during regular business hours for any purpose reasonably related to such Member's interest as a Member.

The Manager will establish reasonable standards governing, without limitation, the information and documents to be furnished and the time and the location, if appropriate, of furnishing such information and documents. Costs of providing such information and documents will be borne by the requesting Member. The Company will be entitled to reimbursement for its direct, out-of-pocket expenses incurred in declining unreasonable requests (in whole or in part) for information or documents.

The Manager may keep confidential from Members for such period of time as it deems reasonable any information that it reasonably believes to be in the nature of trade secrets or other information that the Manager, in good faith, believes would not be in the best interests of the Company to disclose or that could damage the Company or its business or that the Company is required by law or by agreement with a third party to keep confidential.

## **12.16 NOTICES**

Any notice or other communication contemplated by any provision of this Agreement will be made by hand delivery, certified mail, or fax.

## **13 DEFINITIONS**

### **13.01 CAPITALIZED TERMS**

Capitalized terms used in this Agreement have the following meanings:

"Act" means the the Beverly-Killea Limited Liability Company Act.

"Agreement" means this Agreement of Special Needs Homes, LLC, as amended as herein provided.

"Asset Value" means the Fair Market Value of all of the assets of the Company as of the date on which such determination is made.

"Benefit Plan" means an employee benefit plan covered by ERISA or a plan described in Section 4975(e) (1) of the Code.

"Benefit Plan Member" means a Member that is a Benefit Plan.

"Capital Account" means the capital account of each Member established pursuant to, and maintained in accordance with, 5.17 of this Agreement.

## DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

"Capital Contribution" means, with respect to each Member, the amount of cash or the Fair Market Value of property in U.S. dollars that such Member has actually contributed to the capital of the Company.

"Closing Date" is December 31, 2019.

"Code" means the Internal Revenue Code of 1986, as amended.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Fair Market Value" means in the case of any Properties, the amount determined as follows:

Properties acquired by the Company will be valued based on the total cash cost invested in the property including all costs, fees, taxes and expenses associated with the acquisition, renovation and disposition of real property. Each Property acquired by the Company will have independent accounting.

Properties will not be valued based on independent appraisal, brokers' opinion of value, or any other estimation of future resale value. Accrual accounting based on estimated future value would create an undue tax burden for members in the first year of operations.

The Manager may use methods of valuing Properties other than those set forth herein if it believes the alternate method is preferable in determining the fair value of such Properties. A description of any alternate method will be furnished to the Members prior to, or in connection with, the first report to Members in which the use of an alternate method has a material effect on the total value of the Properties owned by the Company. All values assigned to Properties by the Manager will be final, binding and conclusive on all of the Members; and

The foregoing definition of Fair Market Value is subject in all cases to the authority of the Manager to determine the Fair Market Value of any or all of the Company's Properties or other assets or property.

"Fiscal Year" means the Company's taxable year, which will be the calendar year for the purposes of the Code as adopted by the Manager, including the initial or final period of less than 12 calendar months which is considered a taxable year for purposes of the Code.

"Foreign Member" means any Member that is not a "U.S. person" within the meaning of Section 7701(a)(30) of the Code.

"Investment" means any property acquired by the Company for investment in accordance with the investment plan from 4.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"Liquidating Event" has the meaning ascribed thereto in 10.

"Majority in Interest of the Members" means, at any time, Members who hold, in the aggregate, more than 50% (by value) of the Percentage Interests of all the Members, or such larger percentage as may be required by law for the specific purpose for which the Members are being polled.

"Management Fee" means the fee payable to the Manager by the Company.

## DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

"Manager" means David Satosky or any other person hereafter duly appointed or designated as the manager to manage the business of the Company. The Manager will not be a Member of the Company.

"Member" and "Members" have the meanings ascribed thereto in the first paragraph of this Agreement.

"Membership Interests" means the rights and responsibilities of a Member under this Agreement, as defined in Section 4 and elsewhere in this Agreement and includes a Member's percentage interest.

"Net Asset Value" as that term is applied to the Company will be the U.S. dollar amount derived by subtracting (i) the liabilities of the Company from (ii) the Asset Value. "Net Asset Value" as that term is applied to a Member's Capital Account will be the share of the Net Asset Value of the Company allocated to such Capital Account.

"Net Profits" and "Net Losses" means the amounts determined as follows:

The Company does not operate as a growth fund. All profits, if any, are distributed at the end of each year, and in any year when profits are paid and distributed, the Net Asset Value of each Member's Capital Account is unchanged. All losses, if any, are deducted from the Net Asset Value of each Member's Capital Account.

(a) "Net Profits" for any Fiscal Year will be the excess of the Net Asset Value of the Company at the close of business on the last day of the Fiscal Year (presumably December 31) over the Net Asset Value of the Company as of the opening of business on the first day of such Fiscal Year (presumably January 1).

(b) "Net Losses" for any Fiscal Year will be the shortfall of the Net Asset Value of the Company at the close of business on the last day of the Fiscal Year (presumably December 31) over the Net Asset Value of the Company as of the opening of business on the first day of such Fiscal Year (presumably January 1).

The determination of Net Profits and Net Losses will take into account the Management Fee payable (i.e., the Management Fee will reduce Net Profits and increase Net Losses).

The definitions of Net Profits and Net Losses are intended to comply with the provisions of Treas. Reg. 1.704-1(b) (2) (iv) (including, without limitation, Treas. Reg. 1.704-1(b) (2) (iv) (d), 1.704-1 (b) (2) (iv) (f) and 1.704-1(b) (2) (iv) (g)) and will be interpreted consistently therewith.

"Percentage Interest" with respect to any Member for any Fiscal Period, means the amount, expressed as a percentage, determined by dividing the opening balance of such Member's Capital Account on the first day of such Fiscal Period by the sum of the opening balances of the Capital Accounts of all the Members on such day, and multiplying the result by 100 (i.e., expressed as a percentage).

"Treasury Regulation" or "Treas. Reg." will mean the treasury regulations promulgated pursuant to the Code, as they may be amended.

"Withdrawing Member" means a Member who is being excluded in whole or in part or who is withdrawing all or any part of his Capital Account.

# DISCLOSURE DOCUMENT AND OPERATING AGREEMENT OF SPECIAL NEEDS HOMES, LLC

## **13.02 ACCOUNTING TERMS, DETERMINATIONS, REFERENCES**

All accounting terms used herein and not otherwise defined will have the respective meanings ascribed to them in accordance with generally accepted accounting principles in the United States of America.

All section, article and schedule references are to this Agreement, unless otherwise expressly provided.

## **14 SIGNATURE**

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the Effective Date.

SPECIAL NEEDS HOMES, LLC, a California limited liability company

By: \_\_\_\_\_

David Satosky, Manager