

SUBSCRIPTION AGREEMENT

2000 Membership Units

\$5,000 per Unit

Total Subscription Offer - \$10,000,000

SUBSCRIPTION

THIS SUBSCRIPTION AGREEMENT (the "Agreement") is made by and between Special Needs Homes, LLC (the "Company"), a California limited liability company, and the undersigned prospective purchaser (sometimes hereinafter referred to as the "Investor") who is subscribing hereby for certain of the Company's Membership Interests ("the Membership Units" or "Units") pursuant to the Company's Confidential Private Placement Memorandum, dated _____ (the "Memorandum"), in accordance with the terms and conditions of this Subscription Agreement, and the Company Operating Agreement attached as **Exhibit A** ("Operating Agreement").

The Company is offering a maximum of 200 units (\$5,000,000), at \$5,000 per unit. The Company may in its sole discretion decide to increase the maximum offering to 280 units (\$7,000,000). Fractional unit purchases may be accepted at the discretion of the Company. Units are being offered by the Company through authorized employees of the Company. No commissions shall be paid to units sold by authorized employees of the Company.

1.00 ACCREDITED INVESTOR STATUS

The units are being offered only to Accredited Investors pursuant to certain exemptions from the registration of securities afforded issuers of securities under Section 4 (2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder. I understand that the offering is limited to Accredited Investors, and in order to qualify I represent and warrant that either Section 1 or 2 is applicable to me.

Section 1.

- a. _____ I, either individually or with my spouse, have a net worth (i.e., total assets in excess of total liabilities) currently exceeds \$1,000,000; or
- b. _____ I am a natural person who had an individual income in excess of \$200,000, or \$300,000 jointly with my spouse, in the last two years and reasonably expect an income in excess of \$200,000, if an individual, or \$300,000 if jointly with my spouse, in this year.
- c. _____ I qualify as a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring units, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under the federal Securities Act of 1933.
- d. _____ I am an executive officer or director of the Company; or
- e. _____ I qualify as an institution that qualifies as an "accredited investor," which is defined as Any bank as defined in Section 3(a)(2) of the federal Securities Act of 1933, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the federal Securities Act of 1933, whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the federal Securities Exchange Act of 1934, as amended; any insurance company as defined in Section 2(13) of the federal Securities Act of 1933; any investment company registered under the federal Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Investment Act of 1958, as amended; any employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of

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such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors or; Any private business development company as defined in Section 202(a)(22) of the federal Investment Advisers Act of 1940; or Any organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Units, with total assets in excess of \$5,000,000; or

- f. ____ If I am an entity in which all of the equity owners meet the criteria set forth under either (a), (b), (c), (d), or (e) above.

OR

Section 2.

____ I, either individually or through my Purchaser Representative, am not an accredited investor but have such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of, and protecting my own interest in connection with investing in the Interests. The total investment in the Interest does not exceed 20% of the Investor's net worth at the time of purchase of the Units (excluding personal residence(s), furnishings, and automobiles).

In consideration for the acceptance by the Company of this Subscription Agreement, I hereby agree, represent and warrant as follows:

1.01 SUBSCRIPTION AMOUNT & PAYMENT FOR MEMBERSHIP INTEREST

I hereby subscribe for a Membership in the Company in the dollar amount of \$_____.

Simultaneously with the execution and delivery of this Subscription Agreement, I am delivering to the Company the amount set forth above as the price of the Membership Interest for which I have subscribed in the form of a check payable to **Special Needs Homes LLC**.

I understand that the funds which accompany this Subscription Agreement will be returned promptly (without interest) in the event that my subscription is not accepted by the Company.

1.02 PAYMENT DELIVERY METHOD

Hand Delivered Check

Check by Certified Mail

Wire Transfer

Special Needs Homes LLC
c/o David Satosky
31271 Via Del Verde
San Juan Capistrano CA 92675

Domestic
Account Holder: Special Needs Homes LLC
Account #:
ABA/Routing #:

International
Account Holder: Special Needs Homes LLC
Account #:
Swift Code:

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Please do not initiate wire transfer until after receiving confirmation of approval from Manager.

1.03 CONFIDENTIAL MEMORANDUM

I hereby acknowledge receipt of a copy of the Confidential Private Placement Memorandum, dated _____ (the "Memorandum").

1.04 AGREEMENT NOT TO SELL MEMBERSHIP INTEREST

I hereby agree not to sell, hypothecate or otherwise dispose of my Membership Interest unless I have first obtained the consent of the Company and the Membership Interest is registered under the Securities Act of 1933, as amended (the 'Act') or, in the opinion of counsel for the Company, an exemption from the registration requirements of the Act is available.

1.05 SUBSCRIBER ACKNOWLEDGMENTS

The Investor is aware of and fully understands each of the following:

- (a) The Company will rely upon the information set forth in my Investor Questionnaire, attached to this Agreement as **Exhibit B**, in determining whether I am an Accredited Investor or not accredited, but, sophisticated within the meaning set forth above in Section 2.
- (b) **An investment in the Company is speculative in nature and involves a high degree of risk I assume a substantial risk of the loss of my entire investment in the Company.**
- (c) The units have not been registered for public sale under the federal Securities Act of 1933 or the securities laws of any state, and further understands that the units have not been approved or disapproved by the Securities and Exchange Commission or any other federal or state agency, nor has any such agency passed on the accuracy or adequacy of the Memorandum.
- (d) The subscription may be accepted or rejected, in whole or in part, in the sole and absolute discretion of the Company.
- (e) The Investor (if an individual) has adequate means of providing for the current needs of the Investor and possible personal contingencies and the Investor has no need for liquidity of the investment in the units made by the Investor.
- (f) The Investor is acquiring the Units for the Investor's own account for investment purposes only and not with a present view to resell or distribute them, in whole or in part. In that connection, the Investor recognizes and understands that the Units being purchased and sold has not been registered under the federal Securities Act of 1933 nor qualified under any state securities law, by reason of the fact that the contemplated transaction constitutes a private offering with the meaning of Section 4(2) of the 1933 Act and Regulation D promulgated thereunder, and is exempt from qualification under state securities laws.
- (g) **The Company has no current financial or operating history.**
- (h) **There are substantial restrictions on the transferability of the units set forth in the Operating Agreement and no transfer or sale of the units by the Investor will be binding upon or recognized by the Company without full compliance with such restrictions. The units will not be, and investors in the units have no**

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rights to require that the units be, registered under the federal Securities Act of 1933. There is no public market for the units, it is unlikely that any public market for the units will develop, the Investor will not be able to avail the Investor of the provisions of Rule 144 adopted by the Securities and Exchange Commission to dispose of the units, and, unless registered or an exemption from registration is available, the units must be held for an indefinite period of time and the Investor must bear the economic risk of the investment for such period. Accordingly, it may not be possible for the Investor to liquidate the investment of the Investor in the Company.

- (i) No federal or state agency has made any finding or determination as to the fairness of the offering of the Membership Interest for public investment, or any recommendation or endorsement of the Membership Interest.
- (j) Investor acknowledges that the Company has made available to me at a reasonable time prior to my investment the opportunity to ask questions and to obtain any additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to verify the information provided to me in the Memorandum. It is understood that all documents, records and books pertaining to this investment have been made available for inspection by me and that the books and records or the Company will be available upon reasonable notice for inspection by investors during reasonable business hours at the Company's principal place of business.
- (k) Any transferee of my Membership Interest may be required by the Company to fulfill the investor suitability standards applied to me.

1.06 REPRESENTATIONS AND WARRANTIES.

I hereby represent and warrant that:

- (a) I have accurately completed the Investor Questionnaire concerning my status as an Accredited Investor.
- (b) I am acquiring my Membership Interest without having relied upon any offering literature or prospectus other than the Memorandum.
- (c) I have carefully read the Memorandum The Company has made available to me all documents that I have requested relating to an investment in the Company, and has provided answers to all of my questions concerning the offering In evaluating the suitability of an investment in the Company, I have not relied upon any representations or other information (whether oral or written) other than as set forth in the Memorandum or as contained in any documents or answers to questions so furnished to me by the Company. In addition, I have had an opportunity to discuss this investment with representatives of the Company and to ask questions of them. I have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of this investment.
- (d) I recognize that an investment in the Company provides a high degree of risk, and I have taken full cognizance of and understand all of the risk factors related to the purchase of the Membership Interest, including but not limited to those set forth under the captions "Risk Factors" in the Memorandum.
- (e) The information provided in the Investor Questionnaire which I have submitted to the Company is true and correct as of the date hereof and I have such knowledge and experience in financial matters that, acting alone, I am capable of evaluating the merits and risks of the investment in the Company and at the present time I could afford a complete loss of my investment.
- (f) If this letter is executed by a corporation partnership association joint stock company, trust, unincorporated organization or other entity, (a) such entity was not formed for the specific purpose of acquiring the Membership Interest, (b) such entity is validly existing under the laws of the state or other jurisdiction of its organization, and (c) the consummation of the transactions contemplated hereby is authorized by and will not result in a violation of state law or its charter or other organizing document.

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The foregoing representations and warranties and information which I have provided to the Company concerning myself and any financial condition are true and accurate as of the date hereof and shall be true and accurate as of the date of notice by the Company of the acceptance of my subscription. I will give written notice of such fact to the Company, specifically which representations, warranties or information are not true and accurate and the reasons thereof.

1.07 INDEMNIFICATION.

I hereby acknowledge that I understand the meaning and legal consequences of my representations and warranties contained in this Agreement, and I hereby agree to indemnify and hold harmless the Company and its managers agents and employees from and against any and all loss, damage or liabilities (including attorney's fees, judgments, fines and amounts paid in settlement, payable as incurred) due to or arising out of a breach of any of my representations or warranties including, without limitation the information in this Subscription Agreement.

1.07 SUBSCRIPTION AGREEMENT BINDING ON HEIRS.

Once submitted to the Company, the Investor's subscription for units cannot be withdrawn, terminated, or revoked. This Subscription Agreement shall be binding upon my heirs, estate, legal representatives, successors and assigns, but shall not be transferred or assigned by the Investor. This Subscription shall be binding upon the Company only when and to the extent it is accepted by the Company, as evidenced by the signature hereon of a duly authorized officer of the Company.

1.08 EXECUTION AUTHORIZED.

If this Agreement is executed on behalf of a corporation, partnership, trust or other entity, the undersigned has been duly authorized to execute this Agreement and all other instruments in connection with the purchase of the Membership Interest, and the signature of the undersigned is binding upon such corporation, partnership, trust or other entity.

1.09 ARBITRATION.

Any dispute or controversy arising out of this agreement the purchase of an interest in the Company, or the rights or liabilities of the members or the manager of the Company shall be settled by arbitration in Orange County, California.

1.10 ADOPTION OF OPERATING AGREEMENT.

The Undersigned adopts, accepts, and agrees to be bound by all of the terms and provisions of the Operating Agreement and to perform all obligations imposed on a Member with respect to the Membership Units purchased. On acceptance of this Subscription Agreement by the Manager on behalf of the Company, and on filing by the Manager of Articles of Organization establishing the Company, the Undersigned shall become a member of the Company for all purposes.

1.11 POWER OF ATTORNEY

The Investor does hereby irrevocably constitute and appoints the Manager with full power of substitution, the true and lawful attorney-in-fact for the Investor with respect to the Company, granting unto such attorney-in-fact full power and authority on behalf of the Investor (a) to sign, execute, swear to, deliver and file the Operating Agreement, the Articles of Organization, and all other instruments (including amendments) that the Manager deems appropriate to form, qualify, or continue the Company as a limited liability company in the state of California and all other jurisdictions in which the Company conducts or plans to conduct business and (b) all instruments that the Manager deems appropriate to reflect any amendment to the Operating Agreement, or modification of the Company, made in accordance with the terms of the Operating Agreement and (c) all instruments relating to the admission of any additional or substituted Member and (d) all conveyances and other instruments that the Manager deems appropriate to reflect the dissolution and termination of the Company under the terms of the Operating Agreement.

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The foregoing is a special power-of-attorney coupled with an interest, is irrevocable, and shall survive the death or legal incapacity of the Investor. The Manager, or any person appointed as attorney-in-fact in substitution for the Manager, may exercise such power-of-attorney, as attorney-in-fact, by executing any agreements, certificates, instruments or documents with a single signature as attorney-in-fact for all Members.

1.12 CHOICE OF LAW

This Subscription Agreement shall be construed in accordance with and governed by the laws of the state of California, except for the manner in which the Undersigned elects to take title to the Membership Units, which shall be construed in accordance with the laws of the state of his or her principal residence.

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IN WITNESS WHEREOF, I have caused this Subscription Agreement to be duly executed as of the _____ day of _____, _____

SIGNATURES FOR VESTING AS AN INDIVIDUAL(S)

SUBSCRIBER ONE (1)

SUBSCRIBER TWO (2)

Signature

Signature

Print Name of Subscriber

Print Name of Subscriber

Social Security or Tax I.D. Number

Social Security or Tax I.D. Number

Witness

Witness

Signature of Spouse (see below)

Signature of Spouse (see below)

* Signature of spouse required only if subscriber or spouse is currently residing in one of the following states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin.

SIGNATURES FOR VESTING AS AN ENTITY

Name of Entity

Tax I.D. Number

Signature of Authorized Person

Witness

Printed or Typed Name

Title

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MANNER IN WHICH TITLE IS TO BE HELD:

- Community Property (one signature required if interest held in one name, i.e., managing spouse or domestic partner; two signatures required If interest held in both names)
- Individual Property (one signature required)
- Corporation (fill out all documents in the name of the corporation, by the President or other officer authorized to sign, and include a copy of the Corporation's Articles and certified Corporate Resolution authorizing the signature)
- Tenants in common (both or all parties must sign)
- Joint Tenants with right of survivorship and not as tenants in common (both or all parties must sign)
- General Partnership (fill out all documents in the name of the partnership, by a partner authorized to sign, and include a copy of the Partnership Agreement)
- Pension or Profit Sharing Plan (fill out all documents in the name of the pension, by the trustee or custodian, and include a copy of the instrument creating the pension and any other documents necessary to show that the investment by the trustee or custodian is authorized; the date of the pension must appear on the Notarial where indicated)
- Trust or Fiduciary Capacity (fill out all documents in the name of the trust, by the trustee, and include a copy of the instrument creating the trust and any other documents necessary to show that the investment by the trustee is authorized)
- Other:

Please specify _____

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The Manager has accepted this Subscription as of the date hereof.

Special Needs Homes, LLC

By: David Satosky

Manager

By: _____

Title: _____

Date: _____

A SUBSCRIPTION FOR THE PURCHASE OF MEMBERSHIP INTEREST MAY BE TERMINATED WITHOUT LIABILITY TO THE COMPANY OR ANY OTHER PARTY WITHIN THREE (3) BUSINESS DAYS AFTER THE SUBSCRIBER (1) ENTERS INTO A BINDING CONTRACT OF PURCHASE OR (2) MAKES ANY PAYMENT FOR HIS MEMBERSHIP INTEREST, WHICHEVER IS LATER, PAYMENTS FOR TERMINATED SUBSCRIPTIONS WILL BE REFUNDED, WITHOUT INTEREST.