

**BLACKBURNE & BROWN MORTGAGE FUND II, L.P.**  
**Up to \$5,000,000 Limited Fund Interest Units (“Units”) at \$100 per Unit<sup>1</sup>**  
**Minimum Investment: \$2,000 (20 Units)<sup>2</sup>**

Blackburne & Brown Mortgage Fund II, L.P. a California limited partnership (the “**Fund**”), is a California limited partnership, and its sole general partner is Blackburne & Sons Realty Capital Corporation, a California corporation, f/k/a Blackburne & Brown Mortgage Company, Inc. (the “**General Partner**” or “**Blackburne**”). The Fund has been organized for the purpose of making, purchasing and participating in loans secured by deeds of trust that encumber real property located primarily within California. The Fund commenced business in February of 2008 and as of August 31, 2010 had a total capitalization of approximately \$1,419,563. (See “Operations to Date.”) The General Partner is a real estate broker licensed by the California Department of Real Estate and will arrange and service loans on behalf of the Fund. (See “The General Partner and its Affiliates.”)

Investors purchasing Units will become limited partners in the Fund (“**Limited Partners**”) governed by the terms and conditions of the Limited Partnership Agreement dated December 14, 2000, a copy of which is attached hereto as Exhibit A (the “**Limited Partnership Agreement**”). An investment in the Fund is not immediately liquid and is subject to substantial restrictions on transfer and withdrawal. (See “Terms of the Offering – Restrictions on Transfer” and “Summary of the Limited Partnership Agreement – Withdrawal from Fund.”) Investors should not purchase Units unless they intend to hold the Units for a significant amount of time. This offering also involves certain ERISA risks that should be considered by tax-exempt employee benefit plans. (See “Tax Considerations” and “ERISA Considerations.”)

**THIS OFFERING INVOLVES SIGNIFICANT RISKS, DESCRIBED IN DETAIL IN THIS OFFERING CIRCULAR. See “Risk Factors” beginning on page 7 for certain factors investors should consider before buying Units.** Significant risks include the following: (i) the Fund is a “blind pool” because the General Partner has not yet identified specific loans to make with the proceeds of the sale of Units; (ii) loans invested in by the Company will not be insured by any government agency, instrumentality or entity; (iii) investment in Units is subject to substantial withdrawal restrictions and investors will have a limited ability to liquidate their investment in the Fund; (iv) the transfer of Units is restricted and no public market for Units exists or is likely to develop; (v) the General Partner is entitled to various forms of compensation and is subject to certain conflicts of interest; and (vi) Investor Limited Partners will have no right to participate in the management of the Fund and will have only limited voting rights.. **Prospective purchasers of Units should read this Offering Circular in its entirety.**

|               | Price to Investors | Selling Commissions <sup>3</sup> | Net Proceeds to the Fund <sup>4</sup> |
|---------------|--------------------|----------------------------------|---------------------------------------|
| Per Unit      | \$100.00           | \$0.00                           | \$100.00                              |
| Total Maximum | \$5,000,000.00     | \$0.00                           | \$5,000,000.00                        |

(Footnotes on next page)

**General Partner:**  
**BLACKBURNE & SONS REALTY CAPITAL CORPORATION**  
**4811 Chippendale Drive, Suite 101**  
**Sacramento, California 95841**  
**(916) 338-3232 • [www.blackburneandsons.com](http://www.blackburneandsons.com)**

*The date of this Offering Circular is October 18, 2010*

THESE SECURITIES ARE BEING OFFERED AND SOLD ONLY TO RESIDENTS OF THE STATE OF CALIFORNIA PURSUANT TO A PERMIT GRANTED BY THE CALIFORNIA COMMISSIONER OF CORPORATIONS. THE COMMISSIONER OF CORPORATIONS DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF THESE SECURITIES, NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OF THE INFORMATION SET FORTH HEREIN.

THE SALE OF UNITS COVERED BY THIS OFFERING CIRCULAR HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS PROVIDED FOR UNDER SECTION 3(a)(11) OF THE ACT AND RULE 147 THEREUNDER RELATING TO INTRASTATE OFFERINGS.

ACCORDINGLY, THESE UNITS ARE BEING OFFERED SOLELY TO CERTAIN SELECTED RESIDENTS OF THE STATE OF CALIFORNIA, AND THIS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY WITH RESPECT TO ANY OTHER PERSON. FURTHERMORE, FOR A PERIOD OF NINE MONTHS FROM THE TERMINATION OF THIS OFFERING, NO UNITS MAY BE SOLD OR OTHERWISE TRANSFERRED EXCEPT TO RESIDENTS OF THE STATE OF CALIFORNIA.

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THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY IN ANY STATE OTHER THAN THE STATE OF CALIFORNIA OR WITH RESPECT TO ANY PERSON WHO IS NOT A BONA FIDE RESIDENT OF CALIFORNIA, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY WITH RESPECT TO ANY PERSON EXCEPT THOSE PARTICULAR PERSONS WHO SATISFY THE SUITABILITY STANDARDS DESCRIBED HEREIN. (SEE "INVESTOR SUITABILITY STANDARDS.")

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<sup>1</sup> The \$5,000,000 maximum amount of this offering may be increased by the General Partner at any time.

<sup>2</sup> The minimum purchase is \$2,000 (20 Units).

<sup>3</sup> Units will be offered and sold by the General Partner or by his duly authorized agents and employees. The General Partner, in its sole discretion, may arrange for Units also to be sold through registered securities broker-dealers. Any such agents, employees or broker-dealers will be paid selling commissions to be negotiated on a case-by-case basis. These selling commissions will be paid by the General Partner, and shall not be an expense of the Fund, but no such sales have occurred to date. (See "Plan of Distribution.") There is no firm commitment from any third party to purchase or sell any of the Units.

<sup>4</sup> "Net Proceeds to the Fund" are calculated before deducting ongoing offering expenses, including without limitation legal and accounting expenses, reproduction costs, selling expenses and filing fees paid to the California Department of Corporations. (See "Use of Proceeds.")

SUBSCRIPTION FUNDS RECEIVED FROM PURCHASERS OF UNITS WILL NOT BE ADMITTED TO THE PARTNERSHIP UNTIL APPROPRIATE LENDING OPPORTUNITIES ARE AVAILABLE OR SUCH FUNDS ARE REQUIRED TO PAY PROPER PARTNERSHIP EXPENSES, AS DESCRIBED HEREIN. DURING THE PERIOD PRIOR TO THE TIME OF ADMISSION, WHICH IS ANTICIPATED TO BE LESS THAN 90 DAYS IN MOST CASES, PURCHASERS' SUBSCRIPTIONS WILL REMAIN IRREVOCABLE AND WILL EARN INTEREST AT MONEY MARKET RATES, WHICH ARE LOWER THAN THE ANTICIPATED RETURN ON THE PARTNERSHIP'S LOAN PORTFOLIO. (SEE "TERMS OF THE OFFERING – SUBSCRIPTION AGREEMENTS; ADMISSION TO THE PARTNERSHIP.")

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THERE IS NO MARKET FOR UNITS AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. SUMS INVESTED IN THE PARTNERSHIP ARE ALSO SUBJECT TO SUBSTANTIAL RESTRICTIONS ON WITHDRAWAL AND TRANSFER, AND THE UNITS OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

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NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFERING CIRCULAR, AND ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON ANY PROSPECTIVE PURCHASER OF UNITS WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE GENERAL PARTNER IMMEDIATELY TO CHECK ITS ACCURACY. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALES HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE PARTNERSHIP SINCE THE DATE HEREOF.

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PROSPECTIVE PURCHASERS SHOULD NOT REGARD THE CONTENTS OF THIS OFFERING CIRCULAR OR ANY OTHER COMMUNICATION FROM THE PARTNERSHIP AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH POTENTIAL INVESTOR IS ENCOURAGED TO CONSULT WITH HIS OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONAL WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO HIS OWN TAX SITUATION, PRIOR TO SUBSCRIBING FOR PARTNERSHIP UNITS.

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THE PURCHASE OF PARTNERSHIP UNITS BY A QUALIFIED PENSION OR PROFIT-SHARING PLAN, INDIVIDUAL RETIREMENT ACCOUNT ("IRA"), KEOGH PLAN OR OTHER QUALIFIED RETIREMENT PLAN INVOLVES SPECIAL TAX RISKS AND OTHER CONSIDERATIONS THAT SHOULD BE CAREFULLY CONSIDERED. (SEE "TAX

CONSIDERATIONS” AND “ERISA CONSIDERATIONS.”) INCOME EARNED BY QUALIFIED PLANS AS A RESULT OF AN INVESTMENT IN THE PARTNERSHIP MAY BE SUBJECT TO FEDERAL INCOME TAXES, EVEN THOUGH SUCH PLANS ARE OTHERWISE TAX-EXEMPT. (SEE “TAX CONSIDERATIONS.”)

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**EXHIBITS**

- Exhibit A – Limited Partnership Agreement
- Exhibit B – Subscription Agreement
- Exhibit C – Financial Statements

## **SUMMARY OF THE OFFERING**

The following information is only a brief summary of the offering, and is qualified in its entirety by, the detailed information appearing elsewhere in this Offering Circular. A thorough examination of the entire Offering Circular is recommended.

|   |  |
|---|--|
| Fund Objectives .....   | Blackburne & Brown Mortgage Fund II, L.P. is a California limited partnership formed for the purpose of making or investing in loans secured by first and second deeds of trust on real property. The Units offered hereby represent limited partnership interests in the Fund.  |
| The General Partner, Mortgage Broker and Servicing Agent..... | Blackburne & Sons Realty Capital Corporation, 4811 Chippendale Drive, Suite 101, Sacramento, California 95841.   |
| Suitability Standards .....                                   | Units are offered exclusively to certain individuals, ERISA plans, IRAs and other qualified investors who are California residents and who meet certain minimum standards of income and/or net worth. (See “Investor Suitability Standards.”)  |
| Capitalization .....  | Minimum of \$150,000; maximum of \$5,000,000 (subject to increase by the General Partner).   |
| Mortgage Loan Portfolio.....                                  | Fund loans will be secured either by (i) real estate located within or outside of California, consisting primarily of apartment buildings, office buildings, commercial and industrial properties, and/or (ii) secured promissory notes that are, in turn, secured by real property. Loans will be made while this offering is continuing. (See “Lending Standards and Policies.”) |
| Compensation to the General Partner and Affiliates .....      | The General Partner will receive substantial fees and other compensation. (See “Compensation to General Partner and Affiliates.”)  |
| General Partner’s Experience .....                            | The General Partner has had substantial prior experience in the mortgage lending business. (See “The General Partner and its Affiliates.”)   |
| Term of the Fund .....  | Until December 31, 2030, unless sooner terminated. (See “Summary of Limited Partnership Agreement.”)   |

|                                   |   |
|-----------------------------------|---|
| Cash Distributions.....           | Choice of (1) regular monthly cash distributions of Fund income, or (2) income credited to capital accounts. This election, once made upon subscription for Units, is irrevocable by the investor; however, the General Partner, at his sole and absolute discretion, reserves the right to commence making cash distributions at any time to previously compounding ERISA investors in order for the Fund to remain exempt from the ERISA plan asset regulations. (See “ERISA Considerations” and “Summary of Limited Partnership Agreement.”) |
| Withdrawal.....                   | Investors have no right to demand withdrawal of all or a portion of their investment for 12 months after investment. Thereafter, investors have a limited right to withdraw from the Fund and withdrawals may be unavailable or subject to delay due to such restrictions. The Fund may utilize money from new subscriptions to fund withdrawals. (See “Summary of Limited Partnership Agreement -- Withdrawal from Fund” and “Risk Factors -- Risks Related to Ownership of Units.”)   |
| Restrictions on Transfers .....   | There are substantial restrictions on transferability of Units under federal and state securities laws and under the Limited Partnership Agreement. (See “Terms of Offering -- Restrictions on Transfer” and “Risk Factors -- Risks Related to Ownership of Units.”)  |
| Liquidity.....                    | The purchase of Units is an illiquid investment. There is no public market for Units and none is expected to develop in the foreseeable future and an investor’s withdrawal of invested capital is limited by Fund cash flow and other restrictions. (See “Risk Factors -- Risks Related to Ownership of Units.”)   |
| Reports to Limited Partners ..... | Annual reports including audited financial statements, and monthly statements of account.   |
| Risks .....                       | An investment in Units is subject to certain risks which should be carefully evaluated before an investment in Units is made. (See “Risks and Other Important Factors.”)  |
| Conflicts of Interest .....       | The Fund’s business operations will be managed entirely by the General Partner, which is subject to certain conflicts of interest. (See “Conflicts of Interest.”)   |

Voting ..... Limited Partners will have no right to vote on matters concerning the Fund except as expressly granted in the Limited Partnership Agreement or required by law. All voting rights granted to Limited Partners in the Limited Partnership Agreement require the affirmative vote of Limited Partners representing a majority of the total outstanding Units. (See “Risk Factors – Risks Related to Ownership of Units.”)

## **INVESTOR SUITABILITY STANDARDS**

To purchase a Unit, an investor must meet certain eligibility and suitability standards, some of which are set forth below, and must execute a Subscription Agreement in the form attached hereto as Exhibit B. By executing the Subscription Agreement, an investor makes certain representations and warranties, upon which the General Partner will rely in accepting subscriptions. Read the Subscription Agreement carefully. Each investor must represent in writing that such investor is a bona fide resident of the State of California (or, if the investor is a trust, corporation or other entity, that the principal office of such trust, corporation or other entity is located in California). In addition:

1. Each Investor must have either (a) a net worth (exclusive of home, furnishings and automobiles) exceeding \$250,000 and an annual gross income exceeding \$65,000; or (b) a net worth (exclusive of home, furnishings and automobiles) exceeding \$500,000; and
2. The amount of each Investor’s investment in Units must not exceed 10% of such Investor’s net worth (exclusive of home, furnishings and automobiles).
3. If the investor is an ERISA Plan (such as a pension or profit sharing plan, Individual Retirement Account, or 401(k) plan), the foregoing requirements must be met by either the ERISA Plan itself or, if the investment is being made on behalf of a plan participant who has the power to direct the investment on his or her behalf, by the plan participant for whose account the investment is being made.
4. If the investor is a fiduciary account other than an ERISA Plan (such as a family trust or a custodial account for the benefit of a minor), the foregoing suitability standards may be met by any of the following: (i) by the fiduciary account itself; (ii) by the trustee or custodian if that person is the donor of the funds for investment; or (iii) by the donor of the funds for investment if the only beneficiaries of the fiduciary account are the donor’s ancestors, descendants or spouse.

## **TERMS OF THE OFFERING**

This offering of Units is made to a limited number of selected persons that meet the Investor suitability standards set forth above. The Unit subscription price to each Limited Partner is \$100 per Unit with a minimum subscription from each investor of \$2,000, or 20 Units. Each Unit of investment represents a limited partnership interest in the Fund.



## **Minimum-Maximum Offering; Formation of the Fund**

The Fund was formed on December 14, 2000 upon the filing of the Certificate of Limited Fund with the Office of the California Secretary of State; however, the General Partner did not begin offering interests in the Fund until January 2008 and began doing business (i.e., making or investing in mortgage loans) in February of 2008.

The maximum capitalization of the Fund is \$5,000,000 (20,000 Units). This maximum may be increased by the General Partner at any time. This offering may also be terminated at the option of the General Partner at any time.

The General Partner presently anticipates that the Fund will not have more than 499 Limited Partners, because to exceed that number would require the Fund to register as a reporting company under Section 12 of the Securities and Exchange Act of 1934, which would incur very substantial reporting and compliance costs.

## **Subscription Agreements; Admission to Fund**

Units may be purchased at the rate of \$100.00 per Unit by completing the Subscription Agreement and Power of Attorney attached hereto as Exhibit B (the “**Subscription Agreement**”) and delivering the executed Subscription Agreement to the General Partner. Units may be purchased with cash or, in the case of investors that hold direct interests in loans being serviced by the General Partner (“**Trust Deed Investors**”), by directing the General Partner to utilize all or a portion of the distributions payable to a Trust Deed Investor on their outstanding Trust Deed Investments to purchase Units in the Fund.

## **Cash Subscriptions**

Any potential investor including Trust Deed Investors, may purchase Units for Cash by completing and executing the Subscription Agreement and delivering the Subscription Agreement to the General Partner together with the purchase price payable for Units (“**Cash Subscriptions**”). The minimum Cash Subscription amount is \$2,000 (i.e., 20 Units); provided, however, that the General Partner may, in its sole discretion, accept Cash Subscriptions in lesser amounts. Cash Subscriptions will be accepted or rejected by the General Partner promptly after receipt. The General Partner reserves the right to reject any Cash Subscription submitted for any reason. If accepted, an investor submitting a Cash Subscription (a “**Cash Subscriber**”) will become a Limited Partner and the Cash Subscriber’s entire investment will be deposited into the Fund only when all, or any portion, of the Cash Subscriber’s subscription funds are required by the Fund to invest in a mortgage loan, to create appropriate reserves or for any other proper Fund purpose at which time all or a portion of the Cash Subscription funds will be transferred to the Fund. (See “Use of Proceeds.”) Until then, a Cash Subscriber’s subscription is irrevocable, and Cash Subscription funds received by the General Partner may be held by it for the account of each Cash Subscriber in a subscription account pending transfer into the Fund (the “**Subscription Account**”). Generally, investors’ funds will be transferred from the subscription account into the Fund’s operating account on a first-in, first-out basis; however, the General Partner reserves the right to admit non-ERISA plan investors before ERISA plan investors in order for the Fund to remain exempt from the application of the plan asset regulations issued by

the Department of Labor in 1986. (See “ERISA Considerations.”) The General Partner has the right to admit only a portion of an investor’s subscription funds at any given time; however, in no case will the General Partner admit less than the required minimum investment by a Cash Subscriber (i.e., \$2,000). Only upon transfer of an investor’s subscription funds from the subscription account into the Fund’s operating account will an investor become a Limited Partner in the Fund. Upon admittance, an investor’s subscription funds plus interest earned on such subscription funds while being held in the subscription account, will be released to the Fund and Units will be issued at the rate of \$100 per Unit.

Cash Subscriptions are non-cancelable and irrevocable, and subscription funds are non-refundable for any reason, except with the consent of the General Partner. Notwithstanding the preceding sentence, subscription funds (including interest earned) remaining in the subscription account 60 days after those funds were received from the investor shall be returned to the investor if a written request is received from the investor prior to the subscription funds being admitted to the Fund. After having subscribed for at least 20 Units (\$2,000), an investor may at any time, and from time to time, subscribe to purchase additional Units in the Fund so long as the offering is open.

### **Rollover Subscriptions**

In addition to purchasing Units for cash, Trust Deed Investors receiving periodic interest principal payments (“**Trust Deed Distributions**”) on outstanding trust deed investments serviced by the General Partner (each a “**Trust Deed Investment**”) may purchase Units by directing the General Partner to utilize all or a portion of such Trust Deed Distributions to purchase Units on their behalf (a “**Rollover Subscription**”). Rollover Subscriptions may be made by indicating the number of Units to be purchased from Trust Deed Distributions in the “Rollover Subscription Election” section of the Subscription Agreement. The \$2,000 initial minimum subscription amount applicable to Cash Subscriptions is not applicable to Rollover Subscriptions and existing Trust Deed Investors and Trust Deed Investors are not required to subscribe for Units equal to the entire amount payable to such investor under their Trust Deed Investment. Any Trust Deed Distributions in excess of the number of Units subscribed for (if any) will be, thereafter, be distributed to the Trust Deed Investor in accordance with the Loan Servicing Agreement governing the applicable Trust Deed Investment.

Trust Deed Investors must meet the Investor Suitability Standards set forth above at the time the Rollover Subscription is submitted and by delivering a Rollover Subscription Subscription Agreement to the General Partner a Trust Deed Investor is authorizing the General Partner to issue future payments otherwise due to the Trust Deed Investor to the Fund for the in exchange for the number of Units indicated therein. Rollover Subscriptions received from Trust Deed Investors will be accepted or rejected by the General Partner promptly after receipt. The General Partner reserves the right to reject any Rollover Subscription submitted for any reason and may cancel previously submitted Rollover Subscriptions at any time, for any reason, including, but not limited to, the General Partner’s determination that the issuance of any new Units in accordance with a Rollover Subscription would violate any securities laws or other laws or regulations applicable to this offering.

If accepted, each Trust Deed Distribution made from the General Partner's trust account following such acceptance will be made payable to the Fund for the benefit of the Trust Deed Investor and immediately deposited into the Subscription Account. Rollover Subscriptions will be transferred from the Subscription Account to the Fund's operating account on the first day of the next month following the date Trust Deed Distribution is made, only, at which time Units in the amount of the Trust Deed Distribution will be issued in the name of the Trust Deed Investor at the rate of \$100 per Unit. Rollover Subscriptions payable from future Trust Deed Distributions are cancelable by a Trust Deed Investor at any time prior to the transfer of the Trust Deed Distribution into the Fund's Subscription Account at which point such subscriptions become irrevocable, except at the discretion of the General Partner.

### **Election to Receive Monthly Cash Distributions**

Upon subscription for Units, an investor must elect whether to receive monthly cash distributions from the Fund or to allow his or her earnings to compound for the term of the Fund. This election, once made, is irrevocable except at the discretion of the General Partner. Notwithstanding the foregoing, in no event may an investor change his or her election from distributions to compounding unless there is then in effect a permit issued by the California Commissioner of Corporations qualifying the sale of Units by the Fund. The General Partner reserves the right, at any time, to immediately commence making monthly cash distributions to ERISA plan investors who previously compounded earnings in order to ensure that the Fund remains exempt from the Plan Asset Regulations pursuant to the "significant participation" exemptions. (See "ERISA Considerations.")

Income allocable to investors who elect to compound their earnings will be retained by the Fund for investing in mortgage loans or other proper Fund purposes. Investors who compound will be credited with a gradually increasing proportionate share of Fund earnings compared to investors who receive monthly distributions because the capital accounts of those investors who compound will gradually increase.

### **Use of Subscriptions to Pay Pending Withdrawal Requests**

Subscription amounts transferred into the Fund may be utilized by the General Partner for any proper Fund purpose, including funding mortgage loan investments, creating appropriate reserves or paying Fund expenses. Additionally, the General Partner may accept subscriptions for the purpose of fulfilling Limited Partners' withdrawal requests if at the time of receipt of a subscription there is a "waiting list" for withdrawals from the Fund. (See "Summary of Limited Partnership Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of the Units.") Investors should ask the General Partner about length or aggregate amount of the then-current waiting list for withdrawals if that information would be a factor in determining whether to invest in Units.

### **Restrictions on Transfer**

As a condition to this offering of Units, restrictions have been placed upon the ability of investors to resell or otherwise dispose of Units, including without limitation the following:

(1) No Limited Partner may resell or otherwise transfer any Units without the prior written consent of the General Partner, which may be withheld in its sole discretion. (See “Summary of Fund Agreement.”)

(2) Units may not be sold or transferred without the prior written consent of the California Commissioner of Corporations, except as permitted by the Commissioner’s Rules. (See “Commissioner’s Rule 260.141.11.”)

(3) During the period that Units are being offered and sold and for a period of nine months from the date of the last sale of Units offered hereby, no Units may be sold or otherwise transferred to any person who is not a *bona fide* resident of the State of California.

A legend will be placed upon all instruments or certificates evidencing ownership of Units in the Fund stating that the Units have not been registered under the Securities Act of 1933, as amended, and setting forth the foregoing limitations on resale, and notations regarding these limitations shall be made in the appropriate records of the Fund with respect to all Units offered hereby. The foregoing steps will also be taken in connection with the issuance of any new instruments for any Units that are presented for transfer during the nine-month period described in subparagraph (3) above.

## **RISK FACTORS**

Any investment in the Units involves a significant degree of risk and is suitable only for investors who have no need for liquidity in their investments or who can bear the loss of their entire investment. When analyzing this offering, prospective investors should carefully consider the following risks and other factors, in addition to those discussed under the captions “Compensation to General Partner,” “Conflicts of Interest,” and “Federal Income Tax Consequences.” If any of these risks actually occur, the business, financial condition and operating results of the Fund could be materially adversely affected.

### **Risks Related To The Fund’s Business**

#### **The Fund will be subject to risks related to private money and high-yield mortgage loans.**

The Fund does not intend to make the type of loans that resulted in the “sub-prime mortgage” collapse in 2007-2008, both because it will not make loans secured by owner-occupied homes and because its loans will not have such high loan-to-value ratios. As a private money lender, the Fund may, however, make or invest in loans to borrowers that are less creditworthy than those who can satisfy institutional lenders’ credit requirements or who cannot satisfy institutional lenders’ income documentation requirement. (See “Fund Business and Lending – Lending Standards and Policies.”)

The private money loans invested in by the Fund may also be made on an asset rather than credit basis. Such loans involve numerous risks, some of which include: (i) the additional risk of the non-availability of credit for a borrower to refinance a Fund loan at maturity; (ii) the additional risk of foreclosures in the area surrounding the security property negatively affecting the value of the property securing a Fund loan; (iii) constraints on consumer credit affecting the

ability of borrowers to sell residential property; and (iv) the additional risk of an abandonment of property by a borrower due to other financial problems or general market decline. The occurrence of any of these events for a borrower could lead to a default on a Fund loan, causing losses and extra costs to the Fund, which may lead to lower returns or losses for investors.

**The Fund could suffer defaults on the loans in its portfolio and may have to foreclose on the underlying real estate collateral.**

The Fund is in the business of lending money and, as such, takes the risk of defaults by borrowers. Most Fund loans will provide for relatively small monthly payments of principal and interest with a large “balloon” payment of principal due at the end of the term. Most borrowers are unable to repay the principal amount of such loans out of their own funds and therefore must sell the real property security or refinance at maturity. A downturn in the real estate market, fluctuations in interest rates and the unavailability of mortgage funds could adversely affect the ability of borrowers to pay off or refinance their loans at maturity. If the real property security consists of undeveloped land, it may be more difficult for the borrower to sell or refinance its loan than if the real property security were improved real estate because undeveloped land is generally viewed as being a riskier and more speculative form of investment or real property security than improved real estate.

**The real estate market is experiencing declines in property values.**

During the present real estate market decline, the most dramatic and well-publicized declines in property values (and the largest loan losses) have occurred in the single-family residential sector. However, other property categories are also experiencing declines in value and a dramatic slow-down in sales. It is impossible to forecast how significant such declines will be or how long any of these sectors or the economy generally will be affected. If the market value of properties securing Fund loans continues to decline significantly or declines below the amount of a Fund loan on such property, borrowers may have difficulty paying or refinancing the loan or selling the property, causing losses to the Fund and investors.

**Borrower’s Financial Status**

The Fund will evaluate the creditworthiness of a borrower based on a review of financial information provided by the borrower, and by making other inquiries (e.g., running a credit check). However this financial information and these inquiries will be given and made as of a particular point in time. The financial condition and/or credit status of the borrower could change subsequent to when this financial information and these inquiries are given and made.

If a loan is secured by hypothecated notes, the creditworthiness of the borrowers under the hypothecated notes may affect the value of the hypothecated notes as security. The Fund may not be able to obtain any credit information about the borrowers under hypothecated notes, or the amount of credit information that the Fund is able to obtain may be less than it would obtain in the course of evaluating the creditworthiness of the primary borrower. The Fund will look principally to the payment history under a hypothecated note in deciding whether or not to accept the hypothecated note as security.

The Fund may not be able to obtain credit information about a borrower under a note that the Fund is contemplating purchasing. As with hypothecated notes, the Fund will look principally to the payment history under the note in deciding whether or not to purchase the note.

**Fund loans may be subject to the additional risks related to due-on-encumbrance clauses**

Most first deeds of trust contain “due-on-encumbrance” clauses permitting the holder to declare a default and accelerate a loan if the borrower executes an additional deed of trust on the security property in favor of a junior lienholder. In such cases, a second mortgage loan by the Fund would entitle the senior lienholder to commence foreclosure, which would jeopardize the Fund’s investment. Such clauses are generally enforceable (except where the security property consists of 1-4 unit residential property). If the Fund makes a second mortgage loan, the General Partner generally will not seek the prior written consent of the senior lienholder. This could place the Fund’s investment at risk if the senior lienholder declares an event of default. For this reason, the General Partner does not presently intend to make loans secured by second mortgages.

**The Fund will be operating in a highly competitive business.**

Due to the nature of the Fund’s business, its profitability will depend to a large degree upon the future availability of secured loans. The Fund will compete with other private money lenders, institutional lenders and others engaged in the mortgage lending business, including banks and savings institutions, many of which have greater financial resources and experience than the Fund. If these companies increase their marketing efforts to include the Fund’s market of borrowers, or if additional competitors enter these markets, the Fund may be forced to reduce its interest rates and fees in order to maintain or expand market share. Any reduction in interest rates or fees charged could have an adverse impact on the Fund’s liquidity and profitability.

**If the Fund cannot collect all of the principal and interest due on its loans, the Fund’s ability to earn a profit or to Fund withdrawals will be impaired.**

The Fund’s liquidity is dependent on, among other things, payments by borrowers of principal and interest on Fund loans. The General Partner will continually monitor the delinquency status of the Fund’s loan portfolio and promptly institute collection activities on delinquent accounts but these efforts may ultimately prove unsuccessful. Loan repayments are also likely to be affected by economic conditions in the real estate market. The failure of the Fund to collect nearly all of the principal and interest on Fund loans will affect the Fund’s profitability and may substantially impair the Fund’s ability to operate successfully.

**A decline in the demand for, or increase in the risks of, real estate financing will impair the Fund’s ability to make loans or could jeopardize repayment.**

A variety of factors affect the demand for real estate financing, including, without limitation, economic cycles, demand for and availability of new development and construction, competitive pressures, the availability and cost of labor and materials, changes in costs associated with real estate ownership, changes in consumer preferences, demographic trends and the availability of mortgage financing. The Fund will be directly and materially affected by the same risks faced by borrowers as well as those inherent to the commercial and residential real

estate development and construction industries. Recently, the U.S. has experienced significant deterioration in certain sectors of the real estate, credit and mortgage markets which may negatively impact the Fund's ability to make suitable real estate loans. Any reduction in the cash flows, income or financial condition of commercial and residential real estate borrowers by reason of any of the aforementioned factors or others may significantly impair their ability to repay the Fund, which would increase the possibility that delinquencies would occur, that the Fund would incur losses and that Limited Partners would lose some or all of their investment in the Units.

**A decline in real estate values may impair the collateral for Fund loans.**

Declining real estate values will increase the probability of a loss in the event of a borrower default on Fund loans. As noted elsewhere in these Risk Factors, the U.S. has recently been experiencing significant deterioration in certain sectors of the real estate market. As a result, the value of the real estate or other collateral securing Fund loans may not, at any given time, be sufficient to satisfy the outstanding principal amount and accrued interest on such loans. If a borrower were to default, and if the collateral were insufficient, the Fund would suffer a loss and Limited Partners could lose some or all of their investment.

**The Fund may lend to credit-impaired borrowers, which may make its investment portfolio susceptible to high levels of default risk.**

The Fund may lend money to borrowers that are either unable or unwilling to obtain financing from traditional sources, such as commercial banks. Loans made to such individuals or entities may entail a high risk of delinquency and loss. Higher than anticipated delinquencies, foreclosures or losses will adversely affect the Fund's profitability and results of operations, and may result in a loss of some or all of the Limited Partners' investment in Units.

**The purchase of a minority interest in a loan may affect the ability of the Fund to direct loan enforcement decisions.**

The Fund may purchase undivided fractional interests in loans arranged by the General Partner on behalf of the Fund and other lenders rather than funding or acquiring an entire loan in the name of the Fund at closing. (See "Fund Management and Loan Servicing – Loan Brokerage and Servicing.") In such circumstances, the General Partner will service the loan as the agent of the Fund as well as the other purchasers of interests in the loan and could be subject to additional conflicts of interests in determining the appropriate actions to take on behalf of all of the lenders. (See "Conflicts of Interests"). Moreover, pursuant to the servicing agreement between the General Partner, the Fund and the other lenders on the loan, the General Partner's actions in connection with loan enforcement will be directed by lenders holding more than 50% of the total outstanding interests in the loan. Consequently, if the General Partner arranges for the Fund to purchase a minority interest in a loan, the Fund will not have the right to control the enforcement of its rights under the loan if such enforcement action conflicts with the decisions of the majority.

**The Fund's business entails risks related to the ownership of real property.**

When the Fund acquires any equity in real property by foreclosure or otherwise, the Fund is exposed to the risks of liability incident to real property ownership or tenancy. Owners of real property may be subject to liability for injury to persons and property occurring on the real property or in connection with the activity conducted thereon, as well as liability for failure to comply with governmental regulations.

**The Fund may suffer from uninsured losses.**

The General Partner will require comprehensive title, fire and casualty insurance (as applicable) on the properties securing the Fund's loans. At the General Partner's discretion, the General Partner may also require earthquake insurance, but will not generally do so. However, there are certain types of losses (generally of a catastrophic nature) which are either uninsurable or not economically insurable, such as losses due to war, floods, mudslides or other acts of God. Should any such disaster occur, or if casualty insurance is allowed to lapse through oversight, the Fund could suffer significant loan losses.

**The industry in which the Fund will be active is not extensively regulated or supervised.**

The lending and investment practices of the Fund are not supervised or regulated by any federal or state authority, except to the extent that the lending and brokerage activities of the General Partner and the Fund are subject to supervision or regulation by the California Department of Real Estate or Department of Corporations. A return on a Limited Partner's investment is completely dependent upon the successful operation of the Fund's business. To the extent that the Fund does not operate successfully for any reason, its ability to return Limited Partners' investments and earn a profit is limited.

**There are risks of government action if the General Partner or the Fund does not comply with all applicable laws and regulations.**

While the General Partner will use its best efforts to comply with all local, state and federal lending regulations applicable to it and to the Fund, there is the possibility of governmental action to enforce any alleged violations of such lending laws which may result in legal fees, damage awards or fines and penalties.

**The Fund may be responsible for environmental liabilities.**

Under current federal and state law, the owner of real property contaminated with toxic or hazardous substances (including a mortgage lender that has acquired title through foreclosure) may be liable for all costs associated with any remedial action necessary to bring the property into compliance with applicable environmental laws and regulations. This liability may arise regardless of who caused the contamination or when it was caused.

The Fund does not and will not participate in the on-site management of any facility on the property in order to minimize the potential for liability for cleanup of any environmental contamination under applicable federal, state or local laws. There can be no assurance that the Fund would not incur full recourse liability for the entire cost of any such removal and cleanup,



or that the cost of such removal and cleanup would not exceed the value of the property. In addition, the Fund could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. The Fund would also be exposed to risk of lost revenues during any cleanup, and to the risk of lower lease rates or decreased occupancy if the existence of such substances or sources on the property becomes known. If the Fund fails to remove the substances or sources and clean up the property, it is possible that federal, state and/or local environmental agencies could perform such removal and cleanup, and impose and subsequently foreclose liens on the property for the cost thereof. The Fund may find it difficult or impossible to sell the property prior to or following any such cleanup. Fund could be liable to the purchaser thereof if the General Partner knew or had reason to know that such substances or sources existed. In such case, the Fund could also be subject to the costs described above. If toxic or hazardous substances are present on real property, the owner may be responsible for the costs of removal or treatment of the substances. The owner may also incur liability to users of the property or users of neighboring property for bodily injury arising from exposure to such substances. If the Fund is required to incur such costs or satisfy such liabilities, this could have a material adverse effect on Fund profitability. Additionally, if a borrower is required to incur such costs or satisfy such liabilities, this could result in the borrower's inability to repay its loan from the Fund.

Even if the Fund does not foreclose on a contaminated site, the mere existence of hazardous substances on the property may depress the market value of the property such that the loan is no longer adequately secured.

A lender's best protection against environmental risks is to thoroughly inspect and investigate the property before making or investing in a loan. The General Partner may take some precautions to avoid environmental problems but is not required to engage in any specific environmental review of the property. Where deemed appropriate by the General Partner prior to making a loan, the Fund may engage a qualified environmental inspection firm to conduct an environmental review of the property (which may or may not include a "Phase I" or other level of environmental review). However, due to the nature of many types of environmental contamination, the possibility of the existence of toxic substances may not be apparent from a site visit, and any environmental review conducted may not reveal the extent or all types of contamination. As a result, it is possible that a security property could have toxic contamination not known to the General Partner at the time of making the subject loan.

### **The Fund may be subject to the additional risks associated with undeveloped land**

The property that secures a loan, or the property that secures hypothecated notes, may consist of undeveloped land. For a number of reasons, undeveloped land is generally considered a riskier and more speculative form of security for a loan than is improved real estate. For example, before improvements can be constructed on undeveloped land the owner of the land may need to secure entitlements (e.g., zoning approvals, variances, and architectural approvals), undergo review of and obtain clearance on environmental impact issues (including issues concerning traffic, open space, school or transit impact, endangered species, wetlands, noise and air quality), obtain building permits, secure access and connections to necessary utilities, obtain construction financing, undertake and complete construction, and find buyers or tenants once the

undeveloped land has been improved. Many of these risks are no longer at issue with respect to improved real estate.

Moreover, it is likely that undeveloped land will not generate any income that can be used to pay the interest and/or principal owing under the loan or real property taxes assessed against the undeveloped land. Accordingly, the borrower must have other sources of income in order to make these payments. If hypothecated notes are secured by undeveloped land, then the borrowers under such hypothecated notes must also have other sources of income in order to make their payments under the hypothecated notes.

Even if the owner of undeveloped land intends to hold the undeveloped land for investment, rather than developing the land itself, any prospective purchaser of the undeveloped land will take these risks into account when it sets the purchase price. Additionally, it can take up to several years or more to market and sell undeveloped land. Due to this potentially protracted time frame, it may be difficult for the owner of undeveloped land to sell the undeveloped land in time to pay off the loan at maturity. Finally, most lenders are more reluctant to lend against undeveloped land than against improved real estate due to the risks and other matters described above. Due to these considerations, it may be more difficult for a borrower to sell or refinance the real property security in order to repay the loan, or for the borrowers under hypothecated notes to sell or refinance in order to repay the hypothecated notes.

In acknowledgment of these increased risks, the Fund will not make a loan secured by undeveloped land that exceeds 50% of the current fair market value of the undeveloped land. This does not, however, eliminate the risks described above. It merely provides the Fund with a greater equity cushion should the borrower default under a loan, but the Fund would still suffer a loss if the property value falls by almost half, which can easily occur with undeveloped land.

### **The Fund will face an ongoing risk of litigation.**

The General Partner will act in good faith and use reasonable judgment in selecting borrowers and making and managing the loans. However, as a lender, the General Partner and the Fund are exposed to the risk of litigation by a borrower for any allegations by the borrower (warranted or otherwise) regarding the terms of the loans or the actions or representations of the General Partner in making, managing or foreclosing on the loans. It is impossible for the General Partner to foresee what allegations may be brought by a specific borrower. The General Partner will use its best efforts to avoid litigation if, in the General Partner's judgment, the circumstances warrant an alternative resolution. If an allegation is brought and/or litigation is commenced against the Fund or the General Partner, the Fund will incur legal fees and costs to respond to the allegations and to defend any resulting litigation. If the Fund is required to incur such fees and costs, this could have an adverse effect on Fund profitability.

### **Risks Related to the General Partner**

#### **The Limited Partners must rely on the General Partner for the success of the Fund**

The loans in which the proceeds of this offering will be invested have not yet been determined, and Limited Partners will have no opportunity to review potential Fund loans. The General Partner will participate in all decisions with respect to the management of the Fund,

including the determination as to what loans to make or purchase, and the Fund is dependent to a substantial degree on their continued services. In the event of the dissolution death, retirement or other incapacity of the General Partner or those key principals listed in the “General Partner and Its Affiliates” section hereof, the business and operations of the Fund may be adversely affected.

**The Limited Partners will not have the ability to control the day to day operations of the Fund or to control the General Partner. It will be difficult to remove the General Partner.**

The Limited Partners will not have a voice in the management decisions of the Fund and can exercise only a very limited amount of control over the General Partner. The Limited Partners have only the voting rights set forth in the Limited Partnership Agreement or required by California law. A vote of a majority of the Limited Fund interests is required to remove the General Partner. Because there may be a significant number of Limited Partners holding Units, and Limited Partners may have differing opinions with respect to a course of action to take respecting the Fund, it may be difficult, time consuming and costly to solicit adequate votes to remove the General Partner.

**The General Partner is not required to devote its full time to the business of the Fund.**

The General Partner is not required to devote its full time to the Fund’s affairs, but only such time as the affairs of the Fund may reasonably require. Each of the principals of the General Partner has ongoing businesses outside of and in addition to the business of the Fund.

**The General Partner is subject to conflicts of interest.**

There are several areas in which the interests of the General Partner will conflict with those of the Fund, which should be carefully considered. (See “Conflicts of Interest.”)

**Limited Partners of the Fund will have no claim to the fees payable to the General Partner.**

The Fund and its borrowers will pay certain fees and compensation to the General Partner. (See “Compensation to General Partner.”) These fees will be owed as incurred. Even if the Fund is unsuccessful in generating sufficient income to cover its operations, it will have no claim against the General Partner for a refund of such fees.

**Risks Related to Ownership of the Units**

**There is no market for the Units, and transfer of the Units could be severely restricted by law or market conditions.**

There is no public market for the Units and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Units is also restricted by the provisions of the Securities Act of 1933, as amended, and Rule 144 thereunder, and by the provisions of the Limited Partnership Agreement. (See “Terms of the Offering – Restrictions on Transfer.”) Any sale, transfer or encumbrance of Units also requires the prior written consent of the General Partner, which may be withheld in its sole discretion. Furthermore, Limited Partners will have only limited rights to redeem Units or withdraw from the Fund or to otherwise obtain the return of their invested capital. Therefore, all purchasers of Units must be capable of bearing

the economic risks of this investment with the understanding that their interest in the Fund may not be liquidated by resale, and should expect to hold their Units for an undetermined period of time, and should understand that such inability to sell or withdraw “on demand” will subject an investment in Units to any losses the Fund may experience during such period.

**Limited Partners will be subject to actions taken by a Majority of the Limited Partners.**

The Limited Partners have only the voting rights set forth in the Limited Partnership Agreement or required by California law and a vote of a Majority of Limited Partners is required to exercise such rights. Consequently, each Limited Partner will have no right to require or approve any action of the Fund or the General Partner that conflicts with the will of the Majority of Limited Partners and it may be difficult, time consuming and costly to solicit adequate votes to take any action because there may be a significant number of Limited Partners holding Units, and Limited Partners may have differing opinions with respect to a course of action to take.

**The Fund will be taxed as a “Fund” and the Limited Partners will be taxed as “Partners.”**

The Fund will elect to be treated as a partnership for federal income tax purposes. Any favorable federal tax treatment presently available with respect to the Fund could be affected by any changes in tax laws that may result through future Congressional action, tax court or other judicial decisions, or interpretations of the Internal Revenue Service. IN VIEW OF THE FOREGOING, PROSPECTIVE LIMITED PARTNERS ARE URGED TO REVIEW THE “FEDERAL INCOME TAX CONSEQUENCES” SECTION CAREFULLY AND TO CONSULT THEIR OWN TAX COUNSEL.

**The Units are not insured or guaranteed by any government agency or public entity.**

The Units are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or any other governmental agency or public entity, in contrast to certificates of deposit or accounts offered by banks, savings and loan associations or credit unions. Limited Partners in the Fund will be dependent on the General Partner’s ability to effectively manage the Fund’s business to generate sufficient cash flow for the repayment of Limited Partners’ capital and the generation of any profit. If Fund cash flow proves inadequate, investors could lose part or all of their investments.

**The Fund will not set aside any funds to satisfy requests for withdrawals or redemptions from the Fund. A new investor’s subscription may be used in whole or in part to fund withdrawals or redemptions.**

The General Partner will not create or contribute funds to a separate account in order to fund requests for withdrawal from the Fund and redemption of an investor’s Units. Because funds are not set aside periodically to fund such withdrawals, Limited Partners must rely on cash flow from operations and funds from the sale of Units to satisfy withdrawal requests. Money received from the sale of Units may be used in whole or in part, at the discretion of the General Partner, to fund such withdrawal and redemption requests. To the extent cash flow from operations and the sale of Units is not sufficient to fund withdrawal requests received by the Fund at any time, an Unit which is unredeemed will remain subject to Fund operations, which may include Fund losses. Furthermore, an investor may be admitted to the Fund at a time when

there is a waiting list to withdraw, making it likely that such investor will not be able to withdraw quickly upon being admitted and therefore will remain subject to the Fund's operating results, which may include losses.

**Fluctuations in interest rates pose risks to the Fund's business.**

Mortgage interest rates are subject to abrupt and substantial fluctuations, but the right of a Fund Limited Partner to withdraw capital from the Fund is subject to substantial restriction and Units are a relatively illiquid investment. If prevailing interest rates rise above the average interest rate being earned by the Fund's loan portfolio, investors may wish to liquidate their investment in order to take advantage of higher returns available from other investments but may be unable to do so.

**The Limited Partnership Agreement does not contain provisions to protect investment in the Units.**

The Units do not have the benefit of extensive protective provisions in the Limited Partnership Agreement. The provisions of the Limited Partnership Agreement are not designed to protect a Limited Partner's investment if there is a material adverse change in the Fund's financial condition or results of operations. For example, a Limited Partner's ability to withdraw from the Fund is limited. Therefore, the Limited Partnership Agreement provides very little protection of Limited Partners' investment.

**Investment delays carry risk.**

There may be a delay between the time a subscription is submitted by a prospective investors and the time the Fund accepts such subscription and the investor becomes a Limited Partner. (See "Terms of the Offering – Subscription Procedures.") During such time, investors will not earn interest on their investment. There may also be a delay between the Fund's receipt of capital into the operating account (from new subscriptions, loan payoffs or otherwise) and the funding of a loan with such capital. During these periods of delay, the proceeds may be invested in interest bearing accounts, short-term certificates of deposit, money-market funds or other liquid assets which will not yield as high a return as the anticipated return to be earned on Fund loans. The length of these delays may adversely affect the overall investment return to Limited Partners.

**Limited Partners may be obligated to return certain impermissible distributions.**

Limited Partners are not required to contribute any additional capital to the Fund beyond their investment to pay any debts of the Fund. Under California law, however, limited partnerships such as the Fund are prohibited from making distributions to their Limited Partners if following such distribution the limited liability company would be unable to pay its debts or following such distribution the company's total liabilities would exceed its total assets. Limited Partners receiving such distributions may be obligated to return the distribution but only if such Limited Partner had actual knowledge of the impropriety of the distribution at the time it was made. Consequently, to the extent that a return of a Limited Partner's capital contribution is deemed a distribution, a Limited Partner may be required under certain circumstances to return

such distributions to the Fund to discharge the Fund's liabilities to creditors who extended credit to the Fund during the period such capital contribution was held by the Fund.

**The Units are risky and speculative investments and if you cannot afford to lose your entire investment, you shouldn't invest.**

Prospective investors should be aware that the Units are risky and speculative investments suitable only for investors of adequate financial means. If you cannot afford to lose your entire investment, you should not invest in the Units. If the Fund accepts an investment, you should not assume that the Units are a suitable and appropriate investment for you.

**There is no guaranty that monthly distributions of Fund income will be made. Investors that will sustain substantial economic hardship in the absence of monthly income distributions from the Fund should not invest.**

An investor in the Fund may, upon purchasing Units, elect to have his or her share of Fund earnings distributed on a monthly basis; however, neither the amount of, nor the right to, such monthly distributions is guaranteed. Investors purchasing Units are only entitled to distributions equal to their pro-rata share of monthly net income to the extent cash is available for distribution. If the Fund is unable to generate sufficient accrued cash in any given month to distribute to electing Limited Partners no distributions will be made. (See "Summary of Limited Partnership Agreement – Cash Distributions.") Consequently, investors that will rely on the monthly income received from the Fund to meet their monthly expenses or who will suffer substantial economic hardship in the absence of such income should not invest.

**Investors have not been independently represented in the formation of the Fund.**

Investors in the Fund have not been represented by independent counsel in its organization, and the attorneys who have performed services for the Fund have also represented the General Partner. Thus, conflicts of interest between the Fund and the General Partner may not have been addressed as vigorously as in an arms-length transaction. (See "Conflicts of Interest.")

## **PARTNERSHIP BUSINESS AND LENDING**

The Fund will engage in the business of making loans secured by deeds of trust that encumber real estate located primarily in California and, in some circumstances, loans that are secured by promissory notes that are, in turn, secured by deeds of trust (i.e., hypothecated notes). The Fund may also purchase loans from third parties when, in the General Partner's discretion, it is beneficial for the Fund to do so. All Fund loans will be selected by the General Partner pursuant to the guidelines set forth in the "Lending Standards and Policies" subsection below.

### **General**

The General Partner is a licensed California real estate broker and will be responsible for selecting, underwriting and arranging the loans made or purchased by the Fund. In addition to the asset management fee payable to the General Partner for managing the Fund, the General

Partner will earn points, averaging 0% to 5% of loan principal, on all loans it arranges for the Fund and will receive a servicing fee for servicing each loan on behalf of the Fund. (See “Compensation to General Partner” and “Conflicts of Interest.”) Borrowers generally will borrow from the Fund an amount sufficient to pay the points to the General Partner, which becomes part of the loan balance to be repaid by the borrower. All of the promissory notes and deeds of trust evidencing Fund loans will list the Fund as the initial lender or will be assigned to the Fund upon purchase of the loan. The Fund will earn income from the interest on such loans, and from the payment of late fees, prepayment penalties and other fees which may be charged to borrowers.

The Fund may in some circumstances rely primarily on the value of the real property securing loans to protect its investment with less emphasis on the credit of the borrower. To determine the value of the real property, the Fund will obtain an appraisal to determine the fair market value of real property used to secure loans made by the Fund, but no assurance can be given that such an analysis will in any or all cases, be and remain accurate.

In some circumstances, the Fund may purchase undivided fractional interests in loans (“**Fractional Interests**”) arranged by the General Partner on behalf of the Fund and other lenders rather than funding an entire loan; however, the Fund will only acquire Fractional Interests in loans that meet the standards set forth in the “Lending Standards and Policies” section, below. (See “Risk Factors – Risks Relating to the Fund’s Business” and “Conflicts of Interest – Fractional Interests.”)

## **Lending Standards and Policies**

### **General Standards for Mortgage Loans**

The Fund, either alone or by participating with other lenders (including the General Partner or an affiliate of the General Partner), will engage in the business of making or investing in loans or Fractional Interests in loans secured by deeds of trust on real property located within or outside of California, including multiple unit residential property with more than four units, commercial property, mixed use property and unimproved land. The Fund may make or invest in construction or rehabilitation loans that are underwritten based upon the completed value of the construction or rehabilitation due to the increased risks of loss associated with such loans; however, to date, it has not done so. Fund loan investments will be selected pursuant to the guidelines set forth below, which guidelines are designed to set standards for the quality of the real property security given for the loans.

1. **Priority of Mortgages.** Loans will be secured by a first or second deed of trust on real property located primarily in California. If a loan is secured by a first deed of trust, the deed of trust will be senior to all other recorded monetary liens other than liens for taxes or the assessments of special assessment districts to fund streets, utilities or other public improvements. If a loan is secured by a second deed of trust the obligations secured by the senior lien(s) must not be in default at the time of the loan closing; however, loan proceeds may be used to cure defaults under the senior lien(s). Loans may also be secured by one or more additional deeds of trust encumbering other real property owned by the borrower or its affiliates where, in the

General Partner’s reasonable judgment, such cross-collateralization is necessary to meet the loan-to-value ratio requirements set forth herein.

2. Property Types. Fund loans will be secured by non-owner occupied properties such as apartment buildings, office buildings, commercial and industrial properties and small shopping centers. The Fund will not make any construction loans, nor will it make or invest in loans secured by one-to-four unit residential property. The Fund may occasionally make loans secured by unimproved land, but only if the loan is secured by a first deed of trust on the property.

3. Geographic Area of Lending Activity. Most Fund loans will be secured, directly or indirectly, by deeds of trust on properties located in California; however, the Fund may also invest in loans secured by real property in other states if such loans otherwise satisfy the underwriting criteria described herein.

4. Loan-to-Value Ratios. The amount of the Fund’s loan, combined with the outstanding debt secured by any senior deed of trust on the security property, generally will not exceed the percentages stated below, based on the value of the security property as determined by an independent third party appraisal at the time the loan is made. This loan-to-value ratio may be increased on a case-by-case basis if, in the sole discretion of the General Partner, a loan is supported by credit adequate to justify a higher loan-to-value ratio.

| <u>Type Of Security Property</u>  | <u>Loan-To-Value Ratio</u> |
|---|----------------------------|
| <i>First Deeds of Trust</i>   |                            |
| Commercial property (including industrial, retail and mixed use properties) and residential property with five or more units  | 75%                        |
| Unimproved Land   | 50%                        |
| <i>Second Deeds of Trust</i>  |                            |
| Commercial property (including industrial, retail and mixed use properties) and residential property with five or more units) | 70%                        |
| Unimproved Land   | None                       |

The foregoing loan-to-value ratios will not apply to purchase-money financing offered by the Fund to re-sell any real estate acquired by the Fund through foreclosure or to refinance an existing loan that is in default at the time of maturity. In such cases, the General Partner, in its sole discretion, shall be free to accept any reasonable financing terms that it deems to be in the best interests of the Fund.

In determining the value of a security property, the Fund will use only independent third party certified appraisers or other independent appraisers.



Although the Fund may conduct cursory physical inspections of the security property, due to the costs involved it will not obtain inspection reports from licensed civil engineers nor will it obtain environmental site assessments or otherwise conduct thorough environmental investigations to determine the existence of any toxic or hazardous substances. (See “Risks and Other Important Factors -- Environmental Liabilities.”)

5. Terms of Loans. Most Fund loans will be for a period of one to 10 years, but in no event more than 15 years. Most loans will provide for monthly payments of principal and interest, with a “balloon” payment of principal payable in full at the end of the term.

6. Loan Documents. All loan documents (notes, deeds of trust, etc.) and insurance policies regarding loans made by the Fund will name the Fund as payee and beneficiary. However, in those cases where the General Partner, an Affiliate or a third party makes a loan which is then purchased by the Fund, the loan documents and insurance policies will name the initial payee of the loan (i.e., the General Partner, an Affiliate or a third party). Upon the Fund’s purchase of all or a portion of such loan, the note and deed of trust, or such portion thereof, will be assigned to the Fund. All deeds of trust or assignments of the deed of trust will be duly recorded in the county where the security property is located and, in the case of a purchased loan, the note will be duly endorsed in favor of the Fund.

7. Escrow Conditions. Fund loans will be funded through the General Partner or a qualified title insurance or escrow company. The escrow agent will be instructed not to disburse any of the Fund’s funds out of the escrow for purposes of funding the loan until the following conditions are met:

(a) Satisfactory title insurance coverage has been obtained for all loans, with the title insurance policy naming the Fund as the insured and providing title insurance in an amount equal to the principal amount of the loan. Title insurance insures only the validity and priority of the Fund’s deed of trust, and does not insure the Fund against loss by reason of other causes, such as diminution in the value of the security property, over-appraisals, borrower’s defaults, etc.

(b) Satisfactory fire and casualty insurance has been obtained on all loans (except loans secured by unimproved land), which insurance shall name the Fund as loss payee in an amount at least equal to the replacement value of the improvements on the security property. (See “Risks and Other Important Factors.”) The General Partner does not intend to arrange for mortgage insurance which would afford some protection against loss if the Fund foreclosed on a loan and there was insufficient equity in the security property to repay all sums owed. Additionally, the General Partner will not require the borrower to carry liability insurance.

(c) All loan documents (notes, deeds of trust, etc.) and insurance policies will name the Fund as payee and beneficiary or additional loss insured, as applicable. In the event the Fund purchases loans, the Fund shall receive assignments of all beneficial interest in any documents related to each loan so purchased. Fund investments in loans will not be held in the name of the General Partner or any other nominee.

8. No Loans to the General Partner. No loans will be made to the General Partner or to its Affiliates.

9. Note Hypothecation. The Fund also may make loans that are secured by pledges (or “hypothecations”) of loans that are, in turn, secured by mortgages. The amount of the pledged (or “hypothecated”) loan must satisfy the loan-to-value ratios set forth in Paragraph 3 above, and the Fund’s loan will not exceed 80% of the principal balance of the hypothecated loan. For example, if the property securing a promissory note is unimproved land, (a) the total amount of outstanding debts secured by the property (including the hypothecated loan and any senior mortgages) must not exceed 50% of the appraised value of such property, and (b) the Fund loan will not exceed 80% of the principal balance of the hypothecated loan. For purposes of making loans secured by hypothecated notes, the Fund shall rely on the appraised value of the underlying property as of the date the loan being hypothecated was made, subject to the General Partner’s reasonable determination that the property has not declined by an amount that would cause the Fund’s loan to exceed either of the foregoing size limitations. No more than twenty percent 20% of the Fund’s loan portfolio at any time will be secured by assigned hypothecated notes.

10. Loan Diversification. No Fund loan (or Fund interest in a loan) will exceed the greater of (a) \$60,000, or (b) 20% of total Fund assets.

11. Reserve Fund. The General Partner will initially establish a contingency reserve fund equal to approximately 3% of the gross proceeds of this offering, for the purpose of meeting unexpected cash needs of the Fund. Reserve funds are not invested in mortgage loans but are invested in short-term investments (such as money market accounts) which provide lower yields than Fund loans. This reserve fund may be depleted (even to zero) as the Fund uses it to pay unplanned expenses, which may include (without limitation) advances to senior lienholders, attorneys fees to enforce Fund loans and other litigation costs, property expenses, etc.

## **Credit Evaluations**

The General Partner intends to strongly consider the income level and general creditworthiness of a borrower to determine his or her ability to repay the Fund loan according to its terms; however, on occasion such considerations may be subordinate to a determination that a borrower has ample equity in the security property to satisfy the loan-to-value ratios described above. Loans may be made to borrowers who are in default under other of their obligations (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations.

## **Sale of Loans**

The Fund will make mortgage loans for investment, and does not engage in real estate operations (other than those which may be required if, among other things, the Fund forecloses on a property on which it has made a mortgage loan and takes over management of the property). The Fund does not presently intend to make mortgage loans primarily for the purpose of reselling such loans in the ordinary course of business. However, the Fund may occasionally sell mortgage loans (or fractional interests therein) when the General Partner determines that it appears to be advantageous to the Fund to do so, based upon then current interest rates, the Fund’s cash flow requirements, and the investment objectives of the Fund.

## **PARTNERSHIP MANAGEMENT AND LOAN SERVICING**

### **General**

The General Partner will have the sole authority to manage the affairs of the Fund including the sole authority to: (i) identify and arrange loans and Fractional Interests to be made or purchased by the Fund; (ii) monitor and assess loan portfolio performance and set the Fund's accounting procedures; (iii) oversee loan servicing and make loan enforcement decisions; and (iv) otherwise direct the day-to-day operations of the Fund. Limited Partners will have limited rights to vote on or direct the actions of the Fund and must rely upon the Manger to make decisions in the best interests of the Fund. (See "Risk Factors – Risks Related to the General Partner" and "Conflicts of Interests.")

### **Loan Brokerage and Servicing**

It is anticipated that the General Partner will act as the Fund's exclusive loan broker pursuant to its real estate broker's license and will arrange the funding or purchase of Fund loans or Fractional Interests in consideration of points payable to the General Partner by the borrower. (See, "Compensation to the General Partner and it's Affiliates" and "Conflicts of Interest.") The General Partner will also "service" Fund loans which includes the collection of loan payments, performing administrative services in connection with the loan and, if necessary, taking all actions the General Partner deems necessary to enforce the terms of the loan documents upon a default.

If the Fund makes or purchases a Fractional Interest in a loan, the General Partner will service the loan on behalf of the Fund and the other Fractional Interest holders (the "**Co-Lenders**") pursuant to the terms of a Loan Servicing and Equity Interest Agreement entered into by the Fund, the General Partner and each of the Co-Lenders (the "**Co-Lender Servicing Agreement**"). Pursuant to the terms of the Co-Lender Servicing Agreement, Co-Lenders holding Fractional Interests representing more that 50% of the aggregate outstanding Fractional Interests in the loan will have the right to direct all decisions following a material loan default including the right to approve: (i) extended forbearances, loan extensions or material loan modifications; (ii) any forgiveness of principal or regular interest payable under the loan; (iii) the terms and conditions of any entity formed to take title to the security property following foreclosure; and (iv) foreclosure by judicial disclosure rather than under the power of sale contained in the deed of trust. Consequently, to the extent the Fund invests in less than 50% of the total Fractional Interests outstanding in a loan, the Fund will be subject to additional risks not inherent in whole loans or loans in which the Fund holds a majority interest. (See "Risk Factors – Risks Relating to the Fund's Business.") Moreover, by acting as the servicing agent of both the Fund and the other Co-Lenders, the General Partner is subject to additional conflicts of interest whether or not the Fund holds a majority or minority interest in the loan. (See "Conflicts of Interest")

### **Fund Accounting**

The General Partner shall, in consultation with the Fund's accountants, be responsible for determining the accounting policies and procedures of the Fund. In connection therewith, the

General Partner will assess the Fund's portfolio at intervals determined by the General Partner to be reasonable in light of current market conditions in order to account for or recognize any impairment to the loans comprising the Fund's portfolio or to otherwise comply with generally accepted accounting principals ("**GAAP**").

At the Fund's inception, the General Partner established a loss reserve for the purpose of recognizing over time the estimated losses on Fund loans and on the sale of properties securing Fund loans taken through Foreclosure ("**Loan Loss Reserve**"). These potential losses are charged against monthly Fund income in an amount deemed necessary by the General Partner to accumulate an adequate Loan Loss Reserve in light of existing loan losses and estimated loan losses identified periodically by the General Partner over the life of the Fund.

To assess the risk of losses that may be incurred on loans held by the Fund, the General Partner undertakes periodic evaluations of the Fund's loan portfolio on a loan-by-loan basis. Loans are assessed for various risk factors including payment history, current economic conditions, collateral type, initial loan to value ratios, current estimated loan-to-value ratios and any other factor that might affect the full recoverability of a Fund loan balance. Delinquent loans are assessed based upon the length of the delinquency and the potential that the Fund will not collect all amounts due from a borrower under the loan through payment or through recovery of the full loan balance from the value of the security property.

The Fund's current accounting policy is to cease to accrue interest (for purposes of calculating earnings) on any loan that is delinquent for a period of two months ("**Non-Accrual Status**"). Further payments received on Fund loans that have been placed on Non-Accrual Status will be accounted for by the Fund on a cash rather than accrual basis until loan payments are again being received by the Fund on a current basis. If events or circumstances relating to a loan (on Non-Accrual Status or otherwise) cause the General Partner, in its reasonable judgment, to have serious doubts about the full recovery of the entire loan balance due from a borrower, the General Partner may categorize such loan as "impaired" (an "**Impaired Loan**"). In such event, the General Partner will attempt to assess the potential loss that may be realized by the Fund in connection with the Impaired Loan and whether the Loan Loss Reserve should be increased to reflect that assessment.

In the event that real estate is acquired by the Fund (an "**REO Property**") through foreclosure or by deed in lieu of foreclosure the REO Property is initially recorded at its fair market value less a specific reserve for estimated costs required for sale of the property unless the General Partner does not intend to dispose of the property by sale (e.g., the property will be held and rented to third parties until a higher re-sale price may be obtained). To the extent the REO Property's fair market value less costs of sale is less than the prior carried value of the loan secured by the REO Property, the amount of such difference is charged against earnings and created to a loss reserve established for REO Properties. (See "Operations to Date – Portfolio Performance.") If the General Partner determines that circumstances may make it more beneficial for the Fund to hold the REO Property until a better sales price may be obtained, the REO Property value will be recorded and carried at the lower of the REO Property's new cost basis or its current fair market value less estimated costs of sale.

ALL OF THE FUND'S ACCOUNTING POLICIES INCLUDING THOSE RELATED TO IMPAIRED LOANS, NON-ACCRUAL STATUS AND THE FUND'S LOAN LOSS RESERVE ARE MADE IN CONSULTATION WITH THE FUND'S ACCOUNTANTS IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PROCEDURES. THE GENERAL PARTNERS MAY, IN CONSULTATION WITH THE FUND'S ACCOUNTANTS, REVISE ANY FUND ACCOUNTING POLICY AT ANY TIME WITHOUT THE APPROVAL OF, OR NOTICE TO, ANY OF THE MEMBERS.

### **COMPENSATION TO GENERAL PARTNER**

The following discussion summarizes the forms of compensation to be received by the General Partner. All of the amounts described below are payable regardless of the success or profitability of the Fund. None of the following compensation was determined by arm's length negotiations.

| <b><u>Form of Compensation to General Partner</u></b> | <b><u>Estimated Amount or Method of Compensation</u></b>   |
|---|--|
| Interest in Profits and Losses of the Fund.....       | 1% of all Fund profits and losses will be allocated to the General Partner.  |
| Reimbursement of Expenses.....                        | The General Partner has not received reimbursement for the organization costs of the Fund. The General Partner, however, will be entitled to reimbursement for ongoing out-of-pocket operating expenses of the Fund, including the fair value of computer programming services rendered by the General Partner and of its employees and agents in establishing Fund accounting procedures and computer programs. |
| Loan Origination Fees (Points).....                   | Ranging from 0%-5% of the principal amount of each loan, payable by borrowers and not by the Fund.   |
| Loan Extension/Renewal Fees.....                      | 1%-2% of the outstanding loan amount.  |
| Loan Servicing Fee <sup>[1]</sup> .....               | 1/6 <sup>th</sup> of 1% of the principal amount of each Fund loan, payable monthly (i.e., 2% per year), but only as interest is received by the Fund.  |
| Asset Management Fee.....                             | 1/24 <sup>th</sup> of 1% of Net Assets Under Management, payable monthly (i.e., 1/2 of 1% per year). <sup>[2]</sup>  |

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<sup>[1]</sup> Loan servicing fees are subject to increase at the option of the General Partner on 30 days notice to the limited partners, so long as such fees do not exceed the amounts generally charged for comparable services by similar mortgage lenders in the geographical area where the security property for the loan is located.

<sup>[2]</sup> "Net Assets Under Management" means the total Fund capital, including cash, notes (at book value), real estate owned (at book value), accounts receivable, advances made to protect loan security, unamortized organizational

|                       |  |
|-----------------------|--|
| Late Charges .....    | Up to one-half of all late charges collected with respect to each loan serviced.   |
| Default Interest..... | One-half of any additional interest collected by reason of an increase in the interest rate on a Fund loan due to a default by the borrower. |
| Assumption Fees.....  | Two-thirds of all assumption fees, if any, collected with respect to each loan serviced.   |

### **OPERATIONS TO DATE**

The Fund began doing business (i.e., investing in mortgage loans) on February of 2008 after the minimum of 1,500 Units in the Fund were sold. As of August 31, 2010, approximately 14,195 Units (i.e., \$1,419,563) had been sold and the Fund was invested in 26 mortgage loans (or Fractional Interests therein) in the aggregate principal amount of \$1,298,805.88. Information regarding the Fund’s prior performance and current loan portfolio is set forth below.

#### **Yields to Investors**

The average annual net yield paid to the Limited Partners since its inception and through August 31, 2010 are set forth below. A portion of the yields paid to the Limited Partners include the waiver of a portion of the loan servicing fees, asset management fees and the 1% profits interest otherwise payable the General Partner pursuant to the terms of the Limited Partnership Agreement. As indicated in the table below, the average annual net yield earned by the Fund which would have been payable to the Limited Partners would have been lower without the waiver of such fees. The General Partner has no obligation to waive any fees or profits interests in the future.

| <b>Year</b>                | <b>Average Annual Net Yield Paid</b> | <b>Average Annual Net Yield Earned</b> |
|----------------------------|--------------------------------------|--|
| 2008                       | 7.99%                                | 5.1%                                   |
| 2009                       | 7.96%                                | 7.20%                                  |
| 2010<br>(1/1/10 – 8/31/10) | 8.11%                                | 7.53%                                  |

The average annual net yield earned by the Fund from January 1, 2010 through August 31, 2010 (and the resulting 8.11% average annual net yield paid to the Limited Partners for such period) reflects the General Partner’s estimates of the Fund’s accrued income and expenses as of August 31, 2010 and is subject to revisions based upon subsequent events. (See “Summary of the Limited Partnership Agreement – Profits and Losses.”)

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expenses and any other Fund assets valued at fair market value, less Fund liabilities. The Asset Management Fee will be paid on the last day of each calendar month with respect to Net Assets Under Management as of such date.

## **Portfolio Diversification and Concentrations**

As of August 31, 2010, the 26 mortgage loans (or Fractional Interests therein) held by the Fund were diversified as follows (calculated based upon principal balance):

### ***Lien Priority Concentrations***

| <b>Lien Priority</b> | <b>Aggregate Principal Amount of Loans</b> | <b>Percentage of Total Loan Principal</b> |
|----------------------|--|---|
| First Trust Deeds    | \$1,298,805.88                             | 100.0%                                    |
| Second Trust Deeds   | \$0  | 0.0%                                      |
| Total:               | \$1,298,805.88                             | 100.0%                                    |

### ***Security Property Classifications***

| <b>Type of Property</b>                          | <b>No. of Loans</b> | <b>Aggregate Principal Amount of Loans</b> | <b>Percentage of Aggregate Loan Principal</b> |
|--|---------------------|--|---|
| Multi-family residential with five or more units | 6                   | \$214,020.36                               | 16.5%   |
| Commercial industrial property                   | 15                  | \$787,172.82                               | 60.6%   |
| Unimproved land                                  | 5                   | \$297,612.70                               | 22.9%   |
| Total  | 26                  | \$1,298,805.88                             | 100.0%  |

## **Portfolio Performance**

As of August 31, 2010, the Fund had a total capitalization of \$14,419,563.54 of which \$1,298,805.88 was invested in 26 real property secured loans. Information regarding the Fund's Impaired Loans, REO Properties and loans on Non-Accrual Status are set forth below. All information is current as of August 31, 2010. (See "Fund Management and Loan Servicing – Fund Accounting Procedures" for the definitions of Non-Accrual Status, Impaired Loans and REO Properties.)

### ***Loan Defaults and Impaired Loans***

Information regarding the Fund's existing loan defaults and Impaired Loans is set forth in the table below. All information is current as of August 31, 2010.

| Default Status  | Number of Loans | Aggregate Principal Balance | Aggregate Estimated Loss | Percentage of Loan Portfolio<br>(% of aggregate principal) |                     |
|---|-----------------|-----------------------------|--------------------------|--|---------------------|
|   |                 |                             |                          | Aggregate Princ. Bal.                                      | Aggregate Est. Loss |
| Non-Accrual Status  | 3               | \$218,122.58                | N/A                      | 16.8%  | N/A                 |
| Impaired Loans<br>(including loans on Non-Accrual Status) | 0               | \$0.00                      | N/A                      | N/A  | N/A                 |

The General Partner has filed notices of default on each of the Fund's loans on Non-Accrual Status. Of these three loans: (i) one loan is being paid pursuant to the terms of a forbearance agreement between the borrower and the Fund; (ii) one loan is being paid through post-petition payments being received by the Fund through a bankruptcy action filed by the borrower; and (iii) one loan is subject to pending foreclosure proceedings. The General Partner does not believe that any of these loans are Impaired Loans or that the Fund is likely to suffer losses on the such loans.

### ***REO Property and Short Sales***

From its inception through August 31, 2010, the Fund has had one loan in the original principal amount of \$33,146.63 that has resulted in foreclosure and the acquisition of the real property securing the loan (the "**REO Property**"). As of August 31, 2010, the REO Property was listed for sale and the General Partner did not believe that the Fund would incur any loss in connection with the loan upon sale of the REO Property. In 2008, the Fund also had one loan in the original principal amount of \$29,639.00 (the "**Short Sale Loan**") that resulted in a settlement with the borrower whereby the Fund accepted a payment of \$25,125.00 in full satisfaction of the loan (i.e., a "short sale"). This short sale resulted in the Fund's only loan loss since inception in the amount of \$4,514.00 (or 0.31% of the Fund's total capitalization as of August 31, 2010).

### **Loan Loss Reserves**

In 2009 the General Partner established a loan loss reserve for the purpose of recognizing over time the estimated loan losses of the Fund on Fund loans and on the sale of properties securing Fund loans acquired through Foreclosure ("**Loan Loss Reserve**"). These estimated losses are recognized by incurring charges against monthly Fund income in an amount deemed necessary by the General Partner to accumulate an adequate Loan Loss Reserve in light of any existing and estimated future loan losses identified periodically by the General Partner. As of December 31, 2008 the Fund had a Loan Loss Reserve of \$2,069; however, such reserve was applied to loss incurred by the Fund on the Short Sale Loan in 2008. As of August 31, 2010 the Loan Loss Reserve was \$0.00, which the General Partners believes is adequate in light of the Fund's minimal losses to date and its current lack of Impaired Loans and likely loan losses in the near term. The amount of the Fund's Loan Loss Reserves is based upon estimates by the General Partner only and is subject to adjustment in the future.



## **Additional Information**

A copy of the Fund's audited financial statements as of December 31, 2009 and its unaudited statements as of August 31, 2010 are attached to this Offering Circular as Exhibit C. Further details about the Fund's loan portfolio are included in those financial statements.

THE FOREGOING DISCUSSION IS FOR ILLUSTRATIVE PURPOSES ONLY, AND IS NOT A PREDICTION OF ACTUAL PARTNERSHIP RESULTS.

ALL OF THE PARTNERSHIP'S ACCOUNTING POLICIES INCLUDING THOSE RELATED TO IMPAIRED LOANS, NON-ACCRUAL STATUS AND THE PARTNERSHIP'S LOAN LOSS RESERVE ARE MADE IN CONSULTATION WITH THE PARTNERSHIP'S INDEPENDENT ACCOUNTANTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING POLICIES. THE GENERAL PARTNER MAY, IN CONSULTATION WITH THE PARTNERSHIP'S ACCOUNTANTS, REVISE ANY PARTNERSHIP ACCOUNTING POLICY AT ANY TIME WITHOUT THE APPROVAL OF, OR NOTICE TO, ANY OF THE LIMITED PARTNERS.

## **THE GENERAL PARTNER AND AFFILIATES**

The General Partner is Blackburne & Sons Realty Capital Corporation, a California corporation, which will manage and direct the affairs of the Fund. Loans will be arranged and serviced and the Fund assets will be managed by the General Partner. The General Partner and General Partner's principal executive officer are described below.

**Blackburne & Sons Realty Capital Corporation.** Blackburne & Sons Realty Capital Corporation ("**Blackburne**") was formed in 1980 under its prior corporate name "Blackburne & Brown Mortgage Company, Inc., which name was changed to Blackburne & Sons Realty Capital Corporation in December of 2009. Blackburne was formed for the purpose of originating loans which are secured by first and second deeds of trust on income-producing real property in Northern California. These loans are marketed to individual investors and employee benefit plans and are fully serviced by the General Partner. The General Partner has experienced steady, controlled growth over the past 28 years and now services a loan portfolio of approximately \$47 million. The General Partner also brokers larger loan requests to selected financial institutions, such as banks. George Blackburne, III is the President, Secretary and Chief Financial Officer/Treasurer of General Partner.

**George Blackburne, III.** George Blackburne, III is the founder and President, Secretary and Chief Financial Officer/Treasurer of General Partner. He is a graduate of the University of Santa Clara where he majored in finance. In 1982 he received his M.B.A. from the University of Santa Clara, with an emphasis in finance. He graduated with honors from the University of Northern California School of Law in May of 1991 and was admitted to the California State Bar in November 1991. Mr. Blackburne is a licensed California real estate broker and is also a licensed California attorney. As President of the General Partner, he is responsible for all phases of Fund operations. Mr. Blackburne resides full-time in Plymouth, Indiana, and manages the General Partner's business primarily by telephone and email correspondence.

**Angelica Gardener.** Angelica Gardner is a Vice President of the General Partner. She is a graduate of California State University with a B.S. in Business Administration. In 2008 she received her M.B.A from the University of Phoenix. Mrs. Gardner joined Blackburne in 2005 and became a licensed real estate Broker by the California Department of Real Estate in April of 2006.

**Angela Gimenez .** Angela Gimenez is a Vice President of the General Partner. She is a graduate of Colorado School of Mines, with a B.S. in Economics and received her Master of Science in Accountancy (MSA) in July of 2009. Ms. Gimenez joined Blackburne in 2003 and became licensed as a Salesperson by the California Department of Real Estate in April, 2004.

**Blackburne & Brown Mortgage Fund I.** The General Partner is also the general partner of Blackburne & Brown Mortgage Fund I, L.P., a California limited partnership (“**Fund I**”), which was formed in 1991 to engage in the same business as the Fund offered hereby. Since 2004 the average annual investment yield to investors in Fund I was as follows:

| <b>Year</b> | <b>Average Annual Investment Yield</b> |
|-------------|--|
| 2004        | 5.960%                                 |
| 2005        | 5.649%                                 |
| 2006        | 6.167%                                 |
| 2007        | 6.243%                                 |
| 2008        | 3.750%                                 |
| 2009        | 1.50%                                  |

However, the General Partner waived fees otherwise due to the General Partner in 2005, 2006 and 2007, and in such years a portion of the income was also derived from payments by the General Partner to Fund I that were made for the purpose of increasing the investment yield to Fund I investors. These yields would have been reduced to the amounts set forth below if the General Partner had not waived such fees or made such payments. No such fees were waived or payments made in 2008 or as of August 31, 2010.

| <b>Year</b> | <b>Yield Without General Partner Support</b> |
|-------------|--|
| 2004        | 5.960%                                       |
| 2005        | 5.076%                                       |
| 2006        | 5.847%                                       |
| 2007        | 4.922%                                       |
| 2009        | 1.50%  |

The General Partner was not obligated to waive any fees due from Fund I or to make any payments to increase Fund I’s yield, and is not obligated to waive any fees or make any payments to increase the Fund’s yield at any time.

Until 2007, Fund I offered limited partnership interests to qualified investors pursuant to a permit originally issued by the Department of Corporations on August 16, 1992 (File No. 505-3976). On January 23, 2008, Blackburne closed Fund I and commenced winding down its

operations. The estimated investment yield to investors in Fund I through August 31, 2010 was 2.95% (unaudited) on an annualized basis.

The decision to close Fund I and wind down its operations was made based upon the General Partner's assessment of the effect that the current turmoil in the lending and real estate markets will have on Fund I's loan portfolio and its determination that Fund I's yield would likely remain below investor expectations for the foreseeable future. (See "Risk Factors -- Sub-Prime Lending Markets.") Fund I is currently both distributing interest income being earned on performing loans and returning capital to investors from loan payoffs and property sales, and will continue to do so until all of Fund I's loans have been paid in full and all REO properties have been liquidated and the proceeds distributed to the Partners.

**Blackburne & Brown Equity Preservation Fund, LLC.** The General Partner is also the General Partner of Blackburne & Brown Equity Preservation Fund LLC, a California limited liability company ("**Equity Preservation Fund**"), which was formed for the purpose of acquiring direct or indirect ownership interests in distressed commercial properties and unimproved land. As of July 31, 2008, Equity Preservation Fund had total capitalization of approximately \$2,404,735 and was invested in 11 properties.

**DRE Accusation.** In June of 2007, the California Department of Real Estate ("**DRE**") initiated an administrative action (the "**Accusation**") against Blackburne and its designated broker and President, George Blackburne, III (collectively, the "**Blackburne Parties**"). The Accusation alleged three trust account violations occurring prior to November of 2006, resulting from the issuance of checks from Blackburne's trust accounts prior to sufficient funds being deposited into the trust accounts to cover the checks. The Accusation also alleged that improper signature authority on the trust accounts was granted to an unlicensed employee without the proper bonding. The DRE Accusation did not allege any conversion or misappropriation of investor funds, and the trust account shortages had already been rectified prior to the DRE audit and the filing of the Accusation.

The Accusation was settled by a Stipulation and Agreement between the Blackburne Parties and the DRE (the "**Stipulation**"), whereby Blackburne and Mr. Blackburne agreed to a 30-day suspension of Blackburne's real estate broker's license, which suspension was stayed for a period of two years subject to the payment of certain fees and audit costs by Blackburne and certain other conditions, all of which have been satisfied. Pursuant to the Stipulation, the 30-day suspension will be vacated on July 10, 2010 so long as no grounds for any future disciplinary action against the Blackburne Parties are found by the DRE prior to such date.

Further information regarding the Accusation may be obtained by contacting Blackburne at 4811 Chippendale Drive, Suite 101 Sacramento, California 95841, telephone no. (916) 338-3232, or by contacting the DRE directly at the following address: California Department of Real Estate, Mortgage Lending Unit, P.O. Box 187000, Sacramento, CA 95818-7000, telephone no. (916) 227-0770, website: [www.dre.ca.gov](http://www.dre.ca.gov).

## **FIDUCIARY RESPONSIBILITY OF THE GENERAL PARTNER**

A general partner is accountable to a partnership as a fiduciary, which means that a general partner is required to exercise good faith and integrity with respect to partnership affairs. This is in addition to the several duties and obligations of, and limitations on, the General Partner set forth in the Limited Partnership Agreement. Upon request, the General Partner must give to any Limited Partner or his legal representative, true and full information concerning all Fund affairs and each Limited Partner or his legal representative may inspect and copy the Fund books and records at any time during normal business hours.

The Limited Partnership Agreement provides that the Fund shall indemnify the General Partner and its shareholders, officers, directors, employees and agents for any liability or loss (including attorneys' fees, which shall be paid as incurred), suffered by such party, and shall hold the General Partner harmless for any loss or liability suffered by the Fund, so long as a General Partner determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the Fund, and such loss or liability did not result from the gross negligence or gross misconduct of the General Partner. Any such indemnification shall only be recoverable out of the assets of the Fund and not from Limited Partners. Notwithstanding the foregoing, the General Partner nor any of its Affiliates shall be indemnified for any liability imposed by judgment (including costs and attorneys' fees) arising from or out of a violation of state or federal securities laws associated with the offer and sale of Units. However, indemnification will be available for settlements and related expenses of lawsuits alleging securities law violations if a court approves the settlement and indemnification, and also for expenses incurred in successfully defending such lawsuits if a court approves such indemnification. Such indemnification shall survive the termination of the Limited Partnership Agreement.

Limited Partners may have a more limited right of action than they would have absent these provisions in the Limited Partnership Agreement. A successful indemnification of the General Partner could deplete the assets of the Fund. Limited Partners who believe that a breach of the General Partner's fiduciary duty has occurred should consult with their own legal counsel.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974 ("ERISA") contains strict fiduciary responsibility rules governing the actions of "fiduciaries" of employee benefit plans. It is anticipated that some Limited Partners will be corporate pension or profit-sharing plans and Individual Retirement Accounts, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Units will be a "fiduciary" of such plan and will be required to conform to ERISA's fiduciary responsibility rules. Persons making investment decisions for employee benefit plans (i.e., "fiduciaries") must discharge their duties with the care, skill and prudence which a prudent man familiar with such matters would exercise in like circumstances. In evaluating whether the purchase of Units is a "prudent" investment under this rule, fiduciaries should consider all of the risk factors set forth above. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (see "Federal Income Tax Consequences."), as well as the percentage of plan assets which will be invested in the Fund insofar as the diversification requirements of

ERISA are concerned. An investment in the Fund is relatively illiquid, and fiduciaries must not rely on an ability to convert an investment in the Fund into cash in order to meet liabilities to plan participants who may be entitled to distributions. DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS OR HER PROSPECTIVE INVESTMENT.

The Fund will limit subscriptions for Units from ERISA plan investors such that, immediately after each sale of Units, ERISA plan investors will hold less than 25% of the total outstanding partnership interests in the Fund.

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan's fiscal year. Although the General Partner will provide annually upon the written request of a Limited Partner an estimate of the value of the Units based upon, among other things, outstanding mortgage investments, it may not be possible to value the Units adequately from year to year, because there will be no market for them.

## **CONFLICTS OF INTEREST**

The following is a list of the important areas in which the interests of the General Partner will conflict with those of the Fund. The Limited Partner must rely on the general fiduciary standards which apply to a general partner of a limited partnership to prevent unfairness by the General Partner and/or its Affiliates in a transaction with the Fund. (See "Fiduciary Responsibility of the General Partner.") Except as may arise in the normal course of the relationship, there are no transactions presently contemplated between the Fund and its General Partner or Affiliates other than those listed below.

### **Loan Brokerage Commissions**

None of the compensation set forth under "Compensation to the General Partner" was determined by arm's length negotiations. The loan brokerage commissions (or "points") charged to borrowers by General Partner will average approximately 2.5% of the principal amount of each loan, but may range as high as 6%. Any increase in such charges will have a direct, adverse effect upon the interest rates that borrowers will be willing to pay the Fund, thus reducing the overall rate of return to Limited Partners. Conversely, if the General Partner reduces the loan brokerage commissions charged by the General Partner, a higher rate of return might be obtained for the Fund and the Limited Partners. This conflict of interest will exist in connection with every Fund loan transaction, and Limited Partners must rely upon the fiduciary duties of the General Partner to protect their interests. In an effort to partially resolve this conflict, the General Partner has agreed that the loan brokerage commissions to be received by it in connection with each loan arranged for the Fund will not exceed 6% of the total loan amount.

The General Partner will earn the largest portion of its compensation from these commissions (or "points") that it collects at loan closing, which are not affected by whether the Fund's loan proves to be a good investment. Therefore, the General Partner may be motivated to close loans using Fund funds that are risky or otherwise not in the best interests of the Fund, in

order to earn its loan points. Limited Partners must rely on the fiduciary duties and good faith of the General Partner to protect their interests in this regard.

The General Partner has reserved the right to retain the services of other firms to perform the brokerage services, loan servicing and other activities in connection with the Fund's loan portfolio that are described in this Offering Circular. Any such other firms may be affiliated with the General Partner.

### **Other Funds or Businesses**

The General Partner's President, George Blackburne, III, sponsored Fund I and other affiliate lending businesses and, in the future, Mr. Blackburne or the General Partner may sponsor other limited partnerships or other entities whose investment objectives are similar to that of the Fund. The General Partner also provides loan brokerage services to Fund I and other investors besides the Fund. It is possible that these other partnerships and investors will have funds to invest at the same time as the Fund. There will then exist conflicts of interest on the part of the General Partner between the Fund and the other partnerships or investors with which it is affiliated at such time. The General Partner will decide which loans are appropriate for funding by the Fund or by such other partnerships and investors after consideration of all relevant factors, including the size of the loan, portfolio diversification, and amount of uninvested funds.

The General Partner and its Affiliates may engage for their own account, or for the account of others, in other business ventures, similar to that of the Fund or otherwise, and neither the Fund nor any Limited Partner shall be entitled to any interest therein.

The Fund will not have independent management and it will rely on the General Partner and its Affiliates, shareholders, officers, directors, employees and agents for the operation of the Fund. The General Partner will devote only so much time to the business and affairs of the Fund as is reasonably required. The General Partner will have conflicts of interest in allocating management time, services and functions between the existing partnership, the Fund, and any future partnerships which it may organize as well as other business ventures in which it may be involved. The General Partner believes it has sufficient staff to be fully capable of discharging its responsibilities to all such entities.

### **Lack of Independent Legal Representation**

The Fund has not been represented by independent legal counsel to date. The use by the General Partner and the Fund of the same counsel in the preparation of this Offering Circular and the organization of the Fund has resulted in the lack of independent review. Prospective investors must rely on their own legal counsel for legal advice in connection with this investment.

### **Sale of Defaulted Loans or Real Estate Owned to Affiliates**

In the event a Fund loan goes into default or the Fund becomes the owner of any real property by reason of foreclosure on a Fund loan, the General Partner's first priority will be to arrange the sale of the loan or property for a price that will permit the Fund to recover the full

amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of current market conditions. In order to facilitate such a sale, the General Partner may arrange a sale to persons or entities controlled by or affiliated with the General Partner (e.g., to another entity formed by the General Partner or its affiliates). The General Partner will be subject to conflicts of interest in arranging such sales because it will represent both parties to the transaction. For example, the Fund and the potential buyer will have conflicting interests in determining the purchase price and other terms and conditions of sale. The General Partner's decision will not be subject to review by any outside parties.

The General Partner shall undertake to resolve these conflicts by setting a purchase price for each defaulted loan or property that is not less than any of the following: (i) the independently appraised value of such loan or property, if any, at the time of sale; (ii) the amount of any third party offer already received, if any; and (iii) the total amount of the Fund's investment in the property. The Fund's investment is deemed to include, without limitation, the following: the unpaid principal amount of the Fund's loan; accrued unpaid interest through the date of foreclosure, if any; expenditures made to protect the Fund's interest in the property such as payments to senior lienholders and for insurance and taxes; all costs of foreclosure and other loan enforcement actions (including attorneys fees); and any advances made by the General Partner on behalf of the Fund for any of the foregoing. A portion of the purchase price may be paid by the affiliate executing a promissory note in favor of the Fund, secured by a deed of trust on the property being sold. The total loan-to-value ratio for the property (including the Fund's note and any senior liens) will not exceed 80% of the purchase price of the property, and the note will otherwise contain terms and conditions comparable to those that would be contained in notes executed by third parties.

## **FEDERAL INCOME CONSIDERATIONS**

The following is a summary of certain relevant federal income tax considerations resulting from an investment in the Fund, but does not purport to cover all of the potential tax considerations applicable to any specific purchaser. Prospective investors are urged to consult with and rely upon their own tax advisors for advice on these and other tax matters with specific reference to their own tax situation and potential changes in applicable law.

### **Taxation of Undistributed Fund Income (Individual Investors)**

Under the laws pertaining to federal income taxation of partnerships, no federal income tax is paid by the Fund as an entity. Each individual partner reports on his federal income tax return his distributive share of Fund income, gains, losses, deductions and credits, whether or not any actual distribution is made to such partner during a taxable year. Each individual partner may deduct his distributive share of Fund losses, if any, to the extent of the tax basis of his Units at the end of the Fund year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the partner as it was for the Fund. Since individual partners will be required to include Fund income in their personal income without regard to whether there are distributions of Fund income, such investors will become liable for federal and state income taxes on Fund income even though they have received no cash distributions from the Fund with which to pay such taxes.

## **Distributions of Income**

To the extent cash distributions exceed the current and accumulated earnings and profits of the Fund, they will constitute a return of capital, and each Limited Partner will be required to reduce the tax basis of his Units by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Units. Such distributions will not be taxable to Limited Partners as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Units.

## **Property Held Primarily for Sale; Potential Dealer Status**

The Fund has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the Fund were at any time deemed for federal tax purposes to be holding one or more Fund loans primarily for sale to customers in the ordinary course of business (a “dealer”), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The federal income tax rates for ordinary income are higher than those for capital gains. In addition, income from sales of loans to customers in the ordinary course of business would also constitute unrelated business taxable income to any investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all the relevant facts and circumstances. The Fund intends to make and hold the Fund loans for investment purposes only, and to dispose of Fund loans, by sale or otherwise, at the discretion of the General Partner and as consistent with the Fund’s investment objectives. It is possible that, in so doing, the Fund will be treated as a “dealer” in mortgage loans, and that profits realized from such sales will be considered unrelated business taxable income to otherwise tax-exempt investors in the Fund.

## **Tax Returns**

Annually, the Fund will provide the Limited Partners (but not to assignees of Limited Partners unless they become substituted Limited Partners) sufficient information from the Fund’s informational tax return for the Limited Partners to prepare their individual federal, state and local tax returns. The Fund’s informational tax returns will be prepared by certified public accountants selected by the General Partner.

## **Trade or Business Income**

The Fund will report its income as being derived from the trade or business or mortgage lending, not as “portfolio income.” The General Partner believes this is the proper characterization, but there can be no assurance that it will not be challenged by the Internal Revenue Service. If the Fund is deemed to be engaged in the trade or business of lending money, its income allocable to that business will generally be characterized as nonpassive income, against which passive losses from other sources may not be offset. This is true even though its net losses allocable to that activity (or that portion of Limited Partners’ loss on the sale of a unit that is allocable to the Fund’s mortgage lending business) will be treated as passive activity losses. If the Fund is not considered engaged in a trade or business of lending money, then income and loss from its mortgage lending activities will be considered portfolio income



and loss. In either case, Limited Partners will not be permitted to offset passive losses from other activities against Limited Partners' share of that portion of income. Under Section 469 of the Code, the Fund's income will not be passive income against which passive losses from other sources may be offset.

### **Unrelated Business Taxable Income**

Units may be offered and sold to certain tax exempt entities (such as qualified pension or profit sharing plans) that otherwise meet the investor suitability standards described elsewhere in this Offering Circular. (See "Investor Suitability Standards.") Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income," as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Units may be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the Fund. Interest income (which will constitute the primary source of Fund income) does not constitute an item of unrelated business taxable income, except to the extent it is derived from "debt-financed property," however, since the Fund will not utilize borrowed funds for the purpose of making or investing in loans, interest earned on Fund loans should not constitute unrelated business taxable income and investors that are otherwise exempt from federal and state income taxes should not realize interest income earned by the Fund.

Rents from real property and gains from the sale or exchange of property are also excluded from unrelated business taxable income, unless the property is held primarily for sale to customers or is acquired or leased in certain manners described in Section 514(c)(9) of the Code. Therefore, unrelated business taxable income may also be generated if the Fund operates or sells at a profit any property that has been acquired through foreclosure on a Fund loan, but only if such property (1) is deemed to be held primarily for sale to customers, or (2) is acquired from or leased to a person who is related to a tax-exempt investor in the Fund.

The trustee of any trust that purchases Units in the Fund should consult with his or her tax advisors regarding the requirements for exemption from federal income taxation and the consequences of failing to meet such requirements, in addition to carefully considering the fiduciary responsibilities of a trustee with respect to such matters as investment diversification and the prudence of particular investments.

### **CERTAIN LEGAL ASPECTS OF PARTNERSHIP LOANS**

The Fund's loans will be secured by either a mortgage or a deed of trust or by hypothecated notes that are themselves secured by a mortgage or deed of trust. In some states, a mortgage is the form of security instrument used to secure a real property loan, while in other states a deed of trust is the form of security instrument used to secure a real property loan. A mortgage has two parties: a borrower called the "mortgagor" and the lender called the "mortgagee." The mortgagor gives the mortgagee a lien on the property as security for the loan or, in some states, the mortgagor conveys legal title of the property to the mortgagee until the loan is repaid but retains equitable title and the right of possession to the property so long as the loan is not in default. A deed of trust has three parties: a borrower-grantor called the "trustor," a third-party grantee called the "trustee," and a lender-creditor called the "beneficiary." The

trustor grants the property, irrevocably until the debt is paid, “in trust, with power of sale” to the trustee to secure payment of the obligation. The trustee’s authority is governed by law, the express provisions of the deed of trust and the directions of the beneficiary.

## **Foreclosure**

The manner in which the Fund will enforce its rights under a mortgage or deed of trust or with respect to hypothecated notes, will depend on the laws of the state in which the property is situated. Depending on local laws, a lender may be able to enforce its mortgage or deed of trust by judicial foreclosure or by non-judicial foreclosure through the exercise of a power of sale. Local laws will also dictate, among other things, the amount of time and costs associated with a judicial or non-judicial foreclosure sale, whether or not a lender would be entitled to recover a deficiency judgment (i.e., the resulting shortfall if the proceeds from the sale of the property are not sufficient to pay the debt) from the borrower, either concurrently with or following a judicial or non-judicial sale, whether there are limits as to the amount of this deficiency judgment, and whether the borrower would have a right to redeem the property following a judicial or non-judicial sale.

A judicial foreclosure is a public sale of the property conducted under an order of the court of the state in which the property is located, with the sales proceeds being applied to satisfy the underlying debt. A judicial foreclosure is subject to most of the delays and expenses of other lawsuits and can take up to several years to complete, depending on how busy the local courts are.

In contrast, a non-judicial foreclosure is a private sale of the property conducted directly by the mortgagee, in the case of a mortgage, or the trustee, in the case of a deed of trust, following the giving of appropriate notice and the expiration of appropriate cure periods. It is generally cheaper and quicker to conduct a non-judicial foreclosure than to conduct a judicial foreclosure.

A lender would typically undertake a judicial foreclosure when the lender seeks to obtain a deficiency judgment. In some states, a lender is not entitled to recover a deficiency judgment if the lender forecloses non-judicially. Some states also limit the amount of deficiency that can be recovered from a borrower following a judicial foreclosure sale to the difference between the amount of the debt owing to the lender and the higher of (i) the successful sales price bid at the foreclosure sale, or (ii) the fair market value of the property at the time of foreclosure (a so-called “fair value limitation”). Moreover, some states provide that a borrower and/or junior lienholder has a right to redeem the property for a period of time following a judicial foreclosure sale by paying to the successful bidder an amount equal to the successful sales price bid at the foreclosure sale and the costs of the foreclosure sale. This right of redemption can depress the amount bid at a judicial foreclosure sale because the successful bidder would have to take the property subject to the borrower’s and/or the junior lienholder’s right of redemption.

If a lender elects to undertake a non-judicial foreclosure sale it would, in many states, forego the right to obtain a deficiency judgment. However, real property that is sold through a non-judicial foreclosure sale is, in many states, not subject to a right of redemption.

In summary, whether or not a lender would pursue a judicial or a non-judicial foreclosure, and the extent and nature of other remedies available to a lender against a borrower in connection with a real property secured loan, will depend on the laws of the state in which the real property is located. If a borrower were to default under a loan, General Partner, as the loan servicer, would evaluate the applicable laws and consider the enforcement practices typically undertaken by commercial lenders in the state in which the property is located before commencing enforcement actions.

### **Hypothecated Notes**

Hypothecated notes are considered personal property security. As such, the manner in which the Fund would enforce its security interest in hypothecated notes following a loan default would be governed by the terms of a security agreement to be given by the borrower in favor of the Fund, as well as by the Uniform Commercial Code and other laws applicable in the governing state. In many states, a secured creditor may sell the personal property security by providing notices to the debtor and perhaps to other secured creditors of the debtor and then to sell the personal property security at a public or private sale. Generally, the secured party must act in good faith and in a commercially reasonable manner in noticing and conducting this sale. Depending on the laws of the governing state, the debtor may be entitled to reinstate the debt by paying the delinquent amount prior to the sale, and the secured party may or may not be entitled to purchase at the sale.

If a secured creditor fails to comply with the laws that govern the sale of personal property security, the secured creditor's ability to obtain a deficiency judgment (i.e., the deficiency that results if the proceeds from the sale of the personal property collateral are insufficient to cover the debt) may be limited, impaired or forfeited, a court may enjoin the sale, and/or the secured party may be liable to the debtor for the damages that it suffered due to the secured party's failure to comply, which may include a claim for conversion.

Depending on the laws of the governing state, the secured party may be entitled to retain the personal property security in satisfaction of the debt by giving notice to the debtor and perhaps other parties of its intent to do so. If such parties fail to object within a prescribed period of time, the secured party can retain the personal property security in satisfaction of the debt. If such parties object to this course of action, the secured party will be obligated to conduct a public or private sale.

Generally, the proceeds from a sale of personal property collateral are applied first, against the costs of the sale, then to the senior secured claim, then to any junior secured claim, and the balance to the debtor.

### **Other Loan Enforcement Issues**

Other matters, such as litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws, may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property. Where a loan is secured by hypothecated notes, the bankruptcy of a borrower under a hypothecated note can impair the value of the hypothecated note as security.

In some instances, a loan may not only be secured by real property security but also guaranteed by a third party guarantor. Limited Partners should be aware that, depending on local laws, a guarantor may have defenses that would impair the ability of the lender to enforce its guaranty. For example, in some states if a loan obligation is modified without the guarantor's consent, the guarantor may be exonerated from part or all of its obligations under the guaranty. Other states may require that a lender first exhaust all of its remedies against the borrower and real property security and only then can seek any resulting deficiency from the guarantor. A guarantor may, under some local laws, be able to waive some of these defenses in advance provided that the waivers are sufficiently explicit.

### **Special Considerations for Junior Encumbrances**

The General Partner does not intend to make junior loans. The Fund may in rare circumstances make a loan secured by a second deed of trust (i.e., a loan secured by not more than one senior lien); however, in no event will loans secured by second deeds of trust exceed 5% of the Fund's total loan portfolio (by dollar volume). If the Fund does invest in a second loan, however, there are certain additional considerations applicable to second deeds of trust or mortgages (i.e., junior encumbrances). In addition to the general considerations concerning trust deeds and mortgages discussed above, by its very nature, a junior encumbrance is less secure than more senior ones. Only the holder of a first trust deed or mortgage is permitted to bid in the amount of his credit at his foreclosure sale; junior lienholders must bid cash at a first trust deed or mortgage foreclosure sale. (At a junior lienholder's foreclosure sale, a junior lienholder may bid the amount of his credit.) Accordingly, a junior lienholder (such as the Fund) would need to protect its security interest in the secured property by taking over all obligations of the borrower with respect to senior loans and then keep such obligations current while it forecloses on its junior loan. If the senior loan is a large one, paying current debt service to the senior lender could deplete all of the Fund's cash reserves. Moreover, if the senior loan has matured or is accelerated, the Fund may be compelled to pay it off in full.

As a long-term solution, a junior lienholder would need to commence its own foreclosure action and arrange either (a) to find a purchaser for the property at a purchase price that will recoup the junior lienholder's interest, (b) to refinance the senior loan, or (c) to pay off the senior encumbrances in full and thereby become the senior lienholder (or the owner of the property free and clear of liens). The Fund's inability to achieve any of these solutions in a timely manner will result in severe investment losses to the Fund. This was a common occurrence during the 2007-2008 housing market slump.

The standard form of deed of trust or mortgage used by most institutional lenders, like the one that will be used by the Fund, confers on the beneficiary the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with any condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the deed of trust, in such order as the beneficiary may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the beneficiary under the underlying first deed of trust or mortgage will have the prior right to collect any insurance proceeds payable under a hazard insurance policy and any award of damages in connection with the condemnation, and to apply the same to the

indebtedness secured by the first deed of trust or mortgage before any such proceeds are applied to repay the Fund's loan.

### **Prepayment Charges**

It is unlikely that loans originated by the Fund will provide for prepayment charges to be imposed on the borrowers in the event of certain early payments on the loans. In the event prepayment charges are imposed, however, any prepayment charges collected on loans will be retained by the Fund. Prepayment penalties are generally enforceable as an alternative performance or option on the part of the borrower, and in some circumstances may be enforceable even where the prepayment results from acceleration upon default.

## **SUMMARY OF LIMITED PARTNERSHIP AGREEMENT**

The following is a summary of the Limited Partnership Agreement for the Fund, and is qualified in its entirety by the terms of the Agreement itself. Potential investors are urged to read the entire Agreement, which is set forth as Exhibit A to this Offering Circular.

### **Rights and Liabilities of Limited Partners**

The rights, duties and powers of Limited Partners are governed by the Limited Partnership Agreement and Sections 15611, et seq. of the California Corporations Code (the California Revised Limited Fund Act) and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to such Agreement and Act.

Investors who become Limited Partners in the Fund in the manner set forth herein will not be responsible for the obligations of the Fund. They will be liable however, to the extent of any deficit in their capital accounts upon dissolution, and may also be liable for any return of capital plus interest if necessary to discharge liabilities existing at the time of such return. Any cash distributed to Limited Partners may constitute, wholly or in part, return of capital.

Limited Partners will have no control over the management of the Fund, except that Limited Partners representing a majority of the outstanding Limited Fund interests may, without the concurrence of the General Partner, take the following actions: (a) terminate the Fund (including merger or reorganization with one or more other partnerships); (b) amend the Limited Partnership Agreement; (c) approve or disapprove the sale of all or substantially all the assets of the Fund; or, (d) remove and replace the General Partner. The approval of a majority of the Limited Partners is also required to elect a new general partner to continue the business of the Fund after the General Partner ceases to be a general partner other than by removal. Limited Partners representing 10% of the Limited Fund interests may call a meeting of the Fund.

### **Capital Contributions**

Interests in the Fund will be sold in Units of \$100, and no person may acquire less than 20 Units (i.e., \$2,000). (For purposes of meeting this minimum investment requirement, a person may cumulate Units he purchases individually with Units purchased by his or her spouse and for his or her ERISA plan, IRA, rollover-IRA, pension or profit sharing plan.) The General Partner will

contribute an amount in cash equal to 1/10<sup>th</sup> of 1% of the aggregate investments by Limited Partners.

### **Profits and Losses**

Profits and losses of the Fund will be allocated among the Limited Partners on a monthly basis according to their respective outstanding capital accounts. Upon transfer of Units (if permitted under the Limited Partnership Agreement and applicable law), profit and loss will be allocated to the transferee beginning with the next succeeding calendar month. 1% of all Fund profit and loss will be allocated to the General Partner.

### **Cash Distributions**

Cash distributions will be made only to those Limited Partners who make the written election, upon subscription for Units, to receive such distributions on a monthly basis. Other Limited Partners will receive credits to their capital accounts in amounts equal to their respective allocable shares of Fund income, which results in a compounding effect on their earnings. Limited Partners may not change their elections to begin compounding earnings after subscribing for Units unless this offering of Units continues to be qualified with the California Commission of Corporations. The General Partner will receive an amount equal to 1% of all "Cash Available for Distribution," as defined in the Limited Partnership Agreement.

As a result, the percentage Fund interests of non-electing Limited Partners (including voting rights and shares of future income) will gradually increase due to the compounding effect of crediting income to their capital accounts, while the percentage Fund interests of Limited Partners who receive cash distributions will decrease during the term of the Fund.

### **Accounting and Reports**

The General Partner will cause to be prepared and delivered to the Limited Partners an annual financial statement of the Fund's operation, which will be audited by an independent accounting firm. The Limited Partners shall also be provided such detailed information as is reasonably necessary to enable them to complete their own tax returns within 90 days after the end of the year.

### **Restrictions on Transfer**

A transferee may not become a substituted Limited Partner without the consent of the General Partner, which may be withheld in its sole discretion. A transferee who does not become a substituted Limited Partner has no right to any information regarding the Fund or to inspect the Fund books, but is entitled only to the share of income or return of capital to which the transferor would be entitled.

### **General Partner's Interest**

The General Partner may withdraw and retire from the Fund at any time upon not less than six months' written notice to all Limited Partners. Upon such withdrawal and retirement, the General Partner is not entitled to any termination or severance payment from the Fund, but shall be

paid its then-outstanding capital account balance. The General Partner may also sell and transfer its General Partner's interest in the Fund (including all powers and authorities associated therewith) for such price as it shall determine in its sole discretion, and neither the Fund nor the Limited Partners will have any interest in the proceeds of such sale. However, any such successor or additional general partner must be approved by Limited Partners holding a majority of the outstanding Limited Fund interests.

### **Term of Fund**

The term of the Fund will commence upon the filing of the Certificate of Limited Fund with the Office of the Secretary of State of California, and will continue until December 31, 2030, unless dissolved sooner: (1) upon the removal, death, retirement, insanity, dissolution or bankruptcy of the General Partner, unless the business of the Fund is continued by a new General Partner elected to continue the business of the Fund by a majority-in-interest of the Limited Partners; (2) upon the affirmative vote of a majority-in-interest of the Limited Partners; (3) upon the sale of all or substantially all of the Fund's assets; or (4) by operation of law.

### **Winding Up**

The Fund will not terminate immediately upon the occurrence of an event of dissolution, but will continue until its affairs have been wound up. Upon dissolution of the Fund, the General Partner will wind up the Fund's affairs by liquidating the Fund's assets as promptly as is consistent with obtaining the fair current value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan. All funds received by the Fund shall be applied to satisfy or provide for Fund debts and the balance shall be distributed to partners in accordance with the terms of the Limited Partnership Agreement.

## **WITHDRAWAL FROM PARTNERSHIP**

### **Limitations on Withdrawal**

A Limited Partner has no right to withdraw from the Fund or to obtain a return of all or any portion of the sums paid for the purchase of Units (or reinvested earnings with respect thereto) for a minimum of 12 months after such Units are purchased. Withdrawal payments will be made on the last day of a given calendar quarter, subject to certain limitations on the amount withdrawn per quarter and available cash flow as discussed herein. A Limited Partner may initiate a withdrawal (or partial withdrawal) from the Fund by giving written notice to the General Partner ("**Notice of Withdrawal**"). If a Notice of Withdrawal is delivered at least one month before the end of a given calendar quarter, then withdrawal payments will commence on the last day of the calendar quarter. (For example, a Limited Partner must give the General Partner Notice of Withdrawal on or before May 31<sup>st</sup> in order to commence receiving withdrawal payments on June 30<sup>th</sup>.) Additionally, a Limited Partner may give Notice of Withdrawal during the 12-month minimum investment period, but the Fund is not required to return any sums to a withdrawing Limited Partner prior to the end of the first calendar quarter ending after the 12-month period and at least one month after the Notice of Withdrawal was given.

## Exceptions to Limitations on Withdrawal

Notwithstanding the foregoing, the Fund may give priority to the return of the capital accounts of certain Limited Partners and may return such capital accounts prior to the expiration of the minimum 12-month investment period, under the following circumstances:

First, upon the death of the sole beneficiary of a corporate pension or profit-sharing plan, Individual Retirement Account or other employee benefit plan subject to ERISA or upon the death of a Limited Partner (the “**Deceased Investor**”), the return of such Deceased Investor’s capital account shall have priority over the return of other withdrawing Limited Partners’ Capital Accounts and may be returned prior to the expiration of such 12-month minimum investment period. Accordingly, if the administrator, executor or other personal representative of the estate of the Deceased Investor gives the General Partner Notice of Withdrawal on or before the last day of the month immediately preceding the last month of a given calendar quarter, the entire capital account of the Deceased Investor will be returned on the last day of such calendar quarter regardless as to whether or not the 12-month minimum investment period has been satisfied. Notwithstanding the foregoing, if the Deceased Investor’s capital account exceeds \$50,000, then such capital account shall be returned in quarterly installments not to exceed \$50,000 until the entire capital account has been returned in full.

Second, the General Partner, at its sole and absolute discretion, will have the right, at any given time, to immediately return all or a portion of the capital account of one or more ERISA plan investors (the “**ERISA Plan Investors**”) in order to ensure that the Fund remains exempt from the Plan Asset Regulations. (See “ERISA Considerations.”) The return of such ERISA Plan Investors’ capital accounts shall have priority over the return of all other withdrawing Limited Partners’ capital accounts, including those of Deceased Investors, and may be returned prior to the expiration of such 12-month minimum investment period.

## Return of Capital Account

The amount that a withdrawing Limited Partner will receive from the Fund is determined by the Limited Partner’s capital account. A capital account is a sum calculated for tax and accounting purposes, and may be greater than or less than the fair market value of the Limited Partner’s interest in the Fund. The fair market value of a Limited Partner’s interest in the Fund will generally be irrelevant in determining amounts to be paid upon withdrawal, except to the extent that the current fair market value of the Fund’s loan portfolio is realized by sales of existing loans (which sales will not be made in the ordinary course of the Fund’s business).

The return of a withdrawing Limited Partner’s capital account is subject to the following limitations:

(1) The Fund will not establish a reserve from which to fund withdrawals, and accordingly, the Fund’s capacity to return a Limited Partner’s capital account is restricted to the availability of Fund cash flow in any given calendar quarter. For this purposes, cash flow is considered to be available only after all current Fund expenses have been paid (including compensation to the General Partner and its Affiliates) and adequate provision has been made for maintaining adequate reserves and for the payment of all monthly cash distributions on a pro rata



basis which must be paid to Limited Partners who elected to receive such distributions upon subscription for Units.

(2) In the sole and absolute discretion of the General Partner, in order to ensure that the Fund remains exempt from the ERISA plan asset regulation, the Fund may apply available cash flow to return all or a portion of the capital accounts of ERISA Plan Investors.

(3) The Fund will first apply any available cash flow to return the capital accounts of Deceased Investors, subject to a \$50,000 limit per Deceased Investor per calendar quarter.

(4) If current cash flow in any given calendar quarter is inadequate to return a Limited Partner's capital account, the Fund is not required to liquidate any mortgage loans prior to maturity for the purpose of liquidating the capital account of a withdrawing Limited Partner, but is required to pay whatever cash flow is available to withdrawing Limited Partners in order of withdrawal requests received.

(5) Except as otherwise provided by clause (3) above, distributions of capital accounts to withdrawing Limited Partners are initially limited to \$25,000 per calendar quarter per Limited Partner. If more than 20,000 Units (i.e., \$2,000,000) are sold, the maximum quarterly capital distribution to any withdrawing Limited Partner will be increased by \$5,000 for each additional 10,000 Units (i.e., \$1,000,000) sold. (For example, if the Fund sells a total of 30,000 Units, the maximum capital distribution would increase to \$30,000 per Limited Partner per quarter.)

(6) Finally, except upon the winding up and termination of the Fund, the General Partner will not, within any one calendar year, liquidate more than 20% of the total Fund Capital Accounts outstanding at the beginning of that calendar year.

During the period that a Limited Partner's capital account is being liquidated: (1) the Limited Partner will also receive monthly distributions of his/her allocable share of earnings in respect of his/her limited partnership interest, as if the Limited Partner had elected to receive monthly distributions upon subscribing for Units; and (2) the withdrawing Limited Partner's capital account will remain subject to reduction by reason of any loan losses that are recognized by the Fund during the withdrawal period.

## **LEGAL MATTERS**

The General Partner has retained legal counsel to advise it and the Fund in connection with the preparation of this Offering Circular and the Limited Partnership Agreement, as well as the offer and sale of the Units offered hereby. Such counsel has not been retained to provide legal services in connection with the drafting of any loan documents for Fund loans, the negotiation or closing of any loans or the servicing or enforcement of any loans, nor has it represented the interests of the Limited Partners in connection with the Units offered hereby. Investors purchasing Units that wish to obtain the benefit of review by legal counsel on their behalf must retain their own attorneys to do so.

## **PLAN OF DISTRIBUTION**

Units will be offered and sold by the General Partner or by its duly authorized agents and employees. Additionally, the General Partner, in its sole discretion, may arrange for Units also to be sold through registered securities broker-dealers. Any such agents, employees or broker-dealers will be paid selling commissions to be negotiated on a case-by-case basis. These selling commissions will be paid by the General Partner, and shall not be an expense of the Fund. There is no firm commitment from any third party to purchase any Units, and there is no assurance that the maximum amount (or the increased maximum amount) of this offering will be received.

## **ADDITIONAL INFORMATION AND UNDERTAKINGS**

The General Partner undertakes to make available to each offeree every opportunity to obtain any additional information from the Fund or the General Partner necessary to verify the accuracy of the information contained in this Offering Circular, to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes, without limitation, all the organizational documents of the Fund, information regarding past mortgage lending experience of the General Partner and all other documents or instruments relating to the operation and business of the Fund which are material to this offering and the transactions contemplated and described in this Offering Circular.

## **COMMISSIONER'S RULE 260.141.11**

In addition to the various restrictions on the transfer of Units imposed by the Limited Partnership Agreement and state and federal securities laws generally, no Unit may be sold or transferred or any consideration received therefor without the prior written consent of the California Commissioner of Corporations, except as provided in the Commissioner's Rules. A copy of Commissioner's Rule 260.141.11 is attached hereto.

### **260.141.11 Restriction on Transfer**

(a) The issuer of any security upon which a restriction on transfer has been imposed pursuant to Sections 260.141.10 or 260.534 shall cause a copy of this section to be delivered to each issuee or transferee of such security.

(b) It is unlawful for the holder of any such security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

- (1) to the issuer;
- (2) pursuant to the order or process of any court;
- (3) to any person described in Subdivision (i) of Section 25102 of the Code or Section 260.105.14 of these rules;
- (4) to the transferor's ancestors, descendants or spouse or any custodian or trustee for the account of the transferor or the transferor's ancestors, descendants, or spouse; or to a

transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;

(5) to holders of securities of the same class of the same issuer;

(6) by way of gift or donation inter vivos or on death;

(7) by or through a broker-dealer licensed under the Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;

(8) to a broker-dealer licensed under the Code in a principal transaction, or as an underwriter or Limited Partner of an underwriting syndicate or group;

(9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;

(10) by way of a sale qualified under Sections 25111, 25112, 25113, or 25121 of the Code, of the securities to be transferred, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to such corporation;

(12) by way of an exchange qualified under Section 25111, 25112, or 25113 of the Code, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(13) between residents of foreign states, territories or countries who are neither domiciled nor actually present in this state;

(14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state;

(15) by the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii) delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;

(16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities; or

(17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Code but exempt from that qualification requirement by subdivision (f) of Section 25102; provided that any such transfer is on

the condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section.

(c) The certificates representing all such securities subject to such a restriction on transfer, whether upon initial issuance or upon any transfer thereof, shall bear on their face a legend, prominently stamped or printed thereon in capital letters of not less than 10-point size, reading as follows:

“IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER’S RULES.”

**EXHIBIT A**

**LIMITED PARTNERSHIP AGREEMENT**

**EXHIBIT B**  
**SUBSCRIPTION AGREEMENT**