

**STATEMENT OF POLICY
REGARDING REAL ESTATE PROGRAMS**

Last Revised, May 7, 2007

I. INTRODUCTION.

A.

Application.

1.

The rules contained in these guidelines apply to qualifications and registrations of real estate programs in the form of limited partnerships (herein sometimes called "PROGRAM" or "partnerships") and will be applied by analogy to real estate programs in other forms. While applications not conforming to the standards contained herein shall be looked upon with disfavor, where good cause is shown certain guidelines may be modified or waived by the ADMINISTRATOR.

COMMENT: The purpose of the guidelines is to establish uniform and consistent standards to be applied by the various state securities ADMINISTRATORS throughout the country. These standards are primarily designed for public real estate syndications and PROGRAMS which make or invest in mortgage loans. With respect to PROGRAMS which make or invest in mortgage loans, all provisions of these guidelines are applicable thereto, unless specifically excluded or modified.

2.

Where the individual characteristics of specific PROGRAMS warrant modification from these standards they will be accommodated, insofar as possible while still being consistent with the spirit of these guidelines. The Cross Reference Sheet in the form set forth in Section IX.H. Real Estate Guidelines Cross Reference Sheet shall be furnished with the application.

3.

Where these guidelines conflict with requirements of the Securities and Exchange Commission, the guidelines will not apply.

B.

Definitions.

1.

ACQUISITION EXPENSES--expenses including but not limited to legal fees and expenses, travel and communications expenses, costs of appraisals, non-refundable option payments on property not acquired, accounting fees and expenses, title insurance, and miscellaneous expenses related to selection and acquisition of properties, whether or not acquired.

COMMENT: Definition utilized in section IV.C. making clear that all expenses incurred in acquiring properties for the PROGRAM be included in FRONT-END FEES.

2.

ACQUISITION FEE: The total of all fees and commissions paid by any party in connection with making or investing in mortgage loans or the purchase, development or construction of property by a PROGRAM. Included in the computation of such fees or commissions shall be any real estate commission, selection fee, DEVELOPMENT FEE, CONSTRUCTION FEE, nonrecurring management fee, loan fees or points paid by borrowers to the SPONSOR in PROGRAMs which make or invest in mortgage loans, or any fee of a similar nature, however designated. Excluded shall be DEVELOPMENT FEES and CONSTRUCTION FEES paid to PERSONS not affiliated with the SPONSOR in connection with the actual development and construction of a project.

3.

ADMINISTRATOR--the official or agency administering the securities law of a state.

4.

AFFILIATE--means (i) any PERSON directly or indirectly controlling, controlled by or under common control with another PERSON (ii) any PERSON owning or controlling 10% or more of the outstanding voting securities of such other PERSON (iii) any officer, director, partner of such PERSON and (iv) if such other PERSON is an officer, director or partner, any company for which such PERSON acts in any such capacity.

5.

ASSESSMENTS--additional amounts of capital which may be mandatorily required of or paid at the option of a PARTICIPANT beyond his subscription commitment excluding MANDATORY DEFERRED PAYMENTS.

6.

ASSET BASED FEE--compensation to a SPONSOR computed according to subsection IV.J.

7.

AUDITED FINANCIAL STATEMENTS: Financial statements (balance sheet, statement of income, statement of partners' equity and statement of cash flows) prepared in accordance with generally accepted accounting principles and accompanied by an independent auditor's report containing (i) an unqualified opinion, (ii) an opinion containing no material qualification or (iii) no explanatory paragraph disclosing information relating to material uncertainties (except as to litigation) or going concern issues.

8.

BASE AMOUNT--that portion of the CAPITAL CONTRIBUTIONS originally committed to INVESTMENT IN PROPERTIES without regard to leverage and including working capital reserves allowable under subsection IV.J.1.c. The BASE AMOUNT shall be recomputed annually by subtracting from the then fair market value of the PROGRAM's real properties as determined by independent appraisals plus the working capital reserves allowable under

subsection IV.J.1.c., an amount equal to the outstanding debt secured by the PROGRAM's properties.

9.

CAPITAL CONTRIBUTION--the gross amount of investment in a PROGRAM by a PARTICIPANT, or all PARTICIPANTS as the case may be. Unless otherwise specified, CAPITAL CONTRIBUTION shall be deemed to include principal amounts to be received on account of mandatory deferred payments.

10.

CARRIED INTEREST--an equity interest in a PROGRAM which participates in all allocations and distributions other than the promotional interest provided for in Sections IV.C.3.a., IV.E.1. and IV.E.2., for which full consideration is not paid or to be paid.

11.

CASH AVAILABLE FOR DISTRIBUTION--CASH FLOW less amount set aside for restoration or creation of reserves.

12.

CASH FLOW--PROGRAM cash funds provided from operations, including lease payments on net leases from builders and sellers, without deduction for depreciation, but after deducting cash funds used to pay all other expenses, debt payments, capital improvements and replacements.

COMMENT: With respect to PROGRAMS which make or invest in mortgage loans, only funds which constitute interest payments shall be included in CASH FLOW. Funds which may be deemed to constitute interest payments are (i) contractual current interest payments; (ii) interest accrued or deferred, when received, and (iii) contingent interest based upon the PROGRAM'S share of the gross or net income from properties on which the PROGRAM has made a loan. All other funds shall be considered to be net proceeds from a sale or refinancing.

13.

COMPETITIVE REAL ESTATE COMMISSION--that real estate or brokerage commission paid for the purchase or sale of property which is reasonable, customary and competitive in light of the size, type and location of the property.

14.

CONSTRUCTION FEE: A fee or other remuneration for acting as general contractor and/or construction manager to construct improvements, supervise and coordinate projects or to provide MAJOR REPAIRS OR REHABILITATION on a PROGRAM's property.

15.

CROSS REFERENCE SHEET--A compilation of the guideline sections, referenced to the page of the PROSPECTUS, partnership agreement, or other exhibits, and justification of any deviation from the guidelines.

16.

DEVELOPMENT FEE--a fee for the packaging of a PROGRAM's property, including negotiating and approving plans, and undertaking to assist in obtaining zoning and necessary variances and necessary financing for the specific property, either initially or at a later date.

17.

FINANCING--shall be defined as: All indebtedness encumbering PROGRAM properties or incurred by the PROGRAM, the principal amount of which is scheduled to be paid over a period of not less than 48 months, and not more than 50 percent of the principal amount of which is scheduled to be paid during the first 24 months. Nothing in this definition shall be construed as prohibiting a bona-fide pre-payment provision in the financing agreement.

18.

FRONT-END FEES: Fees and expenses paid by any party for any services rendered to organize the PROGRAM and to acquire assets for the PROGRAM, including ORGANIZATION AND OFFERING EXPENSES, ACQUISITION FEES, ACQUISITION EXPENSES, interest on deferred fees and expenses and any other similar fees, however designated by the SPONSOR.

19.

INDEPENDENT EXPERT. A PERSON with no material current or prior business or personal relationship with the SPONSOR who is engaged to a substantial extent in the business of rendering opinions regarding the value of assets of the type held by the PROGRAM, and who is qualified to perform such work.

20.

INVESTMENT IN PROPERTIES--The amount of CAPITAL CONTRIBUTIONS used to make or invest in mortgage loans or the amount actually paid or allocated to the purchase, development, construction or improvement of properties acquired by the PROGRAM (including the purchase of properties, working capital reserves allocable thereto (except that working capital reserves in excess of 5% shall not be included), and other cash payments such as interest and taxes but excluding FRONT-END FEES).

21.

MANDATORY DEFERRED PAYMENTS--MANDATORY DEFERRED PAYMENTS shall be payments on account of the purchase price of PROGRAM INTERESTS offered in accordance with 17 CFR 240.3a12-9.

22.

MAJOR REPAIRS AND REHABILITATION: The repair, rehabilitation or reconstruction of a property where the aggregate costs exceed 10% of the fair market value of the property at the time of such services.

23.

NET WORTH--the excess of total assets over total liabilities as determined by generally accepted accounting principles, except that if any of such assets have been depreciated, then the amount of depreciation relative to any particular asset may be added to the depreciated cost of such asset to compute total assets, provided that the amount of depreciation may be added only to the extent that the amount resulting after adding such depreciation does not exceed the fair market value of such asset.

24.

NON-SPECIFIED PROPERTY PROGRAMS shall be PROGRAMS other than SPECIFIED PROPERTY PROGRAMS.

25.

ORGANIZATION AND OFFERING EXPENSES--those expenses incurred in connection with and in preparing a PROGRAM for registration and subsequently offering and distributing it to the public, including sales commissions paid to broker-dealers in connection with the distribution of the PROGRAM and all advertising expenses.

COMMENT: All advertising expenses, except those related to PROGRAM property management, charged to a PROGRAM are included within the definition. Fees paid by the PROGRAM, directly or indirectly, to persons for acting as surety, guarantor or in some similar capacity in regard to MANDATORY DEFERRED PAYMENTS shall also be included within this definition.

26.

ROLL-UP. A transaction involving the acquisition, merger, conversion, or consolidation, either directly or indirectly of the PROGRAM and the issuance of securities of a ROLL-UP ENTITY. Such term does not include:

(a)

a transaction involving securities of the PROGRAM that have been listed for at least 12 months on a national securities exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or

(b)

a transaction involving the conversion to corporate, trust or association form of only the PROGRAM if, as a consequence of the transaction, there will be no significant adverse change in any of the following:

(i)

PARTICIPANTS' voting rights;

(ii)

the term of existence of the PROGRAM;

(iii)

SPONSOR compensation; or

(iv)

the PROGRAM'S investment objectives.

27.

ROLL-UP ENTITY. A partnership, real estate investment trust, corporation, trust or other entity that would be created or would survive after the successful completion of a proposed ROLL-UP transaction.

28.

PARTICIPANT--the holder of a PROGRAM INTEREST.

29.

PERSON--any natural PERSON, partnership, corporation, association or other legal entity.

30.

PROGRAM--a limited or general partnership, joint venture, unincorporated association or similar organization other than a corporation formed and operated for the primary purpose of investment in and the operation of or gain from an interest in real property including such entities formed to make or invest in mortgage loans.

31.

PROGRAM INTEREST--the limited partnership unit or other indicia of ownership in a PROGRAM.

32.

PROGRAM MANAGEMENT FEE--a fee paid to the SPONSOR or other PERSONS for management and administration of the PROGRAM.

33.

PROPERTY MANAGEMENT FEE--the fee paid for day-to-day professional property management services in connection with a PROGRAM's real property projects.

34.

PROSPECTUS--shall have the meaning given to that term by Section 2(10) of the Securities Act of 1933, including a preliminary PROSPECTUS; provided, however, that such term as used herein shall also include an offering circular as described in Rule 256 of the General Rules and Regulations under the Securities Act of 1933 or, in the case of an intrastate offering, any document by whatever name known, utilized for the purpose of offering and selling securities to the public.

35.

PURCHASE PRICE--the price paid upon the purchase or sale of a particular property, including the amount of ACQUISITION FEES and all liens and mortgages on the property, but excluding points and prepaid interest.

36.

SPECIFIED PROPERTY PROGRAM--a PROGRAM where, at the time a securities registration is ordered effective, more than 75% of the net proceeds from the sale of PROGRAM

INTERESTS is allocable to the purchase, construction, or improvement of specific properties. Reserves shall be included in the non-specified portion. Net proceeds shall include principal amounts to be received on account of MANDATORY DEFERRED PAYMENTS.

37.

SPONSOR--a "SPONSOR" is any PERSON directly or indirectly instrumental in organizing, wholly or in part, a PROGRAM or any PERSON who will manage or participate in the management of a PROGRAM, and any AFFILIATE of any such person, but does not include a PERSON whose only relation with the PROGRAM is as that of an independent property manager, whose only compensation is as such. "SPONSOR" does not include wholly independent third parties such as attorneys, accountants, and underwriters whose only compensation is for professional services rendered in connection with the offering of syndicate interests. A PERSON may also be a SPONSOR of the PROGRAM by:

(i)

Taking the initiative, directly or indirectly, in founding or organizing the business or enterprise of the PROGRAM, either alone or in conjunction with one or more other PERSONS.

(ii)

Receiving a material participation in the PROGRAM in connection with the founding or organizing of the business of the PROGRAM, in consideration of services or property, or both services and property.

(iii)

Having a substantial number of relationships and contacts with the PROGRAM.

(iv)

Possessing significant rights to control PROGRAM properties.

(v)

Receiving fees for providing services to the PROGRAM which are paid on a basis that is not customary in the industry.

(vi)

Providing goods or services to the PROGRAM on a basis which was not negotiated at arm's length with the PROGRAM.

II. REQUIREMENTS OF SPONSORS.

A.

Experience. The SPONSOR, the general partner or their chief operating officers shall have at least two years relevant real estate or other experience demonstrating the knowledge and experience to acquire and manage the type of assets being acquired, and any of the foregoing or any AFFILIATE providing services to the PROGRAM shall have had not less than four years relevant experience in the kind of service being rendered or otherwise must demonstrate sufficient knowledge and experience to perform the services proposed.

COMMENT: "Relevant real estate or other experience" should be interpreted to include actual direct experience by the chief executive officer, or other PERSONS at the management level, either as a principal or agent in performing the services to be provided to the PROGRAM. This would include acquiring and managing real estate for one's own account or acting as an agent in acquiring and managing real estate comparable to that which the PROGRAM will acquire. If the PROGRAM will be in the business of acquiring shopping centers and office buildings, "relevant real estate experience" would not include experience in buying or selling houses. It is apparent that a different level of sophistication and knowledge is required.

B.

NET WORTH Requirement of SPONSOR. The financial condition of the SPONSOR liable for the debts of the PROGRAM must be commensurate with any financial obligations assumed in the offering and in the operation of the PROGRAM. As a minimum, such SPONSOR shall have an aggregate financial NET WORTH, exclusive of home, automobile and home furnishings, of the greater of either \$50,000 or an amount at least equal to 5% of the gross amount of all offerings sold within the prior 12 months plus 5% of the gross amount of the current offering, to an aggregate maximum NET WORTH of such SPONSOR of one million dollars. In determining NET WORTH for this purpose, evaluation will be made of contingent liabilities and the use of promissory notes, to determine the appropriateness of their inclusion in computation of NET WORTH.

COMMENT: The inclusion of promissory notes may be insufficient to satisfy the NET WORTH requirements where the maker of the notes is inadequately capitalized. The gross amount of offerings includes the principal amounts to be received on account of mandatory deferred payments.

C.

Reports to ADMINISTRATOR. Each application for registration shall contain a commitment, executed by the SPONSOR, to submit to the ADMINISTRATOR upon request any report or statement required to be distributed to limited partners pursuant to VII.C.

COMMENT: The SPONSOR need not file with the ADMINISTRATOR all reports that will be filed with the limited partners, but should retain copies of such reports or information and make them available to the ADMINISTRATOR as required. The length this information must be retained will vary from state to state depending upon its requirements.

D.

Liability and Indemnification.

1.

The PROGRAM shall not provide for indemnification of the SPONSOR for any liability or loss suffered by the SPONSOR, nor shall it provide that the SPONSOR be held harmless for any loss or liability suffered by the PROGRAM, unless all of the following conditions are met:

a.

The SPONSOR has determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the PROGRAM, and

b.

the SPONSOR was acting on behalf of or performing services for the PROGRAM, and

c.

such liability or loss was not the result of negligence or misconduct by the SPONSOR, and

d.

such indemnification or agreement to hold harmless is recoverable only out of the assets of the PROGRAM and not from the PARTICIPANTS.

2.

Notwithstanding anything to the contrary contained in Section II.D.1., the SPONSOR (which shall include AFFILIATES only if such AFFILIATES are performing services on behalf of the PROGRAM) and any person acting as a broker-dealer shall not be indemnified for any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws unless the following conditions are met:

a.

There has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee, or

b.

such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee, or

c.

a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and related costs should be made, and

d.

in the case of subparagraph c., the court of law considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and the position of any state securities regulatory authority in which securities of the PROGRAM were offered or sold as to indemnification for violations of securities laws; provided that the court need only be advised of and consider the positions of the securities regulatory authorities of those states (i) which are specifically set forth in the PROGRAM agreement and (ii) in which plaintiffs claim they were offered or sold PROGRAM INTERESTS.

3.

The PROGRAM may not incur the cost of that portion of liability insurance which insures the SPONSOR for any liability as to which the SPONSOR is prohibited from being indemnified under this section.

4.

The provision of advancement from PROGRAM funds to a SPONSOR or its AFFILIATES for legal expenses and other costs incurred as a result of any legal action is permissible if the following conditions are satisfied:

a.

the legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the PROGRAM;

b.

the legal action is initiated by a third party who is not a PARTICIPANT, or the legal action is initiated by a PARTICIPANT and a court of competent jurisdiction specifically approves such advancement; and

c.

the SPONSOR or its AFFILIATES undertake to repay the advanced funds to the PROGRAM in cases in which such PERSON is not entitled to indemnification under Section II.D.1.

E.

Fiduciary Duty. The program agreement shall provide that the SPONSOR shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the program, whether or not in the SPONSOR'S possession or control, and that the SPONSOR shall not employ, or permit another to employ such funds or assets in any manner except for the exclusive benefit of the PROGRAM.

In addition, the PROGRAM shall not permit the PARTICIPANT to contract away the fiduciary duty owed to the PARTICIPANT by the SPONSOR under the common law.

F.

Terminated SPONSOR. Upon the occurrence of a terminating event, the partnership may be required to pay to the terminated SPONSOR all amounts then accrued and owing to the terminated SPONSOR. Additionally, the partnership may terminate the SPONSOR'S interest in partnership income, losses, distributions, and capital by payment of an amount equal to the then present fair market value of the terminated SPONSOR'S interest determined by agreement of the terminated SPONSOR and the partnership, or, if they cannot agree, by arbitration in accordance with the then current rules of the American Arbitration Association. The expense of arbitration shall be borne equally by the terminated SPONSOR and the partnership.

The method of payment to the terminated SPONSOR must be fair; and must protect the solvency and liquidity of the partnership. Where the termination is voluntary, the method of payment will be deemed presumptively fair where it provides for a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the terminated SPONSOR otherwise would have received under the partnership agreement had the SPONSOR not terminated. Where the termination is involuntary, the method of payment will be deemed presumptively fair where it provides for an interest bearing promissory note coming due in no less than 5 years with equal installments each year.

III. SUITABILITY OF PARTICIPANTS

A.

General Policy.

1.

The SPONSOR shall establish minimum income and net worth standards for PERSONS who purchase PROGRAM INTERESTS.

2.

The SPONSOR shall propose minimum income and net worth standards which are reasonable given the type of PROGRAM and the risks associated with the purchase of PROGRAM INTERESTS. PROGRAMS with greater investor risk shall have minimum standards with a substantial NET WORTH requirement. The ADMINISTRATOR shall evaluate the standards proposed by the SPONSOR when the PROGRAM'S application for registration is reviewed. In evaluating the proposed standards, the ADMINISTRATOR may consider the following:

a.

the PROGRAM'S use of leverage;

b.

tax implications;

c.

MANDATORY DEFERRED PAYMENTS;

d.

assessments;

e.

balloon payment financing;

f.

investments in unimproved land;

g.

potential variances in cash distributions;

h.

potential PARTICIPANTS;

i.

relationship between potential PARTICIPANTS and the SPONSOR;

j.

liquidity of PROGRAM INTERESTS;

k.

performance of SPONSOR'S prior programs;

l.

financial condition of the SPONSOR;

m.

potential transactions between the PROGRAM and the SPONSOR; and

n.

any other relevant factors.

B.

Income and Net Worth Standards.

1.

For PROGRAMS other than PROGRAMS with MANDATORY DEFERRED PAYMENTS, unless the ADMINISTRATOR determines that the risks associated with the PROGRAM would require lower or higher standards, each PARTICIPANT shall have:

a.

a minimum annual gross income of \$70,000 and a minimum NET WORTH of \$70,000; or

b.

a minimum NET WORTH of \$250,000.

2.

For PROGRAMS with MANDATORY DEFERRED PAYMENTS, unless the ADMINISTRATOR determines that the risks associated with the PROGRAM would require lower or higher standards, each PARTICIPANT shall have:

a.

a minimum annual gross income of \$85,000 and a minimum NET WORTH of \$85,000; or

b.

a minimum NET WORTH of \$330,000.

3.

NET WORTH shall be determined exclusive of home, home furnishings, and automobiles.

4.

In the case of sales to fiduciary accounts, these minimum standards shall be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the PROGRAM INTERESTS if the donor or grantor is the fiduciary.

5.

The SPONSOR shall set forth in the final PROSPECTUS:

a.

the investment objectives of the PROGRAM;

b.

a description of the type of PERSON who might benefit from an investment in the PROGRAM;
and

c.

the minimum standards imposed on each PARTICIPANT in the PROGRAM.

C.

Determination that Sale to PARTICIPANT is Suitable and Appropriate.

1.

The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT.

2.

In making this determination, the SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall ascertain that the prospective PARTICIPANT:

- a. meets the minimum income and net worth standard established for the PROGRAM;
- b. can reasonably benefit from the PROGRAM based on the prospective PARTICIPANT'S overall investment objectives and portfolio structure;
- c. is able to bear the economic risk of the investment based on the prospective PARTICIPANT'S overall financial situation; and
- d. has apparent understanding of:
 - (i) the fundamental risks of the investment;
 - (ii) the risk that the PARTICIPANT may lose the entire investment;
 - (iii) the lack of liquidity of PROGRAM INTERESTS;
 - (iv) the restrictions on transferability of PROGRAM INTERESTS;
 - (v) the background and qualifications of the SPONSOR or the PERSONS responsible for directing and managing the PROGRAM; and
 - (vi) the tax consequences of the investment.

3. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM will make this determination on the basis of information it has obtained from a prospective PARTICIPANT. Relevant information for this purpose will include at least the age, investment objectives, investment experience, income, NET WORTH, financial situation, and other investments of the prospective PARTICIPANT, as well as any other pertinent factors.

4. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain records of the information used to determine that an investment in PROGRAM INTERESTS is suitable and appropriate for each PARTICIPANT. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain these records for at least six years.

5. The SPONSOR shall disclose in the final PROSPECTUS the responsibility of the SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM to make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT, based on information provided by the PARTICIPANT regarding the PARTICIPANT'S financial situation and investment objectives.

D.

Subscription Agreements.

1.

The ADMINISTRATOR may require that each PARTICIPANT complete and sign a written subscription agreement.

2.

The SPONSOR may require that each PARTICIPANT make certain factual representations in the subscription agreement, including the following:

a.

The PARTICIPANT meets the minimum income and net worth standards established for the PROGRAM.

b.

The PARTICIPANT is purchasing the PROGRAM INTERESTS for his or her own account.

c.

The PARTICIPANT has received a copy of the PROSPECTUS.

d.

The PARTICIPANT acknowledges that the investment is not liquid.

3.

The PARTICIPANT must separately sign or initial each representation made in the subscription agreement. Except in the case of fiduciary accounts, the PARTICIPANT may not grant any PERSON a power of attorney to make such representations on his or her behalf.

4.

The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall not require a PARTICIPANT to make representations in the subscription agreement which are subjective or unreasonable and which:

a.

might cause the PARTICIPANT to believe that he or she has surrendered rights to which he or she is entitled under federal or state law; or

b.

would have the effect of shifting the duties regarding suitability, imposed by law on broker-dealers, to the PARTICIPANT.

5.

Prohibited representations include, but are not limited to the following:

a.

The PARTICIPANT understands or comprehends the risks associated with an investment in the PROGRAM.

b.

The investment is a suitable one for the PARTICIPANT.

c.

The PARTICIPANT has read the PROSPECTUS.

d.

In deciding to invest in the PROGRAM, the PARTICIPANT has relied solely on the PROSPECTUS, and not on any other information or representations from other PERSONS or sources.

6.

The SPONSOR may place the content of the prohibited representations in the subscription agreement in the form of disclosures to the PARTICIPANT. The SPONSOR may not place these disclosures in the PARTICIPANT representation section of the subscription agreement.

E.

Completion of Sale.

1.

The SPONSOR or any person selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM may not complete a sale of PROGRAM INTERESTS to a PARTICIPANT until at least five business days after the date the PARTICIPANT receives a final prospectus.

2.

The SPONSOR or the PERSON designated by the SPONSOR shall send each PARTICIPANT a confirmation of his or her purchase.

F.

Minimum Investment. The ADMINISTRATOR may require a minimum initial and subsequent cash investment amount.

IV. FEES--COMPENSATION--EXPENSES.

A.

Fees, Compensation and Expenses to Be Reasonable.

1.

The total amount of consideration of all kinds which may be paid directly or indirectly to all parties shall be reasonable.

2.

The PROSPECTUS must fully disclose and itemize all consideration which may be received from the PROGRAM directly or indirectly by the SPONSOR, its AFFILIATES and underwriters, what the consideration is for and how and when it will be paid. This shall be set forth in one location in tabular form.

B.

ORGANIZATION AND OFFERING EXPENSES. All ORGANIZATION AND OFFERING EXPENSES incurred in order to sell PROGRAM interests shall be reasonable and shall comply with all statutes, rules and regulations imposed in connection with the offering of other securities in the state.

C.

INVESTMENT IN PROPERTIES.

1.

a. The SPONSOR shall be required to commit a substantial portion of the PROGRAM'S CAPITAL CONTRIBUTIONS toward INVESTMENT IN PROPERTIES. The remaining CAPITAL CONTRIBUTIONS may be used to pay FRONT-END FEES. The total amount of FRONT-END FEES, whenever paid and from whatever source, shall be limited to an amount equal to the initial amount of CAPITAL CONTRIBUTIONS not applied to INVESTMENT IN PROPERTIES. When FRONT-END FEES are paid by the seller of properties, such fees shall not be included in satisfying the required minimum INVESTMENT IN PROPERTIES.

b. If CAPITAL CONTRIBUTIONS are paid on an installment basis, the FRONT-END FEE shall be paid to the SPONSOR pro rata as installments are paid.

c. Notwithstanding Sections IV.C.1.a. and IV.C.2., FRONT-END FEES may be limited as required by Section V.J. If so, the proportion of CAPITAL CONTRIBUTIONS subject to the limitations of Section V.J. shall be the same proportion as the amount of invested assets subject to Section V.J. to the aggregate amount of all investments of the PROGRAM. Borrowed amounts shall not be included in determining the amount of investment.

COMMENT: This section is to provide an alternative to Section IV.C.1.a. when a SPONSOR is developing a specified property. If the SPONSOR does not elect to follow this alternative, the FRONT-END FEES shall include the DEVELOPMENT FEE and CONSTRUCTION FEE paid to the SPONSOR.

2.

At a minimum, the SPONSOR shall commit a percentage of the CAPITAL CONTRIBUTIONS to INVESTMENT IN PROPERTIES which is equal to 82% for PROGRAMS which make or invest in mortgage loans and for all other PROGRAMS is equal to the greater of:

a.

80% of the CAPITAL CONTRIBUTIONS reduced by .1625% for each 1% of financing of PROGRAM properties; or

b.

67% of the CAPITAL CONTRIBUTIONS.

COMMENT: The expenses incurred and level of effort required in locating and funding mortgages is not as high as that which is required in locating and closing upon real properties. In addition, the fees traditionally payable in the mortgage funding and acquisition area are much lower than those payable in real property acquisitions. For example, real estate commissions which can represent a large portion of the front-end fees in a traditional PROGRAM are not present in a mortgage PROGRAM. Consequently, the FRONT END FEES permissible in a mortgage PROGRAM are less than those permissible in the more traditional real estate equity PROGRAMS.

3.

If the SPONSOR enters into an INVESTMENT IN PROPERTIES commitment in excess of that specified in Section 2. above, the following mutually exclusive forms of compensation are viewed as not unreasonable alternatives to FRONT-END FEES:

a.

the SPONSOR may take an additional promotional interest in the net proceeds remaining from the sale or refinancing of the properties after payment of such proceeds to PARTICIPANTS in an amount equal to 100% of CAPITAL CONTRIBUTIONS, equal to 1% for each 1% of additional INVESTMENT IN PROPERTIES; or

b.

the SPONSOR may take a CARRIED INTEREST which accrues and is payable from the net proceeds remaining from the sale or refinancing of properties only after payment of such proceeds to PARTICIPANTS in an amount equal to 100% of CAPITAL CONTRIBUTIONS, equal to 1% for the first 2% of additional INVESTMENT IN PROPERTIES, plus 1% for the next 1.5% of additional INVESTMENT IN PROPERTIES, plus 1% for each 1% of additional INVESTMENT IN PROPERTIES thereafter; or

c.

the SPONSOR may take a fully participating CARRIED INTEREST equal to 1% for the first 2.5% of additional INVESTMENT IN PROPERTIES, 1% for the next 2% of additional INVESTMENT IN PROPERTIES, and 1% for each 1% of additional INVESTMENT IN PROPERTIES thereafter.

COMMENT: A CARRIED INTEREST may not be taken other than on the basis of the foregoing. In the case of PROGRAMS offering MANDATORY DEFERRED PAYMENTS, the compensation identified in IV.C.3. above as an alternative to FRONT-END FEES paid the SPONSOR shall be credited to the SPONSOR pro rata as installments are paid.

4.

For PROGRAMS whose total CAPITAL CONTRIBUTIONS do not exceed \$2 million, the ADMINISTRATOR may reduce the required amount of INVESTMENT IN PROPERTIES to that permitted by 2(b) above notwithstanding the level of indebtedness encumbering the PROGRAM'S properties.

COMMENT: The purpose of the section is to require the SPONSOR to invest a specified percentage of CAPITAL CONTRIBUTIONS in the acquisition of properties and use the balance for FRONT-END FEES in any manner he wishes, or defer a portion of the FRONT-END FEES to a promotional interest.

This will avoid the necessity of having to attempt to establish the reasonableness of the various FRONT-END FEES on an individual basis. However, the formula continues the tradition of the Guidelines by allowing the SPONSOR's fee to increase as leverage is employed to acquire properties. The PROSPECTUS should include an example demonstrating the mechanics of the formula.

To calculate the percent of financing of PROGRAM properties in Section 2., divide the amount of financing by the PURCHASE PRICE of the property, excluding FRONT-END FEES. The Quotient is multiplied by .1625% to determine the percentage to be deducted from 80%. The following are examples of application of the formula using CAPITAL CONTRIBUTIONS of \$1 Million in each case:

a.

No financing--80% to be committed to INVESTMENT IN PROPERTIES.

b.

50% financing-- $50 \times .1625\% = 8.125\%$

80% - 8.125% = 71.875% to be committed to INVESTMENT IN PROPERTIES.

c.

80% financing-- $80 \times .1625\% = 13\%$

80% - 13% = 67% to be committed to INVESTMENT IN PROPERTIES.

Notwithstanding the language in paragraph 4 above, the 2 million dollar limitation is intended to be a benchmark figure and may be adjusted upward or downward by an Administrator based on the marketplace in his jurisdiction.

D.

PROGRAM MANAGEMENT FEE.

1.

A general partner of a PROGRAM owning unimproved land shall be entitled to annual compensation not exceeding 1/4 of 1% of the cost of such unimproved land for operating the PROGRAM until such time as the land is sold or improvement of the land commences by the limited partnership. In no event shall this fee exceed a cumulative total of 2% of the original cost of the land regardless of the number of years held.

2.

A general partner of a PROGRAM holding property in government subsidized projects shall be entitled to annual compensation not exceeding 1/2 of 1% of the cost of such property for operating the PROGRAM until such time as the property is sold.

3.

PROGRAM MANAGEMENT FEES other than as set forth above shall be prohibited.

E.

Promotional Interest. An interest in the PROGRAM will be allowed as a promotional interest and PROGRAM MANAGEMENT FEE, provided the amount or percentage of such interest is reasonable. Such an interest will be considered presumptively reasonable if it is within the limitations expressed below:

1.

An interest equal to 25% of cash to be distributed from the net proceeds remaining from the sale or refinancing of properties after payment to investors from such proceeds, an amount equal to 100% of CAPITAL CONTRIBUTIONS, plus an amount equal to 6% of CAPITAL CONTRIBUTIONS per annum cumulative (the 6% cumulative return may be reduced, but not below zero, by the aggregate amount of prior distributions to investors from CASH AVAILABLE FOR DISTRIBUTION); or

COMMENT: The SPONSOR should not participate in sale or refinancing proceeds until the PARTICIPANTS have received a minimum return on their CAPITAL CONTRIBUTIONS.

However, the 6% subordination requirement may be waived in the situation where the PROGRAM invests more than 60% of its CAPITAL CONTRIBUTIONS in newly constructed or totally rehabilitated properties, including housing subsidized under the National Housing Act or similar such programs.

2.

An interest equal to:

a.

10% of distributions from CASH AVAILABLE FOR DISTRIBUTION; and

b.

15% of cash to be distributed from the net proceeds remaining from the sale or refinancing of properties after payment to investors from such proceeds, an amount equal to 100% of CAPITAL CONTRIBUTIONS, plus an amount equal to 6% of CAPITAL CONTRIBUTIONS per annum cumulative. The 6% cumulative return may be reduced, but not below zero, by the aggregate amount of prior distributions to investors from CASH AVAILABLE FOR DISTRIBUTION.

COMMENT: In addition to a 6% per annum cumulative return, investors in traditional equity real estate limited partnerships receive:

(i) Capital gains through product appreciation;

(ii) Federal income taxation deductions during the early years of property operations leading to all or a portion of cash distributions being treated as a return of capital for taxation purposes;

(iii) Equity buildup through a reduction of mortgage loans.

Since PROGRAMS which make or invest in mortgage loans are income oriented and investors in such PROGRAMS may forego a major portion of the benefits set forth in (i) through (iii) above, the per annum cumulative return for such PROGRAMS shall be equal to 300 basis points below the average Federal Home Loan Mortgage Corporation (FHLMC) rate as reported in The Wall Street Journal or similar publication for the 30-day period beginning 35 days prior to the date the PROGRAM is declared effective by the Securities and Exchange Commission. Notwithstanding the foregoing, such minimum cumulative return will not be less than 7% nor required to be more than 10%.

3.

For purposes of this Section, the CAPITAL CONTRIBUTION of the investors shall only be reduced by a cash distribution to investors of the proceeds from the sale or refinancing of properties. In addition, the cumulative return to each investor shall commence no later than the end of the calendar quarter in which his CAPITAL CONTRIBUTION is made.

4.

Dissolution and liquidation of the partnership. The distribution of assets upon dissolution and liquidation of the partnership shall conform to the applicable subordination provisions of subsections 1 and 2b. herein, and appropriate language shall be included in the partnership agreement.

5.

The maximum dollar amount of the SPONSORS' distributive share permitted under paragraph 1. or 2. above may not be increased by any allocation to the SPONSORS made for the purpose of satisfying the requirements of the Internal Revenue Code, applicable regulations, or any Revenue Ruling or Revenue Procedure. In the absence of adequate justification provided under Section IV.C.3. for any unsubordinated participation in cash to be distributed from the net proceeds remaining from the sale or refinancing of properties, the ADMINISTRATOR may require an express limitation in the PROGRAM agreement that the dollar amount of the SPONSORS' distributive share will not exceed the maximum amount that would be allowable under paragraph 1. or 2. above.

COMMENT: For PROGRAMS which make or invest in mortgage loans, all funds which constitute repayment of loan principal or which represent an equity interest in sale or refinancing proceeds of a real property underlying a loan shall be subordinated and apportioned in the same manner as provided in Sections IV.E.1. or 2.b. above.

F.

REAL ESTATE BROKERAGE COMMISSIONS ON RESALE OF PROPERTY. The total compensation paid to all PERSONS for the sale of a PROGRAM property shall be limited to a COMPETITIVE REAL ESTATE COMMISSION, not to exceed 6% of the contract price for the sale of the property. If the SPONSOR provides a substantial amount of the services in the sales effort, he may receive up to one-half of the COMPETITIVE REAL ESTATE COMMISSION, not to exceed 3%, and subordinated as in E. above. If the SPONSOR participates with an independent broker on resale, the subordination requirement shall apply only to the commission earned by the SPONSOR.

COMMENT: If the SPONSOR provides a substantial amount of services in connection with the sale, he may then receive up to 1/2 of the brokerage commission, to a maximum of 3%, with the fee subordinated, to a return of 100% of CAPITAL CONTRIBUTIONS plus a 6% annual cumulative return, regardless of the type of property acquired by the PROGRAM.

G.

PROPERTY MANAGEMENT FEE. Should the SPONSOR or its AFFILIATES perform property management services permitted under section IV. A.1. of these guidelines, the fees paid to the

SPONSOR or its AFFILIATES shall be the lesser of the maximum fees set forth in subsections 1. through 3. below or the fees which are competitive for similar services in the same geographic area. Included in such fees shall be bookkeeping services and fees paid to non-related persons for property management services.

1.

In the case of a residential property, the maximum PROPERTY MANAGEMENT FEE (including all rent-up, leasing, and re-leasing fees and bonuses, and leasing related services, paid to any person) shall be 5% of the gross revenues from such property.

2.

In the case of industrial and commercial property, except as set forth in 3. below, the maximum PROPERTY MANAGEMENT FEE from such leases shall be 6% of the gross revenues where the SPONSOR or its AFFILIATES includes leasing, re-leasing and leasing related services. Conversely the maximum PROPERTY MANAGEMENT FEE from such leases shall be 3% of the gross revenues where the SPONSOR or its AFFILIATES do not perform the leasing, re-leasing and leasing related services with respect to the property.

3.

In the case of industrial and commercial properties which are leased on a long term (ten or more years) net (or similar) bases, the maximum PROPERTY MANAGEMENT FEE from such leases shall be 1% of the gross revenues, except for a one time initial leasing fee of 3% of the gross revenues on each lease payable over the first five full years of the original term of the lease.

COMMENT: This section provides a method to calculate the allowable fees for property management by the SPONSOR. The amount of the fee will be based upon, if competitive, the kinds of property management services performed by the SPONSOR for various types of rental properties and lease arrangements. This section prohibits the SPONSOR from receiving fees for the same service, for which the project has incurred costs to any other PERSON. The salary and fringe benefits of the on-site property personnel may be separately charged, as an operating expense, so long as such manager is not an officer, director, or controlling person of the SPONSOR.

This section is not intended to preclude the charging of a separate competitive fee for the one-time initial rent-up or leasing-up of a newly constructed property if such service is not included in the PURCHASE PRICE of the property paid by the PROGRAM. New construction could include a total rehabilitation.

Under Section 3., the initial leasing fee may be taken during each of the first five years on any lease which may include exercised renewals during that period; however, no initial leasing fee may be collected beyond five years for renewals or extensions with the same tenant or tenant's assignee.

The fee limitation would be considered presumptively reasonable unless the SPONSOR can demonstrate, to the satisfaction of the ADMINISTRATOR, thru empirical data that a higher competitive fee in the geographic area for the services rendered, the type of property to be acquired and the terms of the management contract is justified.

H.

INSURANCE SERVICES. The SPONSOR or his AFFILIATE may provide insurance brokerage services in connection with obtaining insurance on the PROGRAM'S property so long as the cost of providing such service, including cost of the insurance, is no greater than the lowest quote obtained from two unaffiliated insurance agencies and the coverage and terms are likewise comparable. In no event may such services be provided by the SPONSOR or his AFFILIATE unless they are independently engaged in the business of providing such services to other than AFFILIATES and at least 75% of their insurance brokerage service gross revenue is derived from other than AFFILIATES.

I.

MORTGAGE SERVICING FEE. The SPONSOR or his AFFILIATE may provide mortgage services in programs which make or invest in mortgage loans for which he may be paid a fee which when added to all other fees paid in connection with the servicing of a particular mortgage does not exceed the lesser of the customary, competitive fee for the provision of such mortgage services on that type of mortgage or 1/4 of 1% of the principal outstanding in such loan.

J.

ASSET BASED FEE.

1.

Eligibility. A PROGRAM may elect to compensate the SPONSOR according to the provisions of this section only if the PROGRAM meets all of the following:

a.

The PROSPECTUS states that a primary investment objective of the PROGRAM is to generate and to distribute to the PARTICIPANTS the CASH FLOW from the operation of the properties of the PROGRAM.

b.

The anticipated life of the PROGRAM does not exceed 20 years from the date the offering is declared effective by the SEC. However, the partnership agreement may provide that the PROGRAM will be extended by the affirmative vote of a majority of the PARTICIPANTS.

c.

The PROGRAM will invest not less than 82% of the CAPITAL CONTRIBUTIONS as the INVESTMENT IN PROPERTIES. The remaining CAPITAL CONTRIBUTIONS may be used to pay FRONT-END FEES. The total amount of FRONT-END FEES, whenever paid, shall be limited to the initial amount of CAPITAL CONTRIBUTIONS not applied to INVESTMENT IN PROPERTIES. Of this INVESTMENT IN PROPERTIES, not more than 3% of the CAPITAL CONTRIBUTIONS may be included as a working capital reserve.

2.

Computation. The annual ASSET BASED FEE shall be 0.75% of the BASE AMOUNT. On CAPITAL CONTRIBUTIONS temporarily held while awaiting INVESTMENTS IN PROPERTIES, the ASSET BASED FEE shall be 0.5% of those CAPITAL CONTRIBUTIONS. The SPONSOR may also be allowed the following additional fees and compensation:

a.

A PROPERTY MANAGEMENT FEE as provided in section IV.G.

b.

REAL ESTATE COMMISSIONS as provided in section IV.F.

c.

A promotional interest as provided in subsection IV.E.2.b.

d.

Fees for insurance services as allowed by section IV.H.

e.

FRONT-END FEES as provided in section IV.J.1.c.

f.

Reimbursement for PROGRAM expenses as provided in section V.E.

g.

Fees, interest and other charges as allowed in section V.I.3.

h.

Additional promotional interest in sale or refinancing proceeds as provided in section IV.C.3.a.

i.

Except as provided above, the SPONSOR shall receive no fees or other compensation from the program.

3.

Limitations. An election to compensate the SPONSOR with an ASSET BASED FEE as provided in this section shall be subject to the following limitations:

a.

The PROGRAM may reinvest the proceeds from the sale and refinancing of its PROPERTIES during the 7 years following the date of its effectiveness with the SEC. No deduction for FRONT-END FEES shall be allowed on such reinvestments. Beginning on a date 7 years after the date of effectiveness with the SEC, no reinvestment of the proceeds from the sale and refinancing of the PROPERTIES of the PROGRAM shall be allowed.

b.

The ASSET BASED FEE may be accrued without interest when PROGRAM funds are not available for its payment. Any accrued ASSET BASED FEE may be paid from the next available CASH FLOW or net proceeds from sale or refinancing of properties. No ASSET BASED FEE may be paid from PROGRAM reserves.

c.

A SPONSOR that is terminated and entitled to compensation from the PROGRAM as provided in the partnership documents and governed by section II.F. shall be paid the ASSET BASED FEE through the date of such termination.

d.

Except as modified by this section, all other portions of this Statement of Policy shall apply where appropriate to PROGRAMS electing an ASSET BASED FEE.

V. CONFLICTS OF INTEREST AND INVESTMENT RESTRICTIONS.

A.

Sales, Leases and Related Program Transactions.

1.

Sales and Leases to PROGRAM.

A PROGRAM shall not purchase or lease property in which a SPONSOR has an interest unless:

a.

The transaction occurs at the formation of the PROGRAM and is fully disclosed in its PROSPECTUS or offering circular, and

b.

The property is sold upon terms fair to the PROGRAM and at a price not in excess of its appraised value, and

c.

The cost of the property and any improvements thereon to the SPONSOR is clearly established. If the SPONSOR'S cost was less than the price to be paid by the PROGRAM, the price to be paid by the PROGRAM will not be deemed fair, regardless of the appraised value, unless some material change has occurred to the property which would increase the value since the SPONSOR acquired the property. Material factors may include the passage of a significant amount of time (but in no event less than 2 years prior to the offering of PROGRAM INTERESTS), the assumption by the promoter of the risk of obtaining a rezoning of the property and its subsequent rezoning, or some other extraordinary event which in fact increases the value of the property. If the material factor includes development, construction, or MAJOR REPAIRS OR REHABILITATION of the property by the SPONSOR less than two years prior to the offering of PROGRAM INTERESTS, the costs shall be limited as required by Section V.J.

d.

The provisions of this subsection notwithstanding, the SPONSOR may purchase property in its own name (and assume loans in connection therewith) and temporarily hold title thereto for the purpose of facilitating the acquisition of such property, or the borrowing of money or obtaining of financing for the PROGRAM, or completion of construction of the property, or any other purpose related to the business of the PROGRAM, provided that such property is purchased by the PROGRAM for a price no greater than the cost of such property to the SPONSOR, except compensation in accordance with Sections IV. and V.J. of these Guidelines, and provided there is no difference in interest rates of the loans secured by the property at the time acquired by the SPONSOR and the time acquired by the PROGRAM, nor any other benefit arising out of such transaction to the SPONSOR apart from compensation otherwise permitted by these Guidelines. Accordingly, all income generated and expenses associated with property so acquired shall be treated as belonging to the PROGRAM.

In no event shall the PROGRAM purchase property from the SPONSOR pursuant to this subparagraph d. if the SPONSOR has held the property for a period in excess of 12 months prior to commencement of the offering. The SPONSOR shall not sell property to the PROGRAM pursuant to this subparagraph d. if the cost of the property exceeds the funds reasonably anticipated to be available to the PROGRAM to purchase the property. The PROSPECTUS and the PROGRAM agreement shall set forth in a manner satisfactory to the ADMINISTRATOR the

methodology to be utilized for determining which properties will ultimately be transferred to the PROGRAM when the cost of the property acquired by the SPONSOR on behalf of the PROGRAM exceeds PROGRAM funds available to purchase the property.

e.

The purchase is made from a PROGRAM formed by the SPONSOR pursuant to the rights of first refusal required by Section V.H. In such a case the PURCHASE PRICE should be no more than fair market value as determined by an independent appraisal.

2.

Sales and Leases to SPONSOR. A PROGRAM shall not sell or lease property to the SPONSOR except as provided herein.

a.

The PROGRAM may lease property to the SPONSOR pursuant to a lease-back arrangement made at the outset, the terms of which are fully disclosed in the PROSPECTUS and no less favorable to the PROGRAM than those offered to and accepted by PERSONS who are not AFFILIATES of the SPONSOR.

b.

Not more than 10% of aggregate leaseable space owned by the PROGRAM may be under lease to the SPONSOR pursuant to terms not less favorable to the PROGRAM than those offered to and accepted by PERSONS who are not AFFILIATES of the SPONSOR; provided that the SPONSOR may not sublet such properties unless all profits derived from such subleases in excess of rentals due on the master lease are paid to the PROGRAM.

c.

A SPONSOR may purchase property (or contract rights related thereto) from the PROGRAM only if all of the following criteria are met:

(i)

The PROGRAM does not have sufficient offering proceeds available to retain the property (or contract rights related thereto).

(ii)

The PROSPECTUS discloses that the SPONSOR will purchase all properties (or contract rights) that the PROGRAM does not have sufficient proceeds to retain.

(iii)

The SPONSOR pays the PROGRAM an amount in cash equal to the cost of the property (or contract rights) to the PROGRAM (including all cash payments and carrying costs related thereto).

(iv)

The SPONSOR assumes all of the PROGRAM's obligations and liabilities incurred in connection with the holding of the property (or contract rights) by the PROGRAM.

(v)

The sale to the SPONSOR occurs not later than 90 days following the termination date of the offering.

(vi)

The methodology to be used by the SPONSOR in determining which properties it will purchase in the event that the PROGRAM's offering proceeds are insufficient to retain all properties must be fully disclosed in the PROSPECTUS.

3.

Dealing with Related PROGRAMS. A PROGRAM shall not acquire property from a PROGRAM in which the SPONSOR has an interest.

COMMENT: This provision prohibits transactions among PROGRAMS where the SPONSOR has an interest whereas section V.A.1. above relates to properties where the SPONSOR has an interest.

B.

Exchange of Limited Partnership Interests. The PROGRAM may not acquire property in exchange for limited partnership interests, except for property which is described in the PROSPECTUS which will be exchanged immediately upon effectiveness. In addition, such exchange shall meet the following conditions:

1.

A provision for such exchange must be set forth in the partnership agreement, and appropriate disclosure as to tax effects of such exchange are set forth in the PROSPECTUS;

2.

The property to be acquired must come within the objectives of the PROGRAM;

3.

The purchase price assigned to the property shall be no higher than the value supported by an appraisal prepared by an independent qualified appraiser;

4.

Each limited partnership interest must be valued at no less than market value if there is a market or if there is no market, fair market value of the PROGRAM's assets as determined by an independent appraiser within the last 90 days, less its liabilities, divided by the number of interests outstanding;

5.

No more than one-half of the interests issued by the PROGRAM shall have been issued in exchange for property;

6.

No securities sales or underwriting commissions shall be paid in connection with such exchange.

C.

Exclusive Agreement. A PROGRAM shall not give a SPONSOR an exclusive right to sell or exclusive employment to sell property for the PROGRAM.

D.

Commissions on Reinvestment or Distribution. A PROGRAM shall not pay, directly or indirectly, a commission or fee (except as permitted under section IV) to a SPONSOR in connection with the reinvestment or distribution of the proceeds of the resale, exchange, or refinancing of PROGRAM PROPERTY.

COMMENT: This section clarifies that financing, refinancing, or servicing fees are subject to the limitations of section IV.C.

E.

Services Rendered to the PROGRAM by the SPONSOR.

1.

Expenses of the PROGRAM.

a.

All expenses of the PROGRAM shall be billed directly to and paid by the PROGRAM. The SPONSOR may be reimbursed for the actual cost of goods and materials used for or by the PROGRAM and obtained from entities unaffiliated with the SPONSOR. The SPONSOR may be reimbursed for the administrative services necessary to the prudent operation of the PROGRAM provided that the reimbursement shall be at the lower of the SPONSOR'S actual cost or the amount the PROGRAM would be required to pay to independent parties for comparable administrative services in the same geographic location. No reimbursement shall be permitted for services for which the SPONSOR is entitled to compensation by way of a separate fee. Excluded from the allowable reimbursement (except as permitted under IV.C.1.) shall be:

- (i) rent or depreciation, utilities, capital equipment, other administrative items; and
- (ii) salaries, fringe benefits, travel expenses, and other administrative items incurred or allocated to any controlling persons of the SPONSOR or AFFILIATES.

Controlling person, for purpose of this section, includes but is not limited to, any person, whatever their title, who performs functions for the SPONSOR similar to those of:

- (i) Chairman or member of the Board of Directors;
- (ii) Executive Management, such as the
 - (1) President,
 - (2) Vice-President or Senior Vice-President,
 - (3) Corporate Secretary,
 - (4) Treasurer;
- (iii) Senior Management, such as the Vice-President of an operating division who reports directly to Executive Management; or
- (iv) Those holding 5% or more equity interest in the SPONSOR or a person having the power to direct or cause the direction of the SPONSOR, whether through the ownership of voting securities, by contract, or otherwise.

b. The annual PROGRAM report must contain a breakdown of the costs reimbursed to the SPONSOR. Within the scope of the annual audit of the SPONSOR'S financial statement, the independent certified public accountants must verify the allocation of such costs to the PROGRAM. The method of verification shall at minimum provide:

- (i) A review of the time records of individual employees, the costs of whose services were reimbursed;
- (ii) A review of the specific nature of the work performed by each such employee.

The methods of verification shall be in accordance with generally accepted auditing standards and shall accordingly include such tests of the accounting records and such other auditing procedures which the SPONSOR'S independent certified public accountants consider appropriate in the circumstance. The additional costs of such verification will be itemized by said accountants on a PROGRAM by PROGRAM basis and may be reimbursed to the SPONSOR by the PROGRAM in accordance with this subsection only to the extent that such reimbursement when added to the cost for administrative services rendered does not exceed the competitive rate for such services as determined above.

The PROSPECTUS must disclose in tabular form an estimate of such proposed expenses for the next fiscal year together with a breakdown by year of such expenses reimbursed in each of the last five public programs formed by the SPONSOR.

COMMENT: This section permits the SPONSOR to be reimbursed for a portion of the costs incurred in performing certain administrative functions for the PROGRAM provided the SPONSOR is both qualified to perform such functions and does so at a cost no greater to the PROGRAM than that which an unaffiliated PERSON would charge the PROGRAM. Regardless of the capacity in which controlling persons of the SPONSOR serve the PROGRAM, their salaries may not be allocated to the PROGRAM.

2.

Other Goods and Services. Except as provided in Sections IV. V.E.1., and V.J., other goods and services may be provided by the SPONSOR for the PROGRAM only if all of the following criteria are met:

a.

The goods or services must be necessary to the prudent operation of the PROGRAM.

b.

The compensation, price or fee must be equal to either (i) the lesser of 90% of the compensation, price or fee of any non-affiliated PERSON who is rendering comparable services or selling or leasing comparable goods on competitive terms in the same geographic location or 90% of the compensation, price or fee charged by the SPONSOR for rendering comparable services or selling or leasing comparable goods on competitive terms, or (ii) if at least 95% of gross revenues attributable to the business of rendering such services or selling or leasing such goods are derived from PERSONS other than AFFILIATES, the compensation, price or fee charged by any nonaffiliated PERSON who is rendering comparable services or selling or leasing comparable goods on competitive terms in the same geographic location.

c.

The goods or services shall be provided pursuant to a written contract which precisely describes such goods or services and all compensation to be paid. The contract may be modified in any material respect only by the vote of a majority in interest of the limited partners and shall be terminable without penalty on 60 days' notice.

d.

The goods and services to be provided and the written contract referred to in subparagraph c. must be fully disclosed in the PROSPECTUS.

e.

The SPONSOR must have been previously engaged in the business of rendering such services or selling or leasing such goods as an ordinary and ongoing business for a period of at least three years.

f.

The SPONSOR must receive at least 33% of gross revenues for such goods or services from PERSONS other than AFFILIATES.

g.

Except as provided in Sections IV., V.E.1. and V.J., and other than as provided in Section V.E.2.b., d., e., and f. herein, the SPONSOR may provide additional goods and services to the PROGRAM if all of the following criteria are met:

(i)

The goods or services may only be provided by the SPONSOR in extraordinary circumstances. COMMENT: Where the services are available elsewhere from unaffiliated parties, there would be a presumption that there are no extraordinary circumstances. Extraordinary circumstances would only be presumed where there is an emergency situation requiring immediate action by the SPONSOR, and the service is not immediately available from unaffiliated parties. Extraordinary circumstances shall, in no event, include general and administrative expenses, except as otherwise provided herein.

(ii)

The compensation, price or fee must be competitive with the compensation, price or fee of any non-affiliated PERSON who is rendering comparable services or selling or leasing comparable goods on competitive terms which could reasonably be made available to the PROGRAM.

(iii)

The fees and other terms of the contract shall be fully disclosed.

(iv)

The SPONSOR must be previously engaged in the business of rendering such services or selling or leasing such goods, independently of the PROGRAM and as an ordinary and ongoing business.

(v)

There must be compliance with subparagraphs a. and c. of this Section V.E.2.

F.

Rebates, Kickbacks and Reciprocal Arrangements.

1.

No rebates or give-ups may be received by the SPONSOR nor may the SPONSOR participate in any reciprocal business arrangements which would circumvent these Rules. Furthermore the PROSPECTUS and PROGRAM charter documents shall contain language prohibiting the above as well as language prohibiting reciprocal business arrangements which would circumvent the restrictions against dealing with AFFILIATES or promoters.

2.

No SPONSOR shall directly or indirectly pay or award any commissions or other compensation to any PERSON engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchaser of interests in a particular PROGRAM; provided, however, that this clause shall not prohibit the normal sales commissions payable to a registered broker-dealer or other properly licensed PERSON for selling PROGRAM INTERESTS.

G.

Commingling of Funds. The funds of a PROGRAM shall not be commingled with the funds of any other PERSON. Nothing contained in this Section however, shall prohibit a SPONSOR from establishing a master fiduciary account pursuant to which separate subtrust accounts are established for the benefit of affiliated limited partnerships, provided, that PROGRAM funds are protected from claims of such other partnerships and/or creditors. The prohibition of this Section shall not apply to investments meeting the requirements of Section V.H.

H.

Investments in or With Other PROGRAMS.

1.

The PROGRAM shall be permitted to invest in general partnerships or joint ventures with non-AFFILIATES that own and operate one or more particular properties if the PROGRAM, alone or together with any publicly registered AFFILIATE of the PROGRAM meeting the requirements of paragraph 2. below, acquires a controlling interest in such a general partnership or joint venture, but in no event shall duplicate fees be permitted. For purposes of this Section, "controlling interest" means an equity interest possessing the power to direct or cause the direction of the management and policies of the general partnership or joint venture, including the authority to:

a.

review all contracts entered into by the general partnership or joint venture that will have a material effect on its business or property;

b.

cause a sale or refinancing of the property or its interest therein subject in certain cases where required by the partnership or joint venture agreement, to limits as to time, minimum amounts and/or a right of first refusal by the joint venture partner or consent of the joint venture partner;

c.

approve budgets and major capital expenditures, subject to a stated minimum amount;

d.

veto any sale or refinancing of the property, or, alternatively, to receive a specified preference on sale or refinancing proceeds; and,

e.

exercise a right of first refusal on any desired sale or refinancing by the joint venture partner of its interest in the property except for transfer to an AFFILIATE of the joint venture partner.

2.

The PROGRAM shall be permitted to invest in general partnerships or joint ventures with other publicly registered AFFILIATES of the PROGRAM if all of the following conditions are met:

a.

The PROGRAMS have substantially identical investment objectives.

b.

There are no duplicate fees.

c.

The compensation to SPONSORS is substantially identical in each PROGRAM.

d.

Each PROGRAM must have a right of first refusal to buy if the other PROGRAMS wish to sell property held in the joint venture.

e.

The investment of each PROGRAM is on substantially the same terms and conditions.

f.

The PROSPECTUS must disclose the potential risk of impasse on joint venture decisions since no PROGRAM controls and the potential risk that while a PROGRAM may have the right to buy the property from the partnership or joint venture, it may not have the resources to do so.

COMMENTS: In certain situations, it would be to the advantage of the PROGRAM to be able to invest in a general partnership or joint venture with other PROGRAMS where no PROGRAM has sufficient money to make the entire investment even if the PROGRAM does not acquire a controlling interest. However, there is a need to not only require full disclosure of the general partnership or joint venture arrangements but also to set out substantive standards that must be adhered to in order to provide the protection necessary for this type of investment.

For PROGRAMS which make or invest in mortgage loans, general partnerships or joint venture arrangements are permitted so long as general partnerships or joint ventures with publicly registered AFFILIATES of the PROGRAM satisfy the requirements of Section V.I.2. of these guidelines.

3.

The PROGRAM shall be permitted to invest in general partnerships or joint ventures with AFFILIATES other than publicly registered AFFILIATES of the PROGRAM only under the following conditions: (a) the investment is necessary to relieve the SPONSOR from any commitment to purchase a property entered into in compliance with Section V.A.1.d. prior to the closing of the offering period of the PROGRAM; (b) there are no duplicate fees; (c) the investment of each entity is on substantially the same terms and conditions; (d) the PROGRAM must have a right of first refusal to buy if the SPONSOR wishes to sell property held in the joint venture; and (e) the PROSPECTUS discloses the potential risk of impasse on joint venture decisions.

4.

Other than as specifically permitted in paragraphs 2. and 3. above, the PROGRAM shall not be permitted to invest in general partnerships or joint ventures with AFFILIATES.

5.

A PROGRAM shall be permitted to invest in general partnership interests of limited partnerships only if the PROGRAM alone or together with any publicly registered AFFILIATE of the PROGRAM meeting the requirements of paragraph 2. above, acquires a "controlling interest" as defined in Section V.H.1., no duplicate fees are permitted, no additional compensation beyond that permitted by Section IV. shall be paid to the SPONSOR, and the PROGRAM agreement shall comply with Section V.

6.

A PROGRAM that is a limited partnership (the "Upper-Tier Partnership") shall be permitted to invest in limited partnership interests of other limited partnerships (the "Lower-Tier Partnerships") only if all of the following conditions are met:

a.

If the general partner of the Lower-Tier Partnership is a SPONSOR of the Upper-Tier Partnership, the Program agreement of the Upper-Tier Partnership shall:

(1)

prohibit the PROGRAM from investing in such Lower-Tier Partnership unless the partnership agreement of the Lower-Tier Partnership contains provisions complying with Section IX.F. of these guidelines and provisions acknowledging privity between the Lower-Tier general partner and the PARTICIPANTS; and

(2)

provide that compensation payable in the aggregate from both levels shall not exceed the amounts permitted under Section IV. of these guidelines.

b.

If the general partner of the Lower-Tier Partnership is not a SPONSOR of the Upper-Tier Partnership, the PROGRAM agreement of the Upper-Tier Partnership shall prohibit the PROGRAM from investing in the Lower-Tier Partnership unless the partnership agreement of the Lower-Tier Partnership contains provisions complying with Sections II.E. and F.; VII.A.--D., H. and J.; and IX.C. of these guidelines; and shall provide that the compensation payable at both tiers shall not exceed the amounts permitted in Sections IV. of these guidelines.

c.

Each Lower-Tier Partnership shall have as its limited partners only publicly registered Upper-Tier Partnerships; provided, however, that special limited partners not affiliated with the SPONSOR shall be permitted if the interests taken result in no diminution in the control exercisable by the other limited partners.

d.

No PROGRAM may be structured with more than two tiers.

e.

The PROGRAM agreement of the Upper-Tier Partnership must contain a prohibition against duplicate fees.

f.

The PROGRAM agreement of the Upper-Tier Partnership must provide that the limited partners of the Upper-Tier Partnership can, upon the vote of a majority in interest and without the concurrence of the SPONSOR, direct the general partner of the Upper-Tier Partnership (acting on behalf of the Upper-Tier Partnership) to take any action permitted to a limited partner (e.g., the Upper-Tier Partnership) in the Lower-Tier Partnership.

g.

The PROSPECTUS must fully and prominently disclose the two-tiered arrangement and any risks related thereto.

7.

Notwithstanding Section V.H.6.b. through g., if the general partner of the Lower-Tier Partnership is not a SPONSOR of the Upper-Tier Partnership, an Upper-Tier Partnership may invest in a Lower-Tier Partnership that owns and operates a particular property to be qualified pursuant to Section 42(g) of the Internal Revenue Code of 1986, as amended, if limited partners at both tiers are provided all of the rights and obligations required by Section VII. of these guidelines and the PROGRAM agreement of the Upper-Tier Partnership contains a prohibition against payment of duplicate fees.

COMMENT: Nothing contained in Section V.H. may be used to circumvent or abrogate the restrictions and requirements of these guidelines, including, but not limited to, Section V.A.

hereof. However, no provision contained in Section V.H. is intended to restrict or prohibit any payment to a PERSON who is not an AFFILIATE of the SPONSOR otherwise permitted in Section IV. of these guidelines.

I.

Lending Practices.

1.

No loans may be made by the PROGRAM to the Sponsor or an AFFILIATE except as provided in V.I.2. and II. D.4.

2.

PROGRAMS which make or invest in mortgage loans may provide such loans to PROGRAMS formed by or affiliated with the SPONSOR in those circumstances in which such activities have been fully justified to the ADMINISTRATOR. These affiliated transactions must at the minimum meet the following conditions:

a.

the circumstances under which the loans will be made and the actual terms of the loans must be fully disclosed in the prospectus or;

b.

an independent and qualified adviser must issue a letter of opinion to the effect that any proposed loan to an AFFILIATE of the PROGRAM is fair and at least as favorable to the PROGRAM as a loan to an unaffiliated borrower in similar circumstances. In addition, the SPONSORS will be required to obtain a letter of opinion from the independent adviser in connection with any disposition, renegotiation or other subsequent transaction involving loans made to a SPONSOR or an AFFILIATE of the SPONSOR. The adviser's compensation must be paid by the SPONSOR and not reimbursable by the PROGRAM.

c.

Loans made to third parties, the proceeds of which are used to purchase or refinance property in which the SPONSOR or an AFFILIATE has an equity or security interest, must meet the requirements of V.I.2.a. or b.

COMMENT A: Full disclosure of the terms of the loans and the circumstances under which they will be made includes, but is not limited to identification of the borrower(s) and the property(ies) securing the loan(s), a description of the parameters of the loan(s) or model loan documents, disclosure of the SPONSORS' or the AFFILIATES' interest in such property, and a description of the terms and circumstances surrounding such interest.

COMMENT B: In order for the adviser to be considered qualified and independent the following conditions must be met:

(i) The adviser must be a long established, nationally recognized investment banking firm, accounting firm, mortgage banking firm, bank, real estate financial consulting firm or advisory firm;

(ii) The adviser must have a staff of real estate professionals;

(iii) The compensation of the adviser must be determined and embodied in a written contract

before an opinion is rendered.

(iv) If an adviser has been engaged to render a fairness opinion who is not the adviser previously engaged to render this or the preceding fairness opinion, the SPONSOR shall inform the investors (by no later than the next annual report) of the date when such adviser was engaged, and whether there were any disagreements with the former adviser on any matters of valuation, assumptions, methodology, accounting principles and practice, or disclosure, which disagreements, if not resolved to the satisfaction of the former adviser would have caused him to make reference, in connection with the fairness opinion, to the subject matter of the disagreement or decline to give an opinion.

(v) The compensation of the adviser must be paid by the SPONSOR and the SPONSOR may not claim reimbursement from the PROGRAM for such expenses.

(vi) The adviser, directly or indirectly, has no interest in, nor any material business or professional relationship with, the PROGRAM, the SPONSOR, the borrower, or any AFFILIATES thereof. Independence will be considered to be impaired if, for example, during the period of the adviser's engagement, or at any time of expressing his opinion, he or his firm: (i) had, or was committed to acquire any direct or indirect ownership interest in the PROGRAM, SPONSOR, borrower, or AFFILIATES thereof, or (ii) had any joint closely held business investment with the PROGRAM, SPONSOR, borrower, or any AFFILIATE thereof, which was material in relation to the adviser's net worth; or, (iii) had any loan to or from the PROGRAM, SPONSOR, borrower, or AFFILIATES thereof.

The foregoing examples are not intended to be allinclusive. However, for purposes of determining whether or not the business or professional relationship or joint investment is material, the gross revenue derived by the adviser from the PROGRAM, the SPONSOR, the borrower, and their AFFILIATES shall be deemed material per se if it exceeds 5% of the annual gross revenue derived by the adviser from all sources or exceeds 5% of the individual's or the advisor's net worth (on an estimated fair market value basis).

3.

On loans made available to the PROGRAM by the SPONSOR, the SPONSOR may not receive interest or similar charges or fees in excess of the amount which would be charged by unrelated lending institutions on comparable loans for the same purpose, in the same locality of the property if the loan is made in connection with a particular property. No prepayment charge or penalty shall be required by the SPONSOR on a loan to the PROGRAM secured by either a first or a junior or all-inclusive trust deed, mortgage or encumbrance on the property, except to the extent that such prepayment charge or penalty is attributable to the underlying encumbrance.

4.

The SPONSOR shall be prohibited from providing FINANCING except:

a.

As permitted by Section V.I.2., in which case there will be independent advisers for each publicly registered party to the transaction; or

b.

As permitted by Section V.I.5.

5.

An "all-inclusive" or "wrap-around" note and deed of trust (the "all-inclusive note" herein) may be used to finance the purchase of property by the PROGRAM only if the following conditions are complied with:

a.

The SPONSOR under the all-inclusive note shall not receive interest on the amount of the underlying encumbrance included in the all-inclusive note in excess of that payable to the lender on that underlying encumbrance;

b.

The PROGRAM shall receive credit on its obligation under the all-inclusive note for payments made directly on the underlying encumbrance, and

c.

A paying agent, ordinarily a bank, escrow company, or savings and loan, shall collect payments (other than any initial payment of prepaid interest or loan points not to be applied to the underlying encumbrance) on the all-inclusive note and make disbursements therefrom to the holder of the underlying encumbrance prior to making any disbursement to the holder of the all-inclusive note, subject to the requirements of subparagraph a. above, or, in the alternative, all payments on the all-inclusive and underlying note shall be made directly by the PROGRAM.

J.

Development Construction, or MAJOR REPAIRS OR REHABILITATION of Properties.

1.

Provision of Services by the SPONSOR. The SPONSOR will be permitted to develop, construct or provide MAJOR REPAIRS AND REHABILITATION for properties, or render any services in connection with such activities only if all of the following conditions are satisfied:

a.

The transactions occur upon the formation of the PROGRAM and are for properties specified in the final PROSPECTUS.

b.

The specific terms of the contract(s) are ascertainable and fully disclosed in the final PROSPECTUS.

c.

The purchase price to be paid by the PROGRAM is based upon a contract price fully disclosed in the final PROSPECTUS which in no event can exceed the lesser of appraised value as completed (assuming a market rate of occupancy) or the sum of the cost of the land and the cost of development, construction or repairs and rehabilitation. For the purposes of this paragraph, the cost of development, construction or repairs and rehabilitation includes the DEVELOPMENT FEE, the CONSTRUCTION FEE, direct costs, the cost of construction site personnel construction administration, legal fees, design costs, engineering costs, and construction site utilities. The costs of construction site personnel and construction administration shall be limited as required by Section V.E.1.a. and shall not include reimbursement of costs of controlling persons as set forth in that section. In no event may any other overhead of the SPONSOR be charged to the PROGRAM or included in the total costs paid. The appraisal shall be prepared in accordance with Section V.L.

d.

The ADMINISTRATOR may require demonstration that the fees and costs payable under paragraph c. above are comparable to and competitive with amounts charged by third parties in

the same geographic area. The total of the DEVELOPMENT FEE and the CONSTRUCTION FEE paid in connection with such project shall not exceed 15% of the direct costs of the project. For the purposes of this limitation, direct costs shall not include construction site personnel or construction site utilities.

e.

Notwithstanding Section IV.C., the only FRONT-END FEES paid to the SPONSOR in connection with such project shall consist of ORGANIZATION AND OFFERING EXPENSES, a DEVELOPMENT FEE (if applicable), a CONSTRUCTION FEE and a real estate commission in connection with the acquisition of the land from PERSONS who are not AFFILIATES of the general partner. The SPONSOR may not receive any other FRONT-END FEES. The foregoing fees and commissions plus any additional ACQUISITION FEES and ACQUISITION EXPENSES to unaffiliated PERSONS (and any DEVELOPMENT FEE and CONSTRUCTION FEE individually) must be comparable to and competitive with the fees paid to unaffiliated PERSONS rendering comparable services in the same geographic location. The ADMINISTRATOR may require demonstration that such fees, commissions and expenses are comparable and competitive.

f.

The SPONSOR must comply with Section V.K.

g.

Subcontractors who are affiliates of the general partner must meet the requirements of Section V.E.2.b-f.

h.

If the contract price equals the appraised value set forth in subparagraph c. above, the SPONSOR shall be responsible for the direct costs incurred to achieve the appraisal assumptions.

COMMENT: In lieu of this requirement, the ADMINISTRATOR may impose higher suitability standards for PROGRAM PARTICIPANTS pursuant to Section III.

i.

The SPONSOR complies with paragraphs c., d., e. and f. of Section V.E.2.

j.

DEVELOPMENT FEES and CONSTRUCTION FEES paid to PERSONS not affiliated with the general partner may be included in INVESTMENT IN PROPERTIES.

K.

Completion Bond Requirements.

1.

The completion of property acquired which is under construction shall be guaranteed at the price contracted by an adequate completion bond or other satisfactory arrangements.

2.

For purposes of this Section, satisfactory arrangements include, but are not limited to, the following:

a.

A written guarantee of completion by a person, supported by financial statements demonstrating sufficient net worth or adequately collateralized by other real or personal properties or other persons guarantees.

b.

A retention of a reasonable portion of the purchase consideration as a potential offset to such purchase consideration in the event the seller does not perform in accordance with the purchase and sale agreement.

3.

Other satisfactory arrangements to guarantee completion may be made, provided they are disclosed in the prospectus and the prior written approval of the ADMINISTRATOR has been obtained.

L.

Requirement for Real Property Appraisal. All real property acquisitions must be supported by an appraisal prepared by a competent, independent appraiser. The appraisal shall be maintained in the SPONSOR's records for at least five years, and shall be available for inspection and duplication by any PARTICIPANT. The PROSPECTUS shall contain notice of this right.

M.

Mortgage Loan PROGRAMS. A PROGRAM will not be permitted to invest in or make mortgage loans unless a real property appraisal is obtained as provided for in Paragraph L of this Section for each mortgage loan and a mortgagee's or owner's title insurance policy or commitment as to the priority of a mortgage or the condition of title is obtained. Further, the sponsor of mortgage loan programs shall observe the following policies in connection with investing in or making mortgage loans:

1.

The PROGRAM may not invest in or make mortgage loans on any one property which would exceed, in the aggregate, an amount equal to 20% of the CAPITAL CONTRIBUTIONS to be raised by the program;

2.

The PROGRAM may not invest in or make mortgage loans to or from any one borrower which would exceed, in the aggregate, an amount greater than 20% of the CAPITAL CONTRIBUTIONS to be raised by the program;

3.

The PROGRAM may not invest in or make mortgage loans on unimproved real property in an amount in excess of 25% of the CAPITAL CONTRIBUTIONS to be raised by the program;
COMMENT: Subsections 1. 2. and 3. shall not apply to SPECIFIED PROPERTY PROGRAMS.

4.

The PROGRAM shall not invest in real estate contracts of sale otherwise known as land sale contracts unless such contracts of sale are in recordable form and are appropriately recorded in the chain of title;

5.

The PROGRAM shall not make or invest in mortgage loans on any one property if the aggregate amount of all mortgage loans outstanding on the property, including the loans of the PROGRAM, would exceed an amount equal to 85% of the appraised value of the property as determined by an independent appraisal unless substantial justification exists because of the presence of other underwriting criteria. For purposes of this subsection 5., the "aggregate amount of all mortgage loans outstanding on the property, including the loans of the PROGRAM," shall include all interest (excluding contingent participations in income and/or appreciation in value of the mortgaged property), the current payment of which may be deferred pursuant to the terms of

such loans, to the extent that deferred interest on each loan exceeds 5% per annum of the principal balance of the loan;

COMMENT: This restriction applies to all loans including construction loans.

6.

The PROGRAM is permitted to borrow money to the extent necessary to prevent defaults under existing loans; when the program has taken over the operation of property and there is a need for additional capital; to pay organizational and/or offering expenses.

COMMENT: This Section provides certain minimum standards in connection with the investment in or making of mortgage loans by a program. The standards may be exceeded for a particular registration if the mortgage loans are supported by sound underwriting criteria, such as the net worth of the borrower; the credit rating of the borrower based on historical financial performance; or collateral adequate to justify waiver from application of this section. The standards may also be exceeded where program mortgage loans are or will be insured or guaranteed by a government or a government agency; where the loan is secured by the pledge or assignment of other real estate or another real estate mortgage; where rents are assigned under a lease where a tenant or tenants have demonstrated through historical net worth and cash flow the ability to satisfy the terms of the lease; or where similar criteria is presented satisfactory to the Administrator.

COMMENT: MANDATORY DEFERRED PAYMENTS in PROGRAMS which make or invest in mortgage loans may require adherence to more conservative diversification standards as the ADMINISTRATOR deems appropriate.

N.

PROGRAM INDEBTEDNESS.

1.

Except as contained in paragraph 2, following the termination of the offering the total amount of indebtedness incurred by the PROGRAM shall at no time exceed the sum of 85% of the aggregate PURCHASE PRICE of all properties which have not been refinanced, and 85% of the aggregate fair market value of all refinanced properties, as determined by the lender as of the date of refinancing.

2.

For PROGRAMS which own properties financed by (i) loans insured or guaranteed by the full faith and credit of the United States government, or of a state or local government, or by an agency or instrumentality of any of them, and/or (ii) loans received from any of the foregoing entities, following the termination of the offering the total amount of indebtedness incurred by the PROGRAM shall at no time exceed the sum of 100% of the aggregate PURCHASE PRICE of all properties which have not been refinanced, and 100% of the aggregate fair market value of all refinanced properties as determined by the lender as of the date of refinancing.

3.

For any PROGRAM subject to the limitations of both paragraphs 1 and 2, the maximum percentage of indebtedness for the entire PROGRAM shall be calculated as follows:

(a) divide the total value of properties as determined under paragraph 2 by the total value of properties as determined under paragraphs 1 and 2;

(b) multiply the number 15 by the quotient of subsection (a); and,

(c) add the product from subsection (b) to the number 85.

4.

For purposes of this section V.N. only, "indebtedness" shall include the principal of any loan together with any interest that may be deferred pursuant to the terms of the loan agreement which exceeds 5% per annum of the principal balance of such indebtedness (excluding contingent participations in income and/or appreciation in the value of the PROGRAM property); and shall exclude any indebtedness incurred by the PROGRAM for necessary working capital.

O.

APPRAISAL AND COMPENSATION.

1.

In connection with a proposed ROLL-UP, an appraisal of all PROGRAM assets shall be obtained from a competent, INDEPENDENT EXPERT. If the appraisal will be included in a PROSPECTUS used to offer the securities of a ROLL-UP ENTITY, the appraisal shall be filed with the SEC and the states as an Exhibit to the Registration Statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under state laws for any material misrepresentations or material omissions in the appraisal. PROGRAM assets shall be appraised on a consistent basis. The appraisal shall be based on an evaluation of all relevant information, and shall indicate the value of the PROGRAM'S assets as of a date immediately prior to the announcement of the proposed ROLL-UP. The appraisal shall assume an orderly liquidation of the PROGRAM'S assets over a 12 month period. The terms of the engagement of the INDEPENDENT EXPERT shall clearly state that the engagement is for the benefit of the PROGRAM and its PARTICIPANTS. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to the PARTICIPANTS in connection with a proposed ROLL-UP.

2.

In connection with a proposed ROLL-UP the PERSON sponsoring the ROLL-UP shall offer to PARTICIPANTS who vote "no" on the proposal the choice of:

(a) accepting the securities of the ROLL-UP ENTITY offered in the proposed ROLL-UP; or

(b) one of the following:

(i) remaining as PARTICIPANTS in the PROGRAM and preserving their interests therein on the same terms and conditions as existed previously; or

(ii) receiving cash in an amount equal to the PARTICIPANTS' pro-rata share of the appraised value of the net assets of the PROGRAM.

COMMENT: With respect to the options specified in Subsection V.O.2.(b), the PERSON sponsoring the ROLL-UP needs only offer one of these alternatives to dissenting investors who do not wish to accept the security of the ROLL-UP ENTITY.

3.

The PROGRAM shall not participate in any proposed ROLL-UP which would result in PARTICIPANTS having democracy rights in the ROLL-UP ENTITY which are less than those provided for under Sections VII.A. and VII.B. of these Guidelines. If the ROLL-UP ENTITY is a corporation, the voting rights of PARTICIPANTS shall correspond to the voting rights provided for in these Guidelines to the greatest extent possible.

4.

The PROGRAM shall not participate in any proposed ROLL-UP which includes provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the ROLL-UP ENTITY (except to the minimum extent necessary to preserve the tax status of the ROLL-UP ENTITY). The PROGRAM shall not participate in any proposed ROLL-UP which would limit the ability of a PARTICIPANT to exercise the voting rights of its securities of the ROLL-UP ENTITY on the basis of the number of PROGRAM INTERESTS held by that PARTICIPANT.

5.

The PROGRAM shall not participate in any proposed ROLL-UP in which PARTICIPANTS' rights of access to the records of the ROLL-UP ENTITY will be less than those provided for under Section VII.D. of these Guidelines.

6.

The PROGRAM shall not participate in any proposed ROLL-UP in which any of the costs of the transaction would be borne by the PROGRAM if the ROLL-UP is not approved by the PARTICIPANTS.

VI. NON-SPECIFIED PROPERTY PROGRAMS.

The following special provisions shall apply to NON-SPECIFIED PROPERTY PROGRAMS:

A.

Minimum Capitalization. A NON-SPECIFIED PROPERTY PROGRAM shall provide for minimum cash gross proceeds from the offering of not less than \$1,000,000.00 to be available for INVESTMENT IN PROPERTIES.

B.

Experience of SPONSOR. For NON-SPECIFIED PROPERTY PROGRAMS, the SPONSOR or at least one of its principals must establish that he has had the equivalent of not less than five years experience in the real estate business in an executive capacity and two years experience in the management and acquisition of the type of properties to be acquired or otherwise must demonstrate to the satisfaction of the ADMINISTRATOR that he has sufficient knowledge and experience to acquire and manage the type of properties proposed to be acquired by the NON-SPECIFIED PROPERTY PROGRAM.

C.

Statement of Investment Objectives. A NON-SPECIFIED PROPERTY PROGRAM shall state types of properties in which it proposes to invest, such as first-user apartment projects, subsequent-user apartment projects, shopping centers, office buildings, unimproved land, etc., and the size and scope of such projects shall be consistent with the objectives of the PROGRAM and the experience of the SPONSORS. As a minimum the following restrictions on investment objectives shall be observed.

1.

Unimproved or non-income producing property shall not be acquired except in amounts and upon terms which can be financed by the PROGRAM's proceeds or from cash available for distribution from operations. Investments in such property shall not exceed 25% of the gross proceeds of the offering. Properties which are expected to produce income within a reasonable period of time shall not be considered non-income producing. For purposes of this subsection two years shall be deemed to be presumptively reasonable.

2.

Investments in junior trust deeds and other similar obligations shall be prohibited, except for junior trust deeds which arise from the sale of PROGRAM properties.

COMMENT: This provision shall not be applicable to: (1) those PROGRAMS formed solely to make or invest in mortgage loans, and (2) in the case of programs whose objectives are to invest in mortgage loans and acquire real properties to that portion of net offering proceeds which are utilized to make or invest in mortgage loans. The restrictions on these PROGRAMS are governed, in part, by Section V.M. of these GUIDELINES.

3.

The manner in which acquisitions will be financed including the use of an all-inclusive note or wrap-around, and the leveraging to be employed shall all be fully set forth in the statement of investment objectives.

4.

The statement of investment objectives shall indicate whether the PROGRAM will enter into joint venture arrangements and the projected extent thereof.

5.

The statement of investment objectives shall not include a quantitative estimate of the PROGRAM's anticipated economic performance or anticipated return to investors (in the form of distributable funds or tax benefits). The presentation of a proposed level of economic performance or return to investors (in the form of distributable funds or tax benefits) in connection with a NONSPECIFIED PROPERTY PROGRAM is prohibited by Section VIII.C.

D.

Period of Offering and Expenditure of Proceeds. Subject to compliance with applicable state securities laws and regulations, an offering of securities in a NON-SPECIFIED PROPERTY PROGRAM may extend for up to two years from the date of original effectiveness provided that the minimum amount of PROGRAM INTERESTS necessary to satisfy the greater of the minimum capitalization requirements of Section VI.A. or the impound requirements set by the PROGRAM is sold within one year of commencement of the offering. While the proceeds of an offering are awaiting investment in real property, the proceeds may be temporarily invested in short-term highly liquid investments where there is appropriate safety of principal, such as U.S. Treasury Bonds or Bills. Any proceeds of the offering of PROGRAM INTERESTS not invested within the later of two years after commencement of the offering or one year after the termination of the offering, or, if allowed by the ADMINISTRATOR, six months from the last scheduled MANDATORY DEFERRED PAYMENT date (except for necessary operating capital) shall be distributed pro rata to the PARTICIPANTS as a return of capital so long as the adjusted INVESTMENT IN PROPERTIES is in compliance with Section IV.C.

E.

Multiple Programs. The method for the allocation of the acquisition of properties by two or more programs of the same SPONSOR seeking to acquire similar types of properties shall be reasonable. The method also shall be described in the prospectus.

VII. RIGHTS AND OBLIGATIONS OF PARTICIPANTS.

A.

Meetings. Meetings of the PROGRAM may be called by the SPONSOR or the PARTICIPANTS holding more than 10% of the then outstanding limited partnership interests, for any matters for which the PARTICIPANTS may vote as set forth in the limited partnership agreement. Upon receipt of a written request either in PERSON or by certified mail stating the purpose(s) of the meeting, the SPONSOR shall provide all PARTICIPANTS within ten days after receipt of said request, written notice (either in PERSON or by certified mail) of a meeting and the purpose of such meeting to be held on a date not less than fifteen nor more than sixty days after receipt of said request, at a time and place convenient to PARTICIPANTS.

B.

Voting Rights of Limited Partners. To the extent permitted by the law of the state of formation, the PROGRAM agreement shall provide that a majority of the outstanding PROGRAM INTERESTS may, without necessity for concurrence by the general partner, vote to: (1) amend the PROGRAM agreement, (2) remove the general partner(s), (3) elect a new general partner(s), (4) approve or disapprove the sale of all or substantially all of the assets of the PROGRAM except pursuant to a plan disclosed in the final PROSPECTUS, and (5) dissolve the PROGRAM. Without concurrence of a majority of the outstanding PROGRAM INTERESTS, the general partner(s) may not (i) amend the PROGRAM agreement except for amendments which do not adversely affect the rights of PARTICIPANTS, (ii) voluntarily withdraw as a general partner unless such withdrawal would not affect the tax status of the PROGRAM and would not materially adversely affect the PARTICIPANT, (iii) appoint a new general partner(s), (iv) sell all or substantially all of the PROGRAM's assets other than in the ordinary course of the PROGRAM's business, (v) cause the merger or other reorganization of the PROGRAM or (vi) dissolve the PROGRAM. Notwithstanding clause (iii) of the preceding sentence, an additional general partner may be appointed without obtaining the consent of the PARTICIPANTS if the addition of such PERSON is necessary to preserve the tax status of the PROGRAM, such PERSON has no authority to manage or control the PROGRAM under the PROGRAM agreement, there is no change in the identity of the PERSONS who have authority to manage or control the PROGRAM, and the admission of such PERSON as an additional general partner does not materially adversely affect the PARTICIPANTS. Any amendment to the PROGRAM agreement which modifies the compensation or distributions to which a general partner is entitled or which affects the duties of a general partner may be conditioned upon the consent of the general partner. With respect to any PROGRAM INTERESTS owned by the SPONSOR, the SPONSOR may not vote or consent on matters submitted to the PARTICIPANTS regarding the removal of the SPONSOR or regarding any transaction between the PROGRAM and the SPONSOR. In determining the existence of the requisite percentage in interest of PROGRAM INTERESTS necessary to approve a matter on which the SPONSOR may not vote or consent, any PROGRAM INTERESTS owned by the SPONSOR shall not be included. If the law of the state of formation provides that the PROGRAM will dissolve upon termination of a general partner(s) unless the remaining general partner(s) continues the existence of the PROGRAM, the PROGRAM agreement shall obligate the remaining general partner(s) to continue the PROGRAM's existence; and if there will be no remaining general partner(s), the termination of the last general partner shall not be effective for a period of at least 120 days during which time a majority of the outstanding PROGRAM INTERESTS shall have the right to elect a general

partner who shall agree to continue the existence of the PROGRAM. The PROGRAM agreement shall provide for a successor general partner where the only general partner of the PROGRAM is an individual.

COMMENT: A sale of all or substantially all of the PROGRAM's assets shall mean the sale of two-thirds or more of the PROGRAM's assets based on the total number of properties and mortgages, or the current fair market value of these assets.

C.

Reports to Holders of Limited Partnership Interests. The partnership agreement shall provide that the SPONSOR shall cause to be prepared and distributed to the holder of PROGRAM INTERESTS during each year the following reports:

1.

In the case of a PROGRAM registered under Section 12(g) of the Securities Exchange Act of 1934, within sixty days after the end of each quarter of the PROGRAM, a report containing:

a.

A balance sheet, which may be unaudited,

b.

A statement of income for the quarter then ended, which may be unaudited, and

c.

A statement of cash flows for the quarter then ended, which may be unaudited, and

d.

Other pertinent information regarding the PROGRAM and its activities during the quarter covered by the report;

2.

In the case of all PROGRAMS, within 75 days after the end of each PROGRAM's fiscal year, all information necessary for the preparation of the limited partners' federal income tax returns;

3.

In the case of all PROGRAMS, within 120 days after the end of each PROGRAM's fiscal year, an annual report containing: (i) AUDITED FINANCIAL STATEMENTS accompanied by an auditor's report which, for purposes of this Section only, may contain a qualified, adverse or disclaimer opinion or explanatory paragraph, (ii) a report of the activities of the PROGRAM during the period covered by the report, and (iii) where forecasts have been provided to the holders of limited partnership interests to the holders of limited partnership interests, a table comparing forecasts previously provided with the actual results during the period covered by the report. Such report shall set forth distributions to limited partners for the period covered thereby and shall separately identify distributions from: (a) CASH FLOW from operations during the period, (b) CASH FLOW from operations during a prior period which had been held as reserves, (c) proceeds from disposition of property and investments, (d) lease payments on net leases with builders and sellers, and (e) reserves from the gross proceeds of the offering originally obtained from the limited partners.

COMMENT: See the additional reporting requirements of section V.E.1.b.

4.

Where ASSESSMENTS have been made during any period covered by any report required by paragraphs 1., 2., and 3. hereof, then such report shall contain a detailed statement of such ASSESSMENTS and the application of the proceeds derived from such ASSESSMENTS.

5.

Where PROGRAM INTERESTS have been purchased on a mandatory deferred payment basis, on which there remains an unpaid balance during any period covered by any report required by paragraphs 1., 2., and 3., hereof; then such report shall contain a detailed statement of the status of all MANDATORY DEFERRED PAYMENTS, actions taken by the PROGRAM in response to any defaults, and a discussion and analysis of the impact on capital requirements of the PROGRAM.

D.

Access to Records. Every PARTICIPANT shall at all times have access to the records of the PROGRAM and may inspect and copy any of them. The limited partnership agreement, by-laws, or other PROGRAM agreement shall include the following provisions regarding access to the list of PARTICIPANTS:

1.

An alphabetical list of the names, addresses, and business telephone numbers of the PARTICIPANTS of the PROGRAM along with the number of PROGRAM INTERESTS held by each of them (the "PARTICIPANT List") shall be maintained as a part of the books and records of the PROGRAM and shall be available for inspection by any PARTICIPANTS or its designated agent at the home office of the PROGRAM upon the request of the PARTICIPANT;

2.

The PARTICIPANT List shall be updated at least quarterly to reflect changes in the information contained therein;

3.

A copy of the PARTICIPANT List shall be mailed to any PARTICIPANT requesting the PARTICIPANT List within ten days of the request. The copy of the PARTICIPANT List shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the PROGRAM;

4.

The purposes for which a PARTICIPANT may request a copy of the PARTICIPANT List include, without limitation, matters relating to PARTICIPANTS' voting rights under the PROGRAM agreement, and the exercise of PARTICIPANTS' rights under federal proxy laws; and

5.

If the SPONSOR of the PROGRAM neglects or refuses to exhibit, produce, or mail a copy of the PARTICIPANT List as requested, the SPONSOR shall be liable to any PARTICIPANT requesting the list for the costs, including attorneys' fees, incurred by that PARTICIPANT for compelling the production of the PARTICIPANT List, and for actual damages suffered by any PARTICIPANT by reason of such refusal or neglect. It shall be a defense that the actual purpose and reason for the requests for inspection or for a copy of the PARTICIPANT List is to secure such list of PARTICIPANTS or other information for the purpose of selling such list or copies thereof, or of using the same for a commercial purpose other than in the interest of the applicant as a PARTICIPANT relative to the affairs of the PROGRAM. The SPONSOR may require the

PARTICIPANT requesting the PARTICIPANT List to represent that the list is not requested for a commercial purpose unrelated to the PARTICIPANT'S interest in the PROGRAM. The remedies provided hereunder to PARTICIPANTS requesting copies of the PARTICIPANT List are in addition to, and shall not in any way limit, other remedies available to PARTICIPANTS under federal law, or the laws of any state.

E.

Admission of PARTICIPANTS. Admission of PARTICIPANTS to the PROGRAM shall be subject to the following:

1.

Admission of original PARTICIPANTS. Upon the original sale of partnership units by the PROGRAM, the purchasers should be admitted as limited partners not later than 15 days after the release from impound of the purchaser's funds to the PROGRAM, and thereafter purchasers should be admitted into the PROGRAM not later than the last day of the calendar month following the date their subscription was accepted by the PROGRAM. Subscriptions shall be accepted or rejected by the PROGRAM within 30 days of their receipt; if rejected, all funds should be returned to the subscriber within ten (10) business days.

2.

Admission of substituted limited partners and recognition of assignees. The PROGRAM shall amend the certificates of limited partnership at least once each calendar quarter to effect the substitution of substituted PARTICIPANTS, although the SPONSOR may elect to do so more frequently.

In the case of assignments, where the assignee does not become a substituted limited partner, the PROGRAM shall recognize the assignment not later than the last day of the calendar month following receipt of notice of assignment and required documentation.

3.

Except where deemed inappropriate by the ADMINISTRATOR, PERSONS holding PROGRAM INTERESTS by assignment from entities holding limited partnership interests in a PROGRAM for the purpose of assigning all or a portion of such interests to PERSONS investing in such PROGRAM (hereinafter the "Assignor") shall be expressly granted the same rights as if they were limited partners except as prohibited by applicable local law, including but not limited to, the rights enumerated under Article VII of this Statement of Policy Regarding Real Estate Programs.

The assignment agreement and PROSPECTUS shall provide that the Assignor's management shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the assignees, whether or not in the Assignor management's possession or control, and that the management of the Assignor shall not employ, or permit another to employ such funds or assets in any manner except for the exclusive benefit of the assignees. In addition, the agreement shall not permit the assignees to contract away the fiduciary duty owed to the assignees by the Assignor's management under the common law of agency.

F.

Redemption of PROGRAM INTERESTS. Ordinarily, the PROGRAM and the SPONSOR may not be mandatorily obligated to redeem or repurchase any of its PROGRAM INTERESTS, although the PROGRAM and the SPONSOR may not be precluded from purchasing such outstanding interests if such purchase does not impair the capital or the operation of the PROGRAM.

Notwithstanding the foregoing, a real estate PROGRAM may provide for mandatory redemption rights under the following necessitous circumstances:

1.

death or legal incapacity of the owner, or

2.

a substantial reduction in the owner's NET WORTH or income provided that: (i) the PROGRAM has sufficient cash to make the purchase, (ii) the purchase will not be in violation of applicable legal requirements, and (iii) not more than 15% of the outstanding units are purchased in any year. Where the purchase price is not mutually agreed upon, the matter shall be submitted to arbitration.

G.

Transferability of PROGRAM INTERESTS. Restrictions on assignment of PROGRAM INTERESTS or on the substitution of a limited partner are generally disfavored and such restrictions will be allowed only if (i) they comply with the safe harbor provisions of Internal Revenue Service Notice 88-75 (or other safe harbors adopted by the Internal Revenue Service that protect against treatment as a publicly traded partnership) or (ii) they are intended to preserve the tax status of the partnership or the characterization or treatment of income or loss. In the case of (ii), any restriction must be affirmatively supported by an opinion of counsel. The PROGRAM agreement shall require the SPONSOR to eliminate or modify any restriction on substitution or assignment at such time as the restriction is no longer necessary.

H.

ASSESSMENTS and Defaults.

1.

ASSESSMENTS. ASSESSMENTS will not be allowed for NON-SPECIFIED PROGRAMS. In the case of SPECIFIED PROGRAMS, ASSESSMENTS shall be permitted only when specific circumstances demonstrate a need. If the anticipated CASH FLOW from property (after payment of debt service and all operating expenses) is not sufficient to pay taxes and/or special ASSESSMENTS imposed by governmental or quasi-government units, the PROGRAM agreement may include a provision for assessability to meet such deficiencies. Assessability must be limited to the foregoing obligations, and all amounts derived from such ASSESSMENTS must be applied only to satisfaction of said obligations.

2.

Defaults on ASSESSMENTS. In the event of a default in the payment of ASSESSMENTS by a PARTICIPANT his interests shall not be subject to forfeiture, but may be subject to a reasonable penalty for failure to meet his commitment. Provided that the arrangements are fair, this may take the form of reducing his proportionate interest in the PROGRAM, subordinating his interest to that of nondefaulting partners, a forced sale complying with applicable procedures for notice and sale, the lending of the amount necessary to meet his commitment by the other PARTICIPANTS or a fixing of the value of his interest by independent appraisal or other suitable formula with provision for a delayed payment to him for his interest not beyond a reasonable period, but a debt security issued for such interest should not have a claim prior to that of the other investors in the event of liquidation.

COMMENT: A limited partner will be reinstated to his full status as a limited partner upon payment of the delinquent ASSESSMENT with interest at the maximum rate allowed by law, within 30 days of the date of default. Default would be the failure to pay the ASSESSMENT

within 30 days of the date of notice requesting the ASSESSMENT.

I.

Dividend Reinvestment Plans. A PROGRAM may offer participants the opportunity to elect to have cash distributions reinvested in the PROGRAM or subsequent programs if the following conditions are met:

1.

The PROGRAM and subsequent programs in which the participants reinvest are registered or exempted under the state's blue sky laws.

2.

Counsel for the PROGRAM submits an opinion that the pooling of the funds for reinvestment is not in itself a security.

3.

The subsequent program has substantially identical investment objectives as the original PROGRAM.

4.

The participants are free to elect or revoke reinvestment within a reasonable time and such right is fully disclosed in the offering documents.

5.

Prior to each reinvestment the participants receive a current updated disclosure document which contains at a minimum the following information:

a.

The minimum investment amount.

b.

The type or source of proceeds (e.g. cash distributions from operations or the sale or disposition of properties) which may be reinvested.

c.

The tax consequences of the reinvestment to the participants.

6.

Counsel for the PROGRAM submits an opinion that different consideration paid on reinvestment is not in violation of the state law (the difference arises when one participant agrees to payment of commission to the broker-dealer and another participant does not agree to payment of commission).

7.

The broker-dealer or the issuer assumes responsibility for blue sky compliance and performance of due diligence responsibilities and has contacted the participants to ascertain whether the participants continue to meet the state's suitability standard for participation in each reinvestment.

8.

If a broker-dealer is involved it shall obtain in writing an agreement from the client by which the client agrees to the payment of compensation to the broker-dealer in connection with individual reinvestment.

J.

Within 60 days after the end of each quarter during which there have been real property acquisitions, a "Special Report" (which may be part of the quarterly report) shall be sent to all

PARTICIPANTS until the proceeds of the offering are committed or returned to the investors. The report shall contain the following information:

1. the location and a description of the general character of all materially important real properties acquired or presently intended to be acquired by or leased to the program, during the quarter.
2. the present or proposed use of such properties and their suitability and adequacy for such use.
3. the terms of any material lease affecting the property.
4. the proposed method of financing, including estimated down payment, leverage ratio, prepaid interest, balloon payment(s), prepayment penalties, due-on-sale or encumbrance clauses and possible adverse effects thereof and similar details of the proposed financing plan, and
5. a statement that title insurance and any required construction, permanent or other financing and performance bonds or other assurances with respect to builders have been or will be obtained on all properties acquired.

COMMENT: When a PROGRAM is making or investing in mortgage loans then information should be included in these reports not only about the terms and present status of the loan but also such information reasonably available about the underlying property which could influence the value of the loan.

K.

Arbitration of Disputes. Except as permitted in Section II.F., no provision requiring the mandatory arbitration of disputes between the PARTICIPANT and the SPONSOR or the PROGRAM is permitted. Nothing contained herein shall apply to preexisting contracts between broker-dealers and PARTICIPANTS.

VIII. DISCLOSURE AND MARKETING REQUIREMENTS.

A.

Sales Promotional Efforts.

1.

Sales Literature. Sales literature, sales presentations (including prepared presentations to prospective investors at group meetings) and advertising used in the offer or sale of partnership interests shall conform in all applicable respects to requirements of filing, disclosure and adequacy currently imposed on sales literature, sales presentations and advertising used in the sale of corporate securities.

2.

Group Meetings. All advertisements of and oral or written invitations to "seminars" or other group meetings at which PROGRAM INTERESTS are to be described, offered or sold shall clearly indicate that the purpose of such meeting is to offer such PROGRAM INTERESTS for sale, the minimum purchase price thereof, and the name of the SPONSOR, underwriter or selling agent. No cash, merchandise or other item of value shall be offered as an inducement to any prospective PARTICIPANTS to attend any such meeting. In connection with the offer or sale of PROGRAM INTERESTS, no general offer shall be made of "free" or "bargain price" trips to visit property in which the PROGRAM or proposed PROGRAM has invested or intends to invest.

All written or prepared audio-visual presentations (including scripts prepared in advance for oral presentations) to be made at such meetings must be submitted in advance to the ADMINISTRATOR not less than three business days prior to the first use thereof. The foregoing paragraphs 1. and 2. shall not apply to meetings consisting only of representatives of securities broker-dealers.

B.

Contents of PROSPECTUS. The PROSPECTUS shall meet the requirements of Guide 5 of the Securities and Exchange Commission. The use of proceeds tabular summary required by Guide 5 shall include a separate line item for estimated ACQUISITION EXPENSES to be incurred by the PROGRAM. All of the information required to be set forth in the use of proceeds tabular summary by Guide 5 shall also be provided for estimated ACQUISITION EXPENSES, including an estimate of ACQUISITION EXPENSES to be paid to the SPONSOR. The description of the method for the allocation of the acquisition of properties by two or more programs of the same sponsor shall meet the requirements of Section VI.E. The PROSPECTUS shall contain a full description of the terms, consequences, risks to investors and the PROGRAM of any MANDATORY DEFERRED PAYMENTS. The ADMINISTRATOR may require additional disclosure if, in the ADMINISTRATOR'S opinion, specific facts concerning the offering require it.

COMMENT: Where the ADMINISTRATOR deems it appropriate, offering materials may be required to comment on the ability of investors to rely on tax benefits and cash flow from the PROGRAM to satisfy future obligations on MANDATORY DEFERRED PAYMENTS, the inappropriateness of treating such obligations as options or warrants, possible liability to third-party creditors of the PROGRAM as a result of such unpaid obligations, and/or possible tax

consequences of the use of such payment methods.

C.

Forecasts.

1.

Use of Forecasts. The presentation of predicted future results of operations of real estate PROGRAMS shall be permitted but not required for specified property PROGRAMS investing primarily in improved property and shall be prohibited for NON-SPECIFIED PROPERTY PROGRAMS or specified property PROGRAMS investing primarily in unimproved land. The covers of the PROSPECTUS must contain in bold face language one of the following statements:

a.

for SPECIFIED PROPERTY PROGRAMS:

FORECASTS ARE CONTAINED IN THIS PROSPECTUS (OFFERING CIRCULAR). ANY PREDICTIONS AND REPRESENTATIONS, WRITTEN OR ORAL, WHICH DO NOT CONFORM TO THOSE CONTAINED IN THE PROSPECTUS (OFFERING CIRCULAR) SHALL NOT BE PERMITTED.

b.

for NON-SPECIFIED PROPERTY and unimproved land programs:

THE USE OF FORECASTS IN THIS OFFERING IS PROHIBITED. ANY REPRESENTATIONS TO THE CONTRARY AND ANY PREDICTIONS, WRITTEN OR ORAL, AS TO THE AMOUNT OR CERTAINTY OF ANY PRESENT OR FUTURE CASH BENEFIT OR TAX CONSEQUENCE WHICH MAY FLOW FROM AN INVESTMENT IN THIS PROGRAM IS NOT PERMITTED.

2.

Presentation of Forecasts. Forecasts for specified property PROGRAMS shall be included in the PROSPECTUS or sales material of the PROGRAM only if they comply with the following requirements:

a.

General. Forecasts shall be realistic in their predictions and shall clearly identify the assumptions made with respect to all material features of the presentation. Forecasts shall be examined by an independent certified public accountant in accordance with the Statement on Standards for Accountants' Services on Prospective Financial Information and the Guide for Prospective Financial Statements as promulgated by the American Institute of Certified Public Accountants. The accountant's examination report shall be included in the PROSPECTUS. No forecasts shall be permitted in any sales literature which does not appear in the PROSPECTUS. If any forecasts are included in the sales literature, all forecasts must be presented.

COMMENT: If predicted future results of operations are used, they shall be prepared in the form of a forecast by an expert using standard criteria and format.

b.

Material Information. Forecasts shall include all the following information:

(i)

Annual predicted revenue by source; including the occupancy rate used in predicting rental revenue;

(ii)

Annual predicted expenses;

(iii)

Mortgage obligation--annual payments for principal and interest, points and financing fees, shown as dollars, not percentages;

(iv)

The required occupancy rate in order to meet debt service and all expenses;

(v)

Predicted annual CASH FLOW; stating assumed occupancy rate;

(vi)

Predicted annual depreciation and amortization with full description of methods to be used;

(vii)

Predicted annual taxable income or loss and a simplified explanation of the tax treatment of such results; assumed tax brackets may not be used;

(viii)

Predicted construction costs--including disclosure regarding contracts;

(ix)

Accounting policies--e.g., with respect to points, financing costs and depreciation.

c.

Presentation.

(i)

Caveat. Forecasts shall prominently display a statement to the effect that they represent a mere prediction of future events based on assumptions which may or may not occur and may not be relied upon to indicate the actual results which will be obtained.

(ii)

Additional Guidelines. Explanatory notes describing assumptions made and referring to risk factors should be integrated with tabular and numerical information.

(iii)

Sale-leasebacks. When a sale-leaseback is employed, the statement that the seller is assuming the operating risk and consequently may have charged a higher price for the property must be included.

d.

Additional Disclosures and Limitations.

(i)

Forecasts shall be for a period at least equivalent to the anticipated holding period for the property, or 10 years, whichever is shorter, and project a resale occurrence, including depreciation recapture, if applicable. The forecasted resale price must be reasonable.

(ii)

Adequate disclosure shall be made of the changing economic effects upon the limited partners resulting principally from federal income tax consequences over the life of the partnership property, e.g., substantial tax losses in early years followed by [an] increasing amount of taxable income in later years.

(iii)

Forecasts shall disclose all possible undesirable tax consequences of an early sale of the PROGRAM property (such as, depreciation recapture or the failure to sell the property at a price which would return sufficient cash to meet resulting tax liabilities of the PARTICIPANTS).

(iv)

In computing the return to investors, no appreciation, so called "equity buildup", or any other benefits from unrealized gains or value shall be shown or included.

3.

Unimproved Land.--Forecasts shall not be allowed for unimproved land. Instead, a table of deferred payments specifying the various holding costs, i.e., interest, taxes, and insurance shall be inserted. However, where the PROGRAM intends to develop and sell the land as its primary business, a detailed CASH FLOW statement showing the timing of expenditures and anticipated revenues shall be required. Additionally, the consequences of a delayed selling PROGRAM shall be shown.

4.

The PROSPECTUS and sales material shall not include a quantitative estimate of a PROGRAM's anticipated economic performance or anticipated return to PARTICIPANTS (in the form of distributable funds or tax benefits), except as permitted under this Section VIII.C.

COMMENT: Quantitative estimates of returns are permitted when they are consistent with a financial forecast that has been examined by an independent certified public accountant and the forecast is included in the PROSPECTUS.

IN SPECIFIED PROPERTY PROGRAMS formed to generate tax credits, quantitative statements of tax credit objectives may be included in the PROSPECTUS if they are accompanied by adequate disclosure concerning the risks involved, the limited utility of the tax credits to investors (including appropriate investment suitability), and the analytical basis supporting such statements.

An ADMINISTRATOR may require documentation supporting the reasonableness of any quantitative statements of tax credit objectives.

IX. MISCELLANEOUS PROVISIONS.

A.

Deferred Payments. Deferred payments or similar arrangements on account of the purchase price of PROGRAM INTERESTS shall not be allowed except as set forth below:

1.

MANDATORY DEFERRED PAYMENTS may be allowed in the case of SPECIFIED PROPERTY PROGRAMS to the extent such payments bear a reasonable and demonstrable relationship to the capital needs and objectives of the PROGRAM as described in the presentation of the business development plan in the investor disclosure document, but in any event such arrangements shall be subject to the following conditions:

a.

A minimum of 50% of the purchase price of the PROGRAM INTERESTS must be paid by the investor at the time of sale, with the remainder to be paid within three years of the earlier of the completion of the offering or one year following the effective date of the offering or such shorter period as the ADMINISTRATOR, under the circumstances, deems appropriate.

b.

MANDATORY DEFERRED PAYMENTS shall be evidenced by a promissory note of the investor. Such notes shall be with recourse, shall not be negotiable and shall be assignable only subject to defenses of the maker. Such notes shall not contain a provision authorizing a confession of judgment. In any event, the notes shall provide for venue in the jurisdiction of the investor.

c.

The PROGRAM shall not sell or assign the MANDATORY DEFERRED PAYMENT notes at a discount.

d.

Selling commissions for PROGRAM INTERESTS sold on a mandatory deferred payment basis are payable pro rata only from cash payments made by the PARTICIPANT.

e.

In the event of default in the payment of MANDATORY DEFERRED PAYMENTS by a PARTICIPANT, the PARTICIPANT'S interest may be subject to a reasonable reduction as set forth in the PROSPECTUS and acceptable to the ADMINISTRATOR. Responses to defaults should be designed to protect the capital requirements of the PROGRAM and the best interests of the non-defaulting PARTICIPANTS while being fair to the defaulting PARTICIPANT.

f.

The PROGRAM may take a security interest in the PARTICIPANT'S PROGRAM INTERESTS in the amount of the unpaid portion of the note provided that proceedings to enforce the security interest may not be commenced earlier than 30 days after default and notice of intent to foreclose on the security interest. Security interests on PROGRAM INTERESTS that have been fully paid up shall be dissolved promptly.

g.

Unless MANDATORY DEFERRED PAYMENTS are guaranteed by the SPONSOR or by a surety bond or other arrangement satisfactory to the ADMINISTRATOR at the start of the offering, the SPONSOR shall not be allowed to purchase PROGRAM INTERESTS recovered as a result of default in MANDATORY DEFERRED PAYMENTS unless, after recovery, such PROGRAM INTERESTS have first been offered to the non-defaulting PARTICIPANTS.

h.

Any certificates evidencing PROGRAM INTERESTS purchased on a mandatory deferred payment basis shall so indicate.

i.

Upon receipt of any request to assign or transfer PROGRAM INTERESTS purchased on mandatory deferred payment basis and having an unpaid balance, the SPONSOR, before the assignment or transfer, at its own cost, shall notify the proposed assignee/transferee of the material terms of the mandatory deferred payment obligation, including: the schedule of payments, the status of payments, the status of any encumbrance held by the PROGRAM on the PROGRAM INTEREST; the terms of default, the consequences thereof, and the terms of curing the default. In lieu of such notification the SPONSOR may accept a written statement containing such information and signed by the assignee/transferee.

j.

A default would be the failure to make a scheduled payment on the mandatory deferred payment obligation note before 30 days after its due date. A PARTICIPANT shall be allowed to cure a default and avoid any reduction in his interest in the PROGRAM if within a minimum of 30 days from default and notice thereof the PARTICIPANT makes the delinquent payment with interest at the rate set forth in the PROSPECTUS for the curing of defaulted payments.

COMMENT: Default provisions should have as a priority the integrity of the PROGRAM'S capital. Depending on the circumstances, examples of arrangements which may be appropriate include: 1) a reduction in the PARTICIPANT'S percentage interest in PROGRAM revenues based on the ratio of the cost to the PROGRAM of his unpaid mandatory deferred payment obligation to all CAPITAL CONTRIBUTIONS; 2) a reallocation of the defaulting

PARTICIPANT'S right to receive revenues from the PROGRAM and application of such revenues to make up the cost to the PROGRAM of his unpaid mandatory deferred payment obligations; 3) a reallocation of the defaulting PARTICIPANTS right to receive revenues from the PROGRAM to those nondefaulting PARTICIPANTS who have voluntarily paid the defaulting PARTICIPANT'S obligation until such time as such non-defaulting PARTICIPANTS have recovered from this reallocation 200% of the proportionate amount of the defaulted payment which they forwarded; 4) a forced sale of the PROGRAM INTEREST complying with applicable procedures for notice and sale; 5) a delayed buy-out of the defaulting

PARTICIPANT'S interest; or 6) a foreclosure on the security interest held by the PROGRAM. "Cost to the PROGRAM" shall be defined in the PROSPECTUS and may include the reasonable costs to the PROGRAM of collecting unpaid installments, reselling the interests, and/or additional financing costs caused by the default.

2.

MANDATORY DEFERRED PAYMENTS shall not be allowed in the case of NON-SPECIFIED PROPERTY PROGRAMS except where the SPONSOR is able to satisfy the ADMINISTRATOR that the MANDATORY DEFERRED PAYMENTS bear a reasonable and demonstrable relationship to the capital needs and objectives of the PROGRAM as described in the business development plan in the investor disclosure document. In any event, such arrangements shall be subject to the following conditions:

a.

A minimum of 50% of the purchase price of the PROGRAM INTERESTS must be paid by the investor at the time of sale, with the remainder to be paid within two years of the earlier of the completion of the offering or one year following the effective date of the offering or such shorter period as the ADMINISTRATOR, under the circumstances, deems appropriate.

b.

The PROGRAM shall otherwise comply with the provisions of IX.A.1.b. through 3.

COMMENT: A plan that merely states that money will be invested as installments are received or at specified intervals will not be considered a sufficient business development plan.

3.

Warrants or options (or their equivalents) to purchase PROGRAM INTERESTS will be allowed only at the discretion of the ADMINISTRATOR but, in any event, must be identified as such and be accompanied with a clear statement of their nature and effect. PROGRAM INTERESTS acquired by their exercise may not differ from the stated terms of PROGRAM INTERESTS otherwise acquired. Any penalty for non-exercise will ordinarily be viewed with disfavor.

B.

Reserves. Provision should be made for adequate reserves in the future by retention of a reasonable percentage of proceeds from the offering and regular receipts for normal repairs, replacements and contingencies. Normally, not less than 3% of the offering proceeds will be considered adequate. However, in PROGRAMS that invest in or make mortgage loans, reserves in an amount greater than 1% of the offering proceeds will be considered adequate.

C.

Reinvestment of CASH FLOW (excluding proceeds resulting from a disposition or refinancing of property) shall not be allowed. The partnership agreement and the PROSPECTUS shall set forth that reinvestment of proceeds resulting from a disposition or refinancing will not take place unless sufficient cash will be distributed to pay any state or federal income tax (assuming investors are in a specified tax bracket) created by the disposition or refinancing of property. Such a prohibition must be contained in the PROSPECTUS.

D.

Financial Information Required on Application. In any offering of interests by a PROGRAM, the PROGRAM shall provide as an exhibit to the application the following financial information.

COMMENT: In the case of PROGRAMS which invest in or make mortgage loans any reinvestment must be structured to terminate when the PROGRAM terminates.

1.

Financial Statements of Program. The PROSPECTUS shall include AUDITED FINANCIAL STATEMENTS of the PROGRAM for each of the last three fiscal years (or for the life of the PROGRAM, if less), provided that the only audited balance sheet that shall be required shall be as of the end of the most recent fiscal year of the PROGRAM. When a PROGRAM has operated less than one fiscal year, AUDITED FINANCIAL STATEMENTS are not required unless requested by the ADMINISTRATOR.

2.

Balance Sheet of Corporate Sponsor. AUDITED FINANCIAL STATEMENTS consisting only of an audited balance sheet for each corporate SPONSOR as of the end of the SPONSOR's most recent fiscal year shall be included in the PROSPECTUS.

3.

Other SPONSORS. A balance sheet for each noncorporate SPONSOR (including individual partners or individual joint ventures of a SPONSOR) as of a date not more than one hundred thirty-five days prior to the date of filing the application shall be submitted. Such balance sheet shall be prepared in accordance with generally accepted accounting principles and reviewed and reported upon by an independent certified public accountant under the review standards set forth by the American Institute of Certified Public Accountants, and shall be signed and sworn to by such SPONSOR. A representation of the amount of such NET WORTH must be included in the PROSPECTUS, or in the alternative, a representation that such SPONSOR meets the NET WORTH requirements of Section II.B. shall be so included.

COMMENT: It is not intended that financial statements of AFFILIATES of the SPONSOR be required to be disclosed unless appropriate in order to comply with the NET WORTH requirements of Section II.B.

4.

Interim Financial Information. Where an audited balance sheet required by this Section IX.D. is as of a date more than 90 days prior to the date of filing, an unaudited balance sheet as of a date not more than 90 days prior to the date of filing shall also be provided. Where the application is made in coordination with a Registration Statement submitted to the Securities and Exchange Commission pursuant to the Securities Act of 1933, an interim unaudited balance sheet as of a date not more than one hundred thirtyfive days prior to the date of filing shall be provided only if the audited balance sheet is as of a date more than 134 days prior to the date of filing. Interim unaudited statements of income, partners' equity, and cash flows shall also be provided with the unaudited balance sheet in instances where such statements are required by this Section IX.D. as part of the AUDITED FINANCIAL STATEMENTS for the last fiscal year. The ADMINISTRATOR may require the interim unaudited information to be included in the Prospectus when the audited information required by this Section must be included.

5.

Filing of Other Statements. The ADMINISTRATOR may permit the omission of one or more of the statements required under this Section and the filing (in substitution thereof) of appropriate statements verifying financial information having comparable relevance to an investor in determining whether to invest in the PROGRAM. Such substitution will only be allowed where the ADMINISTRATOR finds this would be consistent with the protection of investors.

E.

Opinions of Counsel. The application for qualification and registration shall contain a favorable ruling from the Internal Revenue Service or an opinion of independent counsel to the effect that the issuer will be taxed as a "partnership" and not as an "association" for federal income tax purposes. An opinion of counsel shall be in form and substance satisfactory to the ADMINISTRATOR and shall be unqualified except to the extent permitted by the ADMINISTRATOR. However, an opinion of counsel may be based on reasonable assumptions, such as:

(1) facts or proposed operations as set forth in the offering circular or PROSPECTUS and organizational documents; (2) the absence of future changes in applicable laws; (3) the securities offered are paid for; (4) compliance with certain procedures such as the execution and delivery of certain documents and the filing of a certificate of limited partnership or an amended certificate; and (5) the continued maintenance of or compliance with certain financial, ownership, or other requirements by the issuer or SPONSOR. The ADMINISTRATOR may request from counsel as supplemental information such supporting legal memoranda and an analysis as he shall deem appropriate under the circumstances. To the extent the opinion of counsel or Internal Revenue Service ruling is based on the maintenance of or compliance with certain requirements or conditions by the issuer or SPONSOR the offering circular or PROSPECTUS shall contain representations that such requirements or conditions will be met and the partnership agreement shall, to the extent practicable, contain provisions requiring such compliance.

There shall be included also an opinion of independent counsel to the effect that the securities being offered are duly authorized or created and validly issued interests in the issuer, and that the liability of the public investors will be limited to their respective total agreed upon investment in the issuer.

The ADMINISTRATOR may request an opinion of counsel concerning tax aspects when this appears necessary for the protection of investors.

F.

Provisions of the Partnership Agreement. The requirements and/or provisions of appropriate portions of the following sections shall be included in the partnership agreement: I.B.; II.C.; II.D.; II.E.; II.F.; IV.C.; IV.D.; IV.E.; IV.F.; IV.G.; IV.H.; IV.I.; V.A.; V.B.; V.C.; V.D.; V.E.; V.F.; V.G.; V.H.; V.I.; V.K.; V.L.; V.M.; V.N.; VI.C.; VI.D.; VII.A.; VII.B.; VII.C.; VII.D.; VII.E.; VII.F.; VII.H.; VII.J.; VII.K.; IX.A.; IX.B.; and IX.C.

NOTE: The cross-reference sheet will be amended to include Sections I.B.4., I.B.11. and I.B.18. if Section IX.F. is amended to include Section I.B.

[G.

Omitted in the 1986 amendment.--CCH]

H.

General Instructions--NASAA Real Estate Guidelines.

1.

The Cross Reference Sheet should be completed with the Application for Registration.

2.

Sections which are not applicable should be noted as such.

3.

Provisions of the program which vary from the Guidelines must be explained by footnote; for example, if the program uses a defined term which is different from the Guidelines definition, the variance must be explained. Footnotes should be numbered sequentially in the column designated Footnotes and should be presented on a rider identified as Footnotes with each Footnote on the rider numerically corresponding to the Footnote identified on the Cross Reference Sheet.

4.

A section is provided at the bottom of each page of the Cross Reference Sheet for additional or supplemental Cross References. Lines are provided in the event additional Cross References are needed with respect to subsections of the Guidelines not specifically identified on the top of the page, or in the event there were insufficient lines to present all relevant cross references with respect to an item appearing on that page.

5.

The last page of the Cross Reference Sheet should be executed by preparer.

6.

These General Instructions should be *removed* before filing with the State Administrator.

REAL ESTATE GUIDELINES CROSS REFERENCE SHEET

[Page 1]

Name of Applicant: -----

Footnote	Page	Section	Guideline
See Instruction 3	Number Prospect?	Number Partners?	Section
		Agreement	

-----	-----	-----	I.	B.
-----	-----	-----		Definitions
-----	-----	-----		1. Acquisition expenses
-----	-----	-----		2. Acquisition fee
-----	-----	-----		4. Affiliate
-----	-----	-----		5. Assessments
-----	-----	-----		6. Asset based fee
-----	-----	-----		Audited financial
-----	-----	-----		7. statements
-----	-----	-----		8. Base amount
-----	-----	-----		9. Capital contribution
-----	-----	-----		10. Carried interest
-----	-----	-----		Cash available for
-----	-----	-----		11. distribution
-----	-----	-----		12. Cash flow
-----	-----	-----		Competitive real estate
-----	-----	-----		13. commission
-----	-----	-----		14. Construction fee
-----	-----	-----		15. Cross reference sheet
-----	-----	-----		16. Development fee
-----	-----	-----		17. Financing
-----	-----	-----		18. Front-End fees
-----	-----	-----		Investment in
-----	-----	-----		19. properties
-----	-----	-----		Major repairs and
-----	-----	-----		20. rehabilitation
-----	-----	-----		Mandatory deferred
-----	-----	-----		21. payments
-----	-----	-----		22. Net worth
-----	-----	-----		Non-specified property
-----	-----	-----		23. programs
-----	-----	-----		Organization and
-----	-----	-----		24. offering expenses
-----	-----	-----		25. Participant
-----	-----	-----		28. Program interest
-----	-----	-----		29. Program management fee
-----	-----	-----		30. Property management fee
-----	-----	-----		32. Purchase price
-----	-----	-----		Specified property
-----	-----	-----		33. program
-----	-----	-----		34. Sponsor

-----	-----	-----	II.	Requirements of Sponsors
-----	-----	-----	A.	Experience
-----	-----	-----	B.	Net worth
-----	-----	-----		Reports to
-----	-----	-----	C.	administrators
-----	-----	-----	D.	Liability
-----	-----	-----	E.	Fiduciary duty
-----	-----	-----	F.	Termination
-----	-----	-----		Suitability of the
-----	-----	-----	III.	Participant
-----	-----	-----	A.	Standards
-----	-----	-----	C.	Maintenance of records
-----	-----	-----	IV.	Fees--Compensation--Expenses
-----	-----	-----		Organization & offering
-----	-----	-----	B.	expenses
-----	-----	-----		Investment in
-----	-----	-----	C.	properties
-----	-----	-----	D.	Program management fee
-----	-----	-----	E.	Promotional interest
-----	-----	-----		Interest in cash
-----	-----	-----	2.	a. available
-----	-----	-----		for distribution
-----	-----	-----		Interest in sale
-----	-----	-----		b. or re-
-----	-----	-----		financing
-----	-----	-----		proceeds

Additional or Supplemental Cross References

-----	-----	-----	-----
-----	-----	-----	-----
-----	-----	-----	-----

Response to this cross reference
sheet
has been prepared by:

Name: -----
Title: -----

I.
A redlined copy of all amendments and supplements to an application shall be filed with the
ADMINISTRATOR as soon as the amendment or supplement is available.

Real Estate Investment Subcommittee of the

NASAA Merit Regulation Committee

ADVISORY I

adopted on April 23, 1983

[In General]

The NASAA Real Estate Investment Subcommittee ("Subcommittee") at its meeting of May 12, 1982, has adopted a procedure whereby the Subcommittee will from time to time issue interpretations of the NASAA Real Estate Guidelines ("Guidelines"). As with the Guidelines themselves, and even to a greater degree with respect to these interpretations, each state administrator will retain the discretion with respect to the interpretations and implementation of the Guidelines. However, for those administrators who are seeking to increase the degree of uniformity of interpretations of the Guidelines and/or seeking additional guidance with respect to the interpretation of the Guidelines, the Subcommittee has prepared the following interpretations:

INTERPRETATION 1

When a sponsor's promotional interest in liquidation proceeds is subordinated to a higher return to the limited partners than is specified under Sections IV.E.1 and IV.E.2 b. of the Guidelines, the compensation permitted the sponsors by this section or other sections of the Guidelines should not be increased as a result of this type of arrangement unless specifically justified under Section I.A.2.

INTERPRETATION 2

When a sponsor takes an increased promotional interest pursuant to Section IV.C.3 of the Guidelines, but subordinates the payment of such fees to a higher return to the investors than is specified under such section, the compensation permitted sponsors by this section or other sections of the Guidelines should not be increased as a result of this type of arrangement unless specifically justified under Section I.A.2.

INTERPRETATION 3

When a sponsor takes a share of cash distributions from operations under Section IV.E.2 a. of the Guidelines, but subordinates this interest to a specified return to the investors (which is not required by the Guidelines), the compensation permitted sponsors by this section or other sections of the Guidelines should not be increased as a result of this type of arrangement unless specifically justified under Section I.A.2.

COMMENT ON INTERPRETATIONS 1 THROUGH 3 ABOVE. The Subcommittee believes that the Guidelines create a substantial opportunity for the sponsor to exchange one form of compensation for another form of compensation. For example, there is substantial latitude as to the "mix" in the front-end fees permitted, and the front-end fees can be deferred entitling the sponsor to a larger liquidation fee. In addition, the maximum compensation permitted to sponsors under the Guidelines is liberal and sponsors are permitted and in fact do, in many instances, package programs with sponsors' compensation well below the maximum permitted by the Guidelines. Therefore, in general, the Subcommittee does not believe that it is necessary

or appropriate to create an additional standard for modification of the compensation based upon the sponsor increasing subordination beyond that specified in Sections IV.E.1, IV.E.2, and IV.C.3 of the Guidelines. The fact that a sponsor may increase the subordination of his share of cash distributions could be meaningful only when an accurate forecast of annual cash distributions from operations and net proceeds from liquidation could be forecasted, and thus show the "real trade-off" involved in a particular arrangement. Nevertheless, even if a very reliable forecast of the future timing and amount of proceeds from operations and the sale of the property could be made, the Subcommittee believes that the sponsor's willingness to subject its return to a higher subordination than is required under the Guidelines should be considered a response to the pressures of the competitive marketplace and not a trade-off in compensation entitling the sponsor to a larger share somewhere else.

INTERPRETATION 4

When applying the suitability standards under Section III.B.4. of the Guidelines to a participant which is an IRA or Keogh plan, the participant for the purposes of suitability is the beneficiary of the IRA or Keogh plan.

COMMENT ON INTERPRETATION 4. Suitability standards for investors are imposed because of factors such as the limited transferability, relative lack of liquidity, degree of risk, and specific tax orientation of a real estate program. When an investment in a real estate program is made through an IRA or Keogh plan the investor or participant is considered to be the beneficiary. The beneficiary is the real investor in interest. The beneficiary is the person who supplies the funds to purchase the partnership interest and is the person at risk on the selection and performance of the investment. In the case of self-directed plans or accounts, the beneficiary makes the investment decision. In a fiduciary account the ability to bear the loss as reflected by the beneficiary's financial status is more relevant to the application of a suitability standard than the trustee's financial status or ability to understand the investment risks to the beneficiary.

INTERPRETATION 5

Section II.E. of the Guidelines prohibits the sponsor from employing or permitting another to employ program funds and assets in any manner except for the exclusive benefit of the program. This section would disallow deposits of funds with affiliated financial institutions, such as banks, savings and loans, or money market funds, and would also prohibit "compensating balance" arrangements for the sponsor's benefit. The administrator may allow certain deposits with affiliated institutions if it can be demonstrated that any conflict of interest between the early investment of program funds and the financial benefits to the affiliated institution could be adequately resolved:

1.

Deposits in affiliated money market funds, savings and loans, and banks may be allowed if such deposits from the program do not exceed five percent of all funds held by such money entity.

Additionally, any fees, including commissions, advisory fees, or other fees shall not be paid from PROGRAM funds.

2.

Compensating balance arrangements for the benefit of other than the program shall not be allowed.

3.

The prospectus shall contain separately numbered paragraphs in the Conflicts of Interest section which would discuss any conflicts of interest, including the possible conflict in the timing of deposits and withdrawals and the permanent investment of program funds in properties. Such section shall also contain an explicit statement that the sponsor will abide by its obligation not to use program funds except for the exclusive benefit of the program.

4.

Funds deposited in affiliated banks, savings and loans, or money market funds shall earn interest and/or dividends at a rate competitive with those available from similar independent depositories.

INTERPRETATION 6

When applying the limitation imposed by Subsection 1 and 2 of Section V.M. of the Guidelines, the phrase ". . . CAPITAL CONTRIBUTIONS to be raised by the PROGRAM" means the actual amount raised in the offering.

COMMENT ON INTERPRETATION 6. The limitations contained in Subsection 1 and 2 are designed to assure diversification in a real estate program and are based on the premise that diversification lessens the investor's risk. They require a program to invest in at least five properties with five different lenders or borrowers in order to limit to a reasonable degree the risk to the program.

Industry members have pointed out some practical problems in situations where a program does not sell completely or where the sales period is prolonged. Good investment opportunities may present themselves before the final amount of the offering is known and the limitations can be determined. It is impossible for the program to take advantage of these opportunities without the risks of finding that the limitations have been exceeded when sales are completed.

The Subcommittee believes that the language of the provisions is clear and that the limiting percentages apply to the amount actually raised by the program. The Subcommittee also recognizes the problem presented and concludes that the comment following Subsection 6 indicates that the limitations need not be rigidly applied.

A compromise reached by several states appears to the Subcommittee to meet the intent of the guideline section and is suggested as a way to handle this problem. That compromise provides that (1) the limiting percentage will apply to the stated maximum amount of the offering; (2) a minimum of three properties and three lenders or borrowers will be involved; (3) the 85% of value limitation contained in Subsection 5 will be strictly applied to each property; and (4) a risk factor discussing the relationship between the number of properties invested in and the risk to the investor shall be contained in the prospectus. A consideration of higher suitability standards may

also be appropriate because of the higher risk involved.

REGISTRATION OF OIL AND GAS PROGRAMS

Adopted September 22, 1976

North American Securities Administrators Association, Inc., amended October 12, 1977; October 31, 1979; April 23, 1983; July 1, 1984; September 3, 1987; September 14, 1989; October 24, 1991; May 7, 2007; May 6, 2012

1. **INTRODUCTION.** A. *Application.* 1. These guidelines apply to the registration and qualification of oil and gas programs, as defined in Section I.B.23 below, and will be applied by analogy to oil and gas programs in other forms, including but not limited to multi-tier structures. While applications not conforming to the standards contained herein shall be looked upon with disfavor, where good cause is shown certain guidelines may be modified or waived by the Administrator.

2. Where the individual characteristics of specific programs warrant modification from these standards, they will be accommodated, insofar as possible, while still being consistent with the spirit of the guidelines.

B. *Definitions.* As used in the guidelines, the following terms mean:

1. *Administrative Costs:* All customary and routine expenses incurred by the sponsor for the conduct of program administration, including: legal, finance, accounting, secretarial travel, office rent, telephone, data processing and other items of a similar nature.
2. *Administrator :* The official or agency administering the securities laws of a state.
3. *Affiliate :* An affiliate of a specified person means (a) any person directly or indirectly owning, controlling, or holding with power to vote 10 percent or more of the outstanding voting securities of such specified person; (b) any person 10 percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such specified person; (c) any person directly or indirectly controlling, controlled by, or under common control with such specified person; (d) any officer, director, trustee or partner of such specified person, and (e) if such specified person is an officer, director, trustee or partner, any person for which such person acts in any such capacity.
4. *Assessments:* Additional amounts of capital which may be mandatorily required of or paid voluntarily by a participant beyond his subscription commitment.
5. *Capital Contributions :* The total investment, including the original investment, assessments and amounts reinvested, in a program by a participant or by all participants, as the case may be.
6. *Capital Expenditures* Those costs associated with property acquisition and the drilling and completion of oil and gas wells which are generally accepted as capital expenditures pursuant to the provisions of the Internal Revenue Code.
7. *Carried Interest:* An equity interest in a program issued to a person without consideration, in the form of cash or tangible property, in an amount proportionately equivalent to that received from the participants.

8. *Cost*: When used with respect to property in Section VI, means (a) the sum of the prices paid by the seller to an unaffiliated person for such property, including bonuses; (b) title insurance or examination costs, brokers' commissions, filing fees, recording costs, transfer taxes, if any, and like charges in connection with the acquisition of such property; (c) a pro rata portion of seller's actual necessary and reasonable expenses for seismic and geophysical services; and (d) rentals and ad valorem taxes paid by the seller with respect to such property to the date of its transfer to the buyer, interest and points actually incurred on funds used to acquire or maintain such property, and such portion of the seller's reasonable, necessary and actual expenses for geological, engineering, drafting, accounting legal and other like services allocated to the property cost in conformity with generally accepted accounting principles and industry standards, except for expenses in connection with the past drilling of wells which are not producers of sufficient quantities of oil and gas to make commercially reasonable their continued operations, and provided that the expenses enumerated in this subsection (d) hereof shall have been incurred not more than 36 months prior to the purchase by the program; provided that such period may be extended, at the discretion of the Administrator, upon proper justification. When used with respect to services, "cost" means the reasonable, necessary and actual expenses incurred by the seller on behalf of the program in providing such services, determined in accordance with generally accepted accounting principles. As used elsewhere, "cost" means the price paid by the seller in an arm's-length transaction.
9. *Development Well*: A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.
10. *Direct Costs*: All actual and necessary costs directly incurred for the benefit of the program and generally attributable to the goods and services provided to the program by parties other than the sponsor or its affiliates. Direct costs shall not include any cost otherwise classified as organization and offering expenses, administrative costs, or property costs. Direct costs may include the cost of services provided by the sponsor or its affiliates if such services are provided pursuant to written contracts and in compliance with Section V.B.8 of these guidelines.
11. *Exploratory Well*: A well drilled to find commercially productive hydrocarbons in an unproved area, to find a new commercially productive horizon in a field previously found to be productive of hydrocarbons at another horizon, or to significantly extend a known prospect.
12. *Farmout*: An agreement whereby the owner of the leasehold or working interest agrees to assign his interest in certain specific acreage to the assignees, retaining some interest such as an overriding royalty interest, an oil and gas payment, offset acreage or other type of interest, subject to the drilling of one or more specific wells or other performance as a condition of the assignment.
13. *Horizon* : A zone of a particular formation; that part of a formation of sufficient porosity and permeability to form a petroleum reservoir.
14. *Independent Expert*: A person with no material relationship to the sponsor who is qualified and who is in the business of rendering opinions regarding the value of oil and gas properties based upon the evaluation of all pertinent economic, financial, geologic and engineering information available to the sponsor.
15. *Landowner's Royalty Interest*: An interest in production, or the proceeds therefrom, to be received free and clear of all costs of development, operation, or maintenance, reserved by a landowner upon the creation of an oil and gas lease.

16. *Non-Capital Expenditures:* Those expenditures associated with property acquisition and the drilling and completion of oil and gas wells that under present law are generally accepted as fully deductible currently for federal income tax purposes.
17. *Operating Costs:* Expenditures made and costs incurred in producing and marketing oil or gas from completed wells, including, in addition to labor, fuel, repairs, hauling, materials, supplies, utility charges and other costs incident to or therefrom, ad valorem and severance taxes, insurance and casualty loss expense, and compensation to well operators or others for services rendered in conducting such operations.
18. *Organization and Offering Expenses:* All costs of organizing and selling the offering, including but not limited to, total underwriting and brokerage discounts and commissions (including fees of the underwriters' attorneys), expenses for printing, engraving, mailing, salaries of employees while engaged in sales activity, charges of transfer agents, registrars, trustees, escrow holders, depositaries, engineers and their experts, expenses of qualification of the sale of the securities under Federal and State law, including taxes and fees, accountants' and attorneys' fees and other front-end fees.
19. *Overriding Royalty Interest:* An interest in the oil and gas produced pursuant to a specified oil and gas lease or leases, or the proceeds from the sale thereof, carved out of the working interest, to be received free and clear of all costs of development, operation, or maintenance.
20. *Participant:* The purchaser of a unit in the oil and gas program.
21. *Person:* Any natural person, partnership, corporation, association, trust or other legal entity.
22. *Production Purchase or Income Program:* Any program whose investment objective is to directly acquire, hold, operate and/or dispose of producing oil and gas properties. Such a program may acquire any type of ownership interest in a producing property, including but not limited to, working interests, royalties, or production payments. A program which spends at least 90% of capital contributions and funds borrowed (excluding offering and organizational expenses) in the above described activities is presumed to be a production purchase or income program.
23. *Program:* One or more limited or general partnerships or other investment vehicles formed, or to be formed, for the primary purpose of exploring for oil, gas and other hydrocarbon substances or investing in or holding any property interests which permit the exploration for or production of hydrocarbons or the receipt of such production or the proceeds thereof (a prospectus may offer a series of programs with individual programs being formed in sequence).
24. *Prospect:* An area covering lands which are believed by the sponsor to contain subsurface structural or stratigraphic conditions making it susceptible to the accumulations of hydrocarbons in commercially productive quantities at one or more horizons. The area, which may be different for different horizons, shall be designated by the sponsor in writing prior to the conduct of program operations and shall be enlarged or contracted from time to time on the basis of subsequently acquired information to define the anticipated limits of the associated hydrocarbon reserves and to include all acreage encompassed therein. A "prospect" with respect to a particular horizon may be limited to the minimum

area permitted by state law or local practice, whichever is applicable, to protect against drainage from adjacent wells if the well to be drilled by the program is to a horizon containing proved reserves.

25. *Proved Reserves*: Those quantities of crude oil, natural gas, and natural gas liquids which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. Proved reserves are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Depending upon their status of development, such proved reserves shall be subdivided into the following classifications:

- (a) Proved Developed Reserves. These are proved reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. This classification shall include:
- (1) Proved Developed Producing Reserves. These are proved developed reserves which are expected to be produced from existing completion interval(s) now open for production in existing wells, and
 - (2) Proved Developed Non-Producing Reserves. These are proved developed reserves which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, which are expected to be produced through these wells in a predictable future, where the cost of making such oil and gas available for production should be relatively small compared to the cost of a new well.

Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "Proved Developed Reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

- (b) Proved Undeveloped Reserves. These are proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units, which are virtually certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. If warranted, however, a narrative discussion can be provided to point out those areas where future drilling or other operations may develop oil and gas production which at the time of filing is considered too uncertain to be expressed as numerical estimates for proved reserves.

26. *Roll-Up* : A transaction involving the acquisition, merger, conversion, or consolidation, either directly or indirectly, of the program and the issuance of securities of a roll-up entity. Such term does not include:

- (a) a transaction involving securities of the program that have been listed for at least 12 months on a national exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or
 - (b) a transaction involving the conversion to corporate, trust or association form of only the program if, as a consequence of the transaction, there will be no significant adverse change in any of the following:
 - (1) voting rights;
 - (2) the term of existence of the program;
 - (3) sponsor compensation; or
 - (4) the program's investment objectives.
27. *Roll-Up Entity*: A partnership, trust, corporation or other entity that would be created or survive after the successful completion of a proposed roll-up transaction.
28. *Sponsor*: Any person directly or indirectly instrumental in organizing, wholly or in part, a program or any person who will manage or is entitled to manage or participate in the management or control of a program. "Sponsor" includes the managing and controlling general partner(s) and any other person who actually controls or selects the person who controls 25% or more of the exploratory, developmental or producing activities of the program, or any segment thereof, even if that person has not entered into a contract at the time of formation of the program. "Sponsor" does not include wholly independent third parties such as attorneys, accountants, and underwriters whose only compensation is for professional services rendered in connection with the offering of units. Whenever the context of these guidelines so requires, the term "sponsor" shall be deemed to include its affiliates.
29. *Subordinate Interest*: An equity interest in a program issued to a person, without payment of full consideration, after the attainment of certain specified performance by the program.
30. *Working Interest*: An interest in an oil and gas leasehold which is subject to some portion of the costs of development, operation, or maintenance.

II. REQUIREMENTS OF SPONSOR. A. *Experience* The sponsor or its chief operating officers shall have at least three years' relevant oil and gas experience demonstrating the knowledge and experience to carry out the stated program policies and to manage the program operations. Additionally, the sponsor or any affiliate providing services to the program shall have had not less than four years' relevant experience in the kind of service being rendered, or otherwise must demonstrate sufficient knowledge and experience to perform the services proposed. If any managerial responsibility for the program is to be rendered by persons other than the sponsor, then such persons must be identified in the prospectus, their experience must be similar to that required of a sponsor and must be set out in the prospectus, and a contract setting forth the basis of their relationship with the program must be filed with and not disapproved by the Administrator.

B. *Net Worth* : 1. The financial condition of the sponsor must be commensurate with any financial obligations assumed by it in connection with the offering and the operation of the program.

- (a) For limited partnership offerings, the general partner must specifically have a minimum aggregate net worth at all times equal to 5% of participants' capital in

all existing programs organized by the general partner plus 5% of total subscriptions in the program being offered, but such minimum required net worth shall in no case be less than \$200,000 nor shall net worth in excess of \$2 million be required.

- (b) For general partnership offerings and other offerings in which investors are not provided statutory protection against unlimited liability, the managing or controlling general partner's net worth should be of a sufficient amount to adequately protect the participants against unreasonable exposure to program liabilities. Unless the Administrator establishes a different amount based upon mitigating factors, \$5 million will be considered a presumptively reasonable net worth.

2. For purposes of computing a managing or controlling general partner's net worth, 70% of the standardized measure of discounted future net cash flows relating to the proved oil and gas reserves, as determined by a qualified independent petroleum consultant, of a managing or controlling general partner may be used as an alternative to the stated value of the associated oil and gas properties on the sponsor's balance sheet. Reserves, notes and accounts receivables from all programs, interests in all programs, and all contingent liabilities will be scrutinized carefully to determine the appropriateness of their inclusion in the net worth computation. If an individual managing or controlling general partner's net worth is used in complying with the above requirements, a statement as to such net worth shall be included in the prospectus.

3. If more than one person acts or serves as managing or controlling general partner of a program, the net worth requirements may be met by aggregating the net worth of all such persons. In addition, the net worth of any guarantor of the managing or controlling general partner's obligations to or for the program may be included in the net worth computation, but only if the guarantor's liability is co-extensive with that of the managing or controlling general partner and the financial statements of the guarantor, prepared in accordance with the requirements of Section II.C of the guidelines, are furnished to the Administrator and made available to participants.

C. *Financial Statements*. 1. Managing or controlling general partners, other than individuals, shall provide to the Administrator and make available to participants, upon request, audited financial statements for the most recent fiscal year and unaudited financial statements for any interim period ending not more than 90 days prior to the date of filing the application; provided however, if the application is made in coordination with a Securities and Exchange Commission filing, the date of the financial statements may be not more than 135 days prior to the date of filing the registration application. The financial statements shall include, at a minimum, a balance sheet and a statement of operations. The statements shall be prepared in accordance with generally accepted accounting principles and the statements for the most recent fiscal year shall be accompanied by an audit report from an independent certified public accountant.

2. Individual managing or controlling general partners, whose net worth is being relied upon for purposes of demonstrating compliance with Section II.B of these guidelines, shall provide the Administrator and make available to participants a statement of financial condition as of a date not more than 90 days prior to the date of filing the application. The statement of financial condition shall be prepared in accordance with generally accepted accounting principles and accompanied by a review report from an independent certified public accountant.

D. *Additional Requirements for General Partnership and Working Interests Programs*. For offerings in which investors are not provided statutory protection against unlimited liability:

1. The sponsor shall agree to fully indemnify each participant against all program related liabilities which exceed the participant's interest in the undistributed net assets of the program. This indemnification shall be included in the program agreement.

2. Unless the Administrator establishes different terms, the sponsor shall obtain insurance coverage protecting the program and the participants against potential liabilities. The coverage should include public liability insurance with limits, including umbrella policy limits, of at least two times the program's capitalization but in no event less than \$10 million. Coverage limits in excess of \$50 million will not be required unless there are extraordinary circumstances. Other insurance policies, such as well control, environmental damage and workers compensation, should also be obtained if the program is going to engage directly in operating activities or will otherwise be exposed to potential losses in these areas. The program agreement must require the sponsor to notify the participants thirty days prior to the effective date of any adverse material change in the program's insurance coverage. If the insurance coverage is to be materially reduced, the program agreement must provide the participants a right to convert their program interests from general partnership or working interests to limited partnership interests prior to such reduction, or in the alternative, the program agreement may require the cessation of all drilling activity until the required insurance coverage can be obtained.

3. The prospectus shall disclose the terms of the indemnification agreement and shall also disclose the types and amounts of insurance coverage to be obtained for the benefit of the program and the participants along with the insurance claims history of the sponsor in the area where the program anticipates drilling wells, if such information is material. The Administrator may establish different requirements for the protection of participants based on the specific circumstances surrounding the program's proposed activities. In establishing such requirements, the Administrator may consider factors such as the net worth of the sponsor and any other person who has agreed to indemnify the participants, the insurance claims history of the sponsor and its previous programs, the availability and cost to the program of the insurance, the extent to which the drilling to be conducted by the program may include exploratory drilling, the geological and other characteristics of the formations to be developed by the program, and other procedures or policies implemented by the sponsor which may increase or decrease the potential risk of loss or liability to the program or the potential magnitude of loss or liability to the program.

E. *Tax Ruling or Opinion.* If a significant feature for federal income or excise tax purposes of a program is either deductions in excess of income from the program being available in a year to reduce income from other sources in that year or credits in excess of the tax attributable to the income from the investment being available within a year to offset taxes on income from other sources in that year, then the sponsor must receive a tax ruling from the Internal Revenue Service or an opinion of qualified tax counsel in a form acceptable to the Administrator concerning the status of the program for federal income tax purposes and an opinion of qualified tax counsel in a form acceptable to the Administrator indicating whether it is more likely than not that an investor will prevail on the merits of each material tax issue respecting which there is a reasonable possibility that the Internal Revenue Service will challenge the tax effect disclosed in the prospectus.

F. *Investment in Program.* In appropriate cases, in order to create an identity of interest with the participants, the Administrator may require that the sponsor purchase for cash up to 5.0% of the program units.

G. *Reports.* The Sponsor shall agree to file with the Administrator, if he so requests it, concurrently with their transmittal to participants, a copy of each report made pursuant to Section VIII.B of these guidelines.

H. *Fiduciary Duty.* 1. The program agreement and prospectus shall provide that the sponsor shall have a fiduciary responsibility for the safekeeping and use of all funds and assets of the program, whether or not in the sponsor's possession or control, and that the sponsor shall not employ, or permit another to employ, such funds or assets in any manner except for the exclusive benefit of the program.

2. Except as provided in Section II.H.3, neither the program agreement nor any other agreement between the sponsor and the program shall contractually limit any fiduciary duty owed to the participants by the sponsor under any applicable law.

3. The program agreement may contractually limit fiduciary duties owed to the participant by the sponsor as follows:

- (a) The program may indemnify and hold harmless the sponsor and its affiliates as provided in Section II.I
- (b) The sponsor may be required to devote only so much of its time as is necessary to manage the affairs of the program.
- (c) The sponsor and its affiliates may conduct business with the program in a capacity other than as sponsor but only in compliance with Sections V and VI of these guidelines.
- (d) Except as otherwise provided in Section VI of these guidelines, the sponsor and any of its affiliates may pursue business opportunities that are consistent with the program's investment objectives for their own account only after they have determined that such opportunity either cannot be pursued by the program because of insufficient funds or because it is not appropriate for the program under the existing circumstances.
- (e) The sponsor may manage multiple programs simultaneously.

I. *Liability and Indemnification of the Sponsor* . 1. The program shall not provide for indemnification of the sponsor, or its affiliates performing services on behalf of the program for any liability or loss suffered by the sponsor or affiliate, nor shall it provide that the sponsor or affiliate be held harmless for any loss or liability suffered by the program, unless all of the following conditions are met:

- (a) The sponsor has determined, in good faith, that the course of conduct which caused the loss of liability was in the best interests of the program, and
- (b) the sponsor or affiliate was acting on behalf of or performing services for the program, and
- (c) such liability or loss was not the result of negligence or misconduct by the sponsor or affiliate, and
- (d) payments arising from such indemnification or agreement to hold harmless are recoverable only out of the tangible net assets of the program.

2. Notwithstanding anything to the contrary contained in Section II.I.1., the sponsor, its affiliates and any person acting as a broker-dealer shall not be indemnified for any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws by such party unless the following conditions are met:

- (a) There has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee, or
- (b) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee, or
- (c) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the position of any state securities regulatory authority in which securities of the program were offered or sold as to indemnification for violations of securities laws; provided however, the court need only be advised of the positions of the securities regulatory authorities of those states (i) which are specifically set forth in the program agreement and (ii) in which plaintiffs claim they were offered or sold program units.

3. The program may not incur the cost of that portion of liability insurance which insures the sponsor for any liability as to which the sponsor is prohibited from being indemnified under this Section II.I; provided however, that this Section II.I.3 shall not preclude the program from purchasing and paying for such types of insurance, including extended coverage liability, casualty and workers' compensation, as is customary in the oil and gas industry.

4. The advancement of program funds to a sponsor or its affiliates for legal expenses and other costs incurred as a result of any legal action for which indemnification is being sought is permissible only if the program has adequate funds available and the following conditions are satisfied:

- (a) The legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the program, and
- (b) The legal action is initiated by a third party who is not a participant, or the legal action is initiated by a participant and a court of competent jurisdiction specifically approves such advancement, and
- (c) The sponsor or its affiliates undertake to repay the advanced funds to the program, together with the applicable legal rate of interest thereon, in cases in which such party is found not to be entitled to indemnification.

J. Arbitration Provisions. The program agreement may contain provisions relating to the use of arbitration as a means of dispute resolution; provided however, it may not require arbitration for allegations involving breach of contract, negligence, violations of state and federal securities laws, breach of fiduciary duty or other misconduct by the sponsor, nor shall it provide for mandatory venue. Program agreements which contain arbitration provisions shall prominently disclose such fact on the cover page of the program agreement. Allocation of the cost of arbitration may be made a matter for determination in the proceedings. This Section II.J. should not be interpreted to prohibit separate arbitration agreements between sponsors and participants if the agreements are not a condition of making an investment in the program.

III. SELLING OF UNITS AND SALES MATERIALS. A. *Sales of Units* 1. Compensation to all broker-dealers shall be a cash commission. Compensation of an indeterminate nature to broker-dealers for sales of program units, or for services of any kind rendered in connection with or related to the distribution of program units, including, but not necessarily limited to, a percentage of a management fee, a profit sharing arrangement, overriding royalty interest, net profit interest, percentage of revenues, reversionary interest, working interest or other similar incentive items shall be prohibited.

2. Compensation to wholesale dealers must be a cash commission, must be reasonable and must be fully disclosed.

3. Sales commissions based on assessment of units or unfunded capital contributions are prohibited.

4. The sale of units in a program together with shares, options to purchase shares or other securities issued by the sponsor or another issuer will not be permitted unless such other securities, viewed separately, satisfy the requirements otherwise applicable to their registration.

B. *Sales Material*. 1. Supplementary materials (including prepared presentations for group meetings) must be submitted to the Administrator in advance of use, and its use must either be preceded by or accompanied with an effective prospectus.

2. *Sales Literature*. Sales literature, including without limitation, books, pamphlets, movies, slides, article reprints, and television and radio commercials, sales presentations (including prepared presentations to prospective participants at group meetings) and all other advertising used in the offer or sale of units shall conform in all applicable aspects to filing, disclosure and adequacy requirements currently imposed on the sale of corporate securities under applicable regulations. When periodic or other reports, except those required by and filed with the Securities and Exchange Commission, furnished to participants in prior programs are furnished to prospective participants in a program not yet sold, such reports will be treated as sales literature subject to the above requirements. Statements made in sales literature may not conflict with, or

significantly modify, risk factors or other statements made in the prospectus. Sales literature shall not be so excessive in size or amount as to detract from the prospectus, nor shall any sales literature be used by securities broker-dealers or agents unless such literature has been approved by the sponsor in writing and incorporates, if the Administrator so requests, disclosure of the participant suitability standards imposed by Section IV of these guidelines.

3. *Group Meetings.* All advertisements of, and oral or written invitations to "seminars" or other group meetings at which units are to be described, offered or sold shall clearly indicate that the purpose of such meeting is to offer such units for sale, the minimum purchase price thereof, the suitability standards to be employed, and the name of the person selling the units. No cash, merchandise or other items of value shall be offered as an inducement to any prospective participants to attend any such meeting. All written or prepared audio-visual presentations (including scripts prepared in advance for oral presentations) to be made at such meetings must be submitted to the Administrator within a prescribed review period. The provisions of this section shall not apply to meetings consisting only of representatives of securities broker-dealers.

4. *Prohibited Representations:*

- (a) In connection with the offering and sale of interests in a program, neither the sponsor(s) nor the underwriter(s) may, in writing or otherwise, directly or indirectly, represent or imply that an Administrator has approved the merits of the investment or any aspects thereof.
- (b) Any reference to the program's compliance with these guidelines or any provisions herein which connotes or implies such approval shall be deemed to be in noncompliance with paragraph (a) of this subsection.

IV. SUITABILITY OF PARTICIPANTS

A. *General Policy.*

1. The sponsor shall establish minimum income and net worth standards for persons who purchase program interests.
2. The sponsor shall propose minimum income and net worth standards which are reasonable given the type of program and the risks associated with the purchase of program interests. Programs with greater investor risk shall have minimum standards with a substantial net worth requirement. The Administrator shall evaluate the standards proposed by the sponsor when the program's application for registration is reviewed. In evaluating the proposed standards, the Administrator may consider the following:
 - (a) the program's use of leverage;
 - (b) tax implications;
 - (c) mandatory deferred payments;
 - (d) assessments;
 - (e) potential variances in cash distributions;
 - (f) potential participants;
 - (g) relationship between potential participants and the sponsor;
 - (h) liquidity of program interests;
 - (i) performance of sponsor's prior programs;
 - (j) financial condition of the sponsor;
 - (k) potential transactions between the program and the sponsor; and
 - (l) any other relevant factors.

B. *Income and Net Worth Standards.*

1. For income programs or programs that utilize at least 90% of capital contributions and funds borrowed (excluding organization and offering expenses) in providing completion financing, debt financing, or making other types of oil and gas investments, unless the Administrator determines that the risks associated with the program would require lower or higher standards, each participant shall have:
 - (a) a minimum annual gross income of \$70,000 and a minimum net worth of \$70,000; or
 - (b) a minimum net worth of \$250,000.

2. For drilling programs which provide the participant with statutory protection against unlimited liability, unless the Administrator determines the risks associated with the program would require lower or higher standards, each participant shall have:
 - (a) a minimum annual gross of income of \$85,000 and a minimum net worth of \$85,000; or
 - (b) a minimum net worth of \$330,000.

3. For drilling programs which do not provide the participant with statutory protection against unlimited liability, unless the Administrator determines that the risks associated with the program would require lower or higher standards, each participant shall have:
 - (a) a minimum net worth of \$330,000, without regard to the investment in the program, and a minimum annual gross income of \$150,000 for the current year and for the two previous years; or
 - (b) a minimum net worth in excess of \$1,000,000, inclusive of home, home furnishings and automobiles; or
 - (c) a minimum net worth of \$750,000; or
 - (d) a minimum annual gross income of \$200,000 in the current year and the two previous years.

4. Unless otherwise specified, net worth shall be determined exclusive of home, home furnishings, and automobiles.

5. In the case of sales to fiduciary accounts, these minimum standards shall be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the program interests if the donor or grantor is the fiduciary.

6. The sponsor shall set forth in the final prospectus:
 - (a) the investment objectives of the program;
 - (b) a description of the type of person who might benefit from an investment in the program; and
 - (c) the minimum standards imposed on each participant in the program.

C. *Determination that Sale to Participant is Suitable and Appropriate.*

1. The sponsor and each person selling program interests on behalf of the sponsor or program shall make every reasonable effort to determine that the purchase of program interests is a suitable and appropriate investment for each participant.

2. In making this determination, the sponsor and each person selling program interests on behalf of the sponsor or program shall ascertain that the prospective participant:
 - (a) meets the minimum income and/or net worth standard established for the program;
 - (b) can reasonably benefit from the program based on the prospective participant's overall investment objectives and portfolio structure;
 - (c) is able to bear the economic risk of the investment based on the prospective participant's overall financial situation; and
 - (d) has apparent understanding of:
 - (1) the fundamental risks of the investment;
 - (2) the risk that the participant may lose the entire investment;
 - (3) the lack of liquidity of program interests;
 - (4) the restrictions on transferability of program interests;
 - (5) the background and qualifications of the sponsor or the persons responsible for directing and managing the program;
 - (6) the tax consequences of the investment; and
 - (7) the unlimited liability associated with working interest or general partnership offerings.
3. The sponsor or each person selling program interests on behalf of the sponsor or program will make this determination on the basis of information it has obtained from a prospective participant. Relevant information for this purpose will include at least the age, investment objectives, investment experience, income, net worth, financial situation, and other investments of the prospective participant, as well as any other pertinent factors.
4. The sponsor or each person selling program interests on behalf of the sponsor or program shall maintain records of the information used to determine that an investment in program interests is suitable and appropriate for each participant. The sponsor or each person selling program interests on behalf of the sponsor or program shall maintain these records for at least six years.
5. The sponsor shall disclose in the final prospectus the responsibility of the sponsor and each person selling program interests on behalf of the sponsor or program to make every reasonable effort to determine that the purchase of program interests is a suitable and appropriate investment for each participant, based on information provided by the participant regarding the participant's financial situation and investment objectives.

D. *Subscription Agreements.*

1. The Administrator may require that each participant complete and sign a written subscription agreement.
2. The sponsor may require that each participant make certain factual representations in the subscription agreement, including the following:
 - (a) The participant meets the minimum income and net worth standards established for the program.
 - (b) The participant is purchasing the program interests for his or her own account.
 - (c) The participant has received a copy of the prospectus.
 - (d) The participant acknowledges that the investment is not liquid.
3. The participant must separately sign or initial each representation made in the subscription agreement. Except in the case of fiduciary accounts, the participant may not grant any person a power of attorney to make such representations on his or her own behalf.

4. The sponsor and each person selling program interests on behalf of the sponsor or program shall not require a participant to make representations in the subscription agreement which are subjective or unreasonable and which:
 - (a) might cause the participant to believe that he or she has surrendered rights to which he or she is entitled under federal or state law; or
 - (b) would have the effect of shifting the duties regarding suitability, imposed by law on broker-dealers, to the participant.
5. Prohibited representations include, but are not limited to the following:
 - (a) The participant understands or comprehends the risks associated with an investment in the program.
 - (b) The investment is a suitable one for the participant.
 - (c) The participant has read the prospectus.
 - (d) In deciding to invest in the program, the participant has relied solely on the prospectus, and not on any other information or representations from other persons or sources.
6. The sponsor may place the content of the prohibited representations in the subscription agreement in the form of disclosures to the participant. The sponsor may not place these disclosures in the participant representation section of the subscription agreement.

E. *Completion of Sale.*

1. The sponsor or any person selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM may not complete a sale of PROGRAM INTERESTS to a PARTICIPANT until at least five business days after the date the PARTICIPANT receives a final prospectus.
2. The sponsor or the person designated by the sponsor shall send each participant a confirmation of his or her purchase.

F. *Minimum Investment.*

The Administrator may require a minimum initial and subsequent cash investment amount.

V. FEES, COMPENSATION AND EXPENSES. A. *Organization and Offering Expenses, and Management Fees.*

1. All organization and offering expenses incurred in order to sell program units shall be reasonable, and the total of those organization and offering expenses, which may be charged to the program, plus any management fee, which may be charged by the sponsor, shall not exceed 15% of the initial subscriptions.

2. Commissions payable on the sale of program units shall be paid in cash solely on the amount of initial subscriptions. Payment of commissions in the form of overriding royalties, net profit interests or other interests in production will not be approved, except that no objection will be raised to the payment of commissions in the form of interests in the program, provided the amount does not exceed that purchasable by applying the aggregate cash commission allowable to the unit offering price.

3. All items of compensation to underwriters or dealers, including, but not limited to, selling commissions, expenses, rights of first refusal, consulting fees, finders' fees and all other items of compensation of any kind or description paid by the program, directly or indirectly, shall be taken into consideration in computing the amount of allowable selling commissions.

B. *Compensation.* The participation in program revenues by the sponsor and any affiliate shall be reasonable, taking into account all relevant factors. Overriding royalty interests will be looked upon with disfavor. Subject to Section II.F.1 of these guidelines, the sponsors' interests in revenues will be considered reasonable if they meet the standards set forth below. Any other combination of fees, carried interests, or interests subordinate to pay out to the public investors, which can be demonstrated to provide participants equal or more favorable terms of participation in the program, may also be considered reasonable by the Administrator.

1. *Drilling Programs: Functional Allocation.*

- (a) Where the sponsor agrees to pay the capital expenditures of the program, but in any case at least 10% of the capital contributions to the program (including any capital contributions from the sponsor or any of its affiliates), its share of revenues will be determined by the following formula: (1) If the agreement is to pay capital expenditures but in any case a sum of not less than 10% of the capital contributions to the program (including any capital contributions from the sponsor or any of its affiliates), the sponsor will be entitled to receive 25% of program revenues; (2) the sponsor's revenue sharing may be increased in additional increments of 1% for each additional 1% increase in the percentage of capital contributions to the program (including any capital contributions from the sponsor or any of its affiliates) actually made by the sponsor up to a maximum of 50% of revenues subject to sponsor's agreement to pay in any case all capital expenditures.
- (b) The aforesaid arrangement to pay capital expenditures refers to and includes capital expenditures for the drilling and completing of wells during the life of the program, but does not include capital expenditures for facilities downstream of a wellhead. If the sponsor should enter into a farmout or other arrangements through which only the sponsor is relieved of its obligations to pay for such capital expenditures, then the sponsor's share of revenue shall be proportionately reduced, the amount to be determined on an individual basis.
- (c) In order to elect a sharing agreement as above provided, the sponsor must have a net worth of \$300,000 or 10% of the total contributions to the program by the participants, whichever is greater, and must be under a contractual obligation to pay its share of expenses as such expenses are paid by the program and to complete its minimum financial commitment to the program by the payment of cash by the end of the first fiscal year succeeding the fiscal year in which the program commenced operations. Any additional contributions made by the sponsor will be used to pay program expenses which would otherwise be charged to the participants; provided however, the sponsor may receive credit for the amount of such payments against any subsequent capital expenditure incurred by the program and allocated to the sponsor.
- (d) For the purposes of this subsection, if a well is not abandoned within 60 days following the commencement of production, then it shall be deemed to be a commercial well insofar as the program is concerned and the sponsor may not recapture its capital expenditures from the program, which otherwise would be treated as noncapital expenditures upon abandonment. As used herein, production shall refer to the commencement of the commercial marketing of oil and gas and shall not include any spot sales of oil or gas produced as a result of testing procedures. All revenues from a well abandoned under this subsection shall be allocated pro rata to those persons bearing the costs of such well.
- (e) The sharing arrangement set forth in this subsection shall not be considered presumptively reasonable: (1) in the case of sharing arrangements in which the

sponsor pays all development costs and exploratory wells are drilled on prospects which cannot reasonably be expected to require developmental drilling if the exploratory drilling is successful, or (2) in the case of sharing arrangements where the sponsor does not pay its share or category of costs on a current basis.

2. *Drilling Programs: Subordinate Interest.* As an alternative to sharing revenues on a basis related to costs paid, it will be considered reasonable for a sponsor of a drilling program to receive a promotional interest in the form of a subordinated interest in program distributions. A subordinated interest will be considered presumptively reasonable if it does not exceed 25% of program distributions after the participants have been distributed an amount equal to their capital contribution.

At such time as the sponsor is entitled to receive its promotional interest, it shall also be allocated and pay program costs in the same ratio as it participates in program revenues.

3. *Drilling Programs: Other Alternatives.* A sponsor who is allocated and pays at least 1% of all program costs as incurred (excluding organizational and offering expenses, and management fees) may receive 11% of program revenues plus an additional percentage of program revenues equal to the additional percentage of program costs which it pays in excess of 1%, up to a maximum of 50% of program revenues. The sponsor must be allocated and pay operating expenses, direct costs and administrative costs in the same ratio as they participate in program revenues.

4. *Prospect Origination Services of the Sponsor.* The sharing arrangements for drilling programs set forth in Section V.B. shall not be considered presumptively reasonable for a sponsor who does not actively participate in obtaining a significant portion of the program's prospects and who does not assume management responsibility for drilling, completing, equipping and operating a significant portion of a program's wells, unless such sponsor shall satisfactorily demonstrate that its compensation together with the costs of procuring such services for the program from third parties does not exceed the permissible compensation to the sponsor set forth in this Section V.B. For purposes of these guidelines, a sponsor shall be deemed to be actively participating in obtaining a significant portion of a program's prospects if the sponsor has in-house or under contract the technical capability of originating and/or fully evaluating the prospects to be acquired by that program. "Prospect origination" is the process of formulating a geological or geophysical concept and negotiating for the acquisition of a sufficient acreage interest in the area to warrant drilling and testing. "Prospect evaluation" is the process of determining the viability of a prospect which has been originated by a third party.

A sponsor must describe in adequate detail in the offering documents the nature of the sponsor's capability to originate and/or evaluate the prospects the sponsor intends to transfer to a program. If the capability is in-house, the "Operation" Section of the offering documents should have a full discussion of the process by which such origination and evaluation will take place and the "Management" Section of those documents should include a biographical discussion of the key personnel of the sponsor performing these activities. If the capability is to be provided by third parties under contract to the sponsor, the third parties should be identified, their qualifications described, and the contractual nature of the arrangement between the sponsor and the third party should be fully disclosed. This should include a detailed discussion of the administrative process involved in the relationship. It will be deemed presumptively unreasonable, in the latter instance,

if the contracts do not provide the program with comparable capabilities to those that would be provided if the sponsor's capability was in-house, including, among other things, availability of technical expertise and the provisions of adequate response time. Unless the sponsor can adequately demonstrate the availability of such capability, it will not be permitted to elect any of the sharing of costs and revenues described in the guidelines.

5. *Income or Production Purchase Programs.* An interest in the program will be allowed as a promotional interest provided that the amount or percentage of such interest is reasonable. Such an interest will generally be presumed reasonable if it is within the limitations expressed below:

- (a) Where the sponsor does not maintain a technical staff which has the necessary capability and experience to originate, evaluate and consummate property acquisitions without substantial third party assistance, the sponsor may take a fully participating 3% carried interest until participants have received cash distributions in an amount equal to their capital contributions after which the sponsor may take up to a fully participating 5% carried interest.
- (b) Where the sponsor maintains a technical staff which has the necessary capability and experience and will in fact originate, evaluate and consummate property acquisitions without substantial third party assistance, the sponsor may take:
 - (1) a fully participating 10% carried interest, or
 - (2) a fully participating 1% carried interest until participants have received cash distributions in an amount equal to their capital contributions after which the sponsor may take up to a fully participating 20% carried interest.

6. *Operator Services.* If the sponsor or one of its affiliates reserves the right to be designated as operator of any property acquired by the program, the prospectus must disclose the extent of the sponsor's or affiliate's operating experience and capabilities. Operator services may not be provided unless the sponsor or the affiliate has substantial operating experience. If the sponsor or an affiliate is designated as operator of any property acquired by the program, such services must be performed pursuant to a model form operating agreement issued by the American Association of Petroleum Landmen and an accounting procedure for joint operations issued by the Council of Petroleum Accountants Societies of North America, or other form of agreement acceptable to the Administrator, all in a form which is customary and usual for the geographic area in which the properties are located. In no event shall any consideration received for operator services be in excess of the competitive rate or duplicative of any consideration or reimbursements received pursuant to the program agreement. The sponsor may not benefit by interpositioning itself between the program and the actual provider of operator services.

7. *Drilling Contractor Services.* If the sponsor or one of its affiliates reserves the right to act as contractor in connection with the drilling of program wells, the prospectus must disclose the extent of the sponsor's or affiliate's contracting experience and capabilities. Contracting services may not be provided unless the sponsor or the affiliate, or their principals, has substantial contracting experience. The prospectus must disclose the material terms pursuant to which contractor services may be provided and if there is a separate contract to be utilized in connection with such services a copy of the form of such contract must accompany the registration application. Turnkey drilling contracts or other contracts with the sponsor or an affiliate of the sponsor that establish a fixed price for drilling services shall not be permitted. The sponsor or affiliate may guarantee cost estimates of subcontractors or provide indemnification against cost

overruns, provided no additional compensation is received by the sponsor or affiliate as a result of such guarantees or indemnification. The rates charged for drilling contractor services must be competitive with the rates charged by unaffiliated contractors in the same geographic region. With respect to subcontractor services provided by the sponsor or affiliate, there must be documentation, maintained for the life of the program, demonstrating compliance with Section V.B.8 below. The sponsor may not benefit by interpositioning itself between the program and the actual provider of drilling contractor services.

8. *Equipment, Supplies and Services.*

- (a) Neither the sponsor nor any affiliate shall render to the program any oil field, equipage or other services nor sell or lease to the program any equipment or supplies unless:
 - (1) such entity is engaged, independently of the program and as an ordinary and ongoing business, in the business of rendering such services or selling or leasing such equipment and supplies to a substantial extent to other persons in the industry in addition to programs in which the sponsor or its affiliates have an interest; and
 - (2) the compensation, price or rental therefore is competitive with the compensation, price or rental of other persons in the area engaged in the business of rendering comparable services or selling or leasing comparable equipment and supplies which could reasonably be made available to the program.
- (b) If such entity is not engaged in the business as required by Section V.B.8(a)(1) above, then such compensation, price or rental shall be the cost of such services, equipment or supplies to such entity, or the competitive rate which could be obtained in the area, whichever is less.

9. *Written Contracts.* All services for which the sponsor or any affiliate is to receive compensation shall be embodied in a written contract (which may be the program agreement) that specifically describes each service to be rendered and all compensation to be paid.

C. *Program Expenses.* 1. Administrative costs and other charges for goods and services must be fully supportable as to the necessity thereof and the reasonableness of the amount charged. All actual and necessary expenses incurred by the program may be paid out of capital contributions and out of program revenues.

2. Direct costs shall be billed directly to and paid by the program to the extent practicable.

3. The sponsor may be reimbursed for administrative costs, provided such costs are reasonably allocated to the program on the basis of assets, revenues, time records or other method conforming with generally accepted accounting principles. No portion of the salaries, benefits, compensation or remuneration of controlling persons shall be reimbursed as administrative costs. Controlling persons include directors, executive officers and those holding 5% or more equity interest in the sponsor or a person having power to direct or cause the direction of the sponsor, whether through the ownership of voting securities, by contract, or otherwise.

A description of the method to be used for allocating costs shall be clearly described in the prospectus and such allocations must be audited annually by the sponsor's independent certified

public accountants. The program agreement shall require the independent certified public accountants to provide written attestation annually, to be included as part of the program's annual report, that the method used to make allocations was consistent with the method described in the prospectus and that the total amount of costs allocated did not materially exceed the amounts incurred by the sponsor. If the sponsor subsequently decides to allocate expenses in a manner different from that described in the prospectus, such change must be reported to the participants together with an explanation of why such change was made and the basis used for determining the reasonableness of the new allocation method.

4. The program shall disclose in tabular form and estimate of expenses to be charged to the program showing direct costs and administrative costs separately, and the sponsor must demonstrate that it has a reasonable basis for such estimates. The estimate of direct costs and administrative costs shall be broken down into various types of services and costs. The following is the type of tabular disclosure which will be considered reasonable for disclosing estimated direct costs and administrative costs:

ESTIMATED PROGRAM EXPENSES

The sponsor estimates that direct costs and administrative costs allocable to the program for the first twelve months of operation will be approximately \$_____ if the minimum program capital is received (representing _____% of program capital) and approximately \$_____ if the maximum program capital is received (representing _____% of program capital). The sponsor estimates that the components of such allocable amounts will be as follows:

	Minimum Program	Maximum Program
<i>Administrative Costs:</i>		
Legal.....	\$.....	\$.....
Accounting.....
Geological.....
Secretarial.....
Travel.....
Office Rent.....
Telephone.....
Data Processing.....
Other (list).....
<i>Direct Costs:</i>		
External Legal.....
Audit Fees.....
Independent Engineering Reports.....
Outside Computer Services.....
Other (list).....
TOTAL.....	\$.....	\$.....

The procedures followed to determine the amounts of administrative costs to be allocated to the program are enumerated as follows:

- 1.
- 2.
- 3.
4. etc.

5. The prospectus shall disclose in tabular form for each program formed in the last three years the dollar amount of direct costs and administrative costs incurred, and the percentage of subscriptions raised reflected thereby.

6. The sponsor shall bear a percentage of direct costs and administrative costs equal to its percentage of revenue participation. A subordinate interest shall bear its percentage of direct costs and administrative costs from the time that the sponsor becomes eligible to receive its subordinated interest.

VI. PROPERTY TRANSACTIONS WITH AFFILIATES AND OTHER RESTRICTED ACTIVITIES. A. Sales and Purchase of Properties 1. Sales to Drilling Programs.

Neither the sponsor nor any affiliate, including an affiliated program, shall sell, transfer or convey any property to a drilling program, directly or indirectly, except pursuant to transactions that are fair and reasonable to the participants of the program and then subject to the following conditions:

- (a) The prospectus discloses the possibility that the sponsor or an affiliate may sell, transfer or convey property to the program and whether or not the property may be sold from an existing inventory.
- (b) The property is sold, transferred or conveyed to the program at cost, unless the seller or transferor has cause to believe that cost is materially more than the fair market value of such property, in which case such sale should be made for a price not in excess of its fair market value; provided however, if the sale, transfer or conveyance is from an affiliated program that has held the property for more than two years and in which program the interest of the sponsor is substantially similar to, or less than, its interest in the subject program, the sale, transfer or conveyance may be made at fair market value.
- (c) If the sponsor or an affiliate sells, transfers or conveys any oil, gas or other mineral interests or property to the program, it must, at the same time, sell to the program an equal proportionate interest in all its other property in the same prospect.
- (d) During a period of five years from the date of formation of the program, if the sponsor or any of its affiliates proposes to acquire an interest, from an unaffiliated person, in a prospect in which the program possesses an interest or in a prospect in which the program's interest has been terminated without compensation within one year preceding such proposed acquisition, the following conditions shall apply:
 - (1) If the sponsor or the affiliate does not currently own property in the prospect separately from the program, then neither the sponsor nor the affiliate shall be permitted to purchase an interest in the prospect.
 - (2) If the sponsor or the affiliate currently own a proportionate interest in the prospect separately from the program, then the interest to be acquired shall be divided between the program and the sponsor or the affiliate in the same proportion as is the other property in the prospect; provided however, if cash or financing is not available to the program to enable it to consummate a purchase of the additional interest to which it is entitled, then neither the sponsor nor the affiliate shall be permitted to purchase any additional interest in the prospect.

- (e) If the area constituting a program's prospect is subsequently enlarged to encompass any area wherein the sponsor or an affiliate of the sponsor owns a separate property interest, such separate property interest or a portion thereof shall be sold, transferred or conveyed to the program in accordance with this Section VI.A.1 if the activities of the program were material in establishing the existence of proved undeveloped reserves which are attributable to such separate property interest.
- (f) A sale, transfer or conveyance of less than all of the ownership of the sponsor or any of its affiliates in any lease interest or property is prohibited unless the interest retained by the sponsor or affiliate is a proportionate working interest, the respective obligations of the sponsor or affiliate and the program are substantially the same after the sale of the interest by the sponsor or affiliate and its interest in revenues does not exceed the amount proportionate to its retained working interest. The sponsor or affiliate may not retain any overrides or other burden on the interest conveyed to the program.
- (g) For purposes of Section VI.A.1(c), (d), (e) and (f) above, the terms "sponsor" and "affiliate" shall not include another program in which the interest of the sponsor is substantially similar to or less than its interest in the subject program.
- (h) If the program acquires property pursuant to a farmout or joint venture from an affiliated program, the sponsor's and/or its affiliates aggregate compensation associated with the property and any direct and indirect ownership interest in the property may not exceed the lower of the compensation and ownership interest the sponsor and/or its affiliates could receive if the property were separately owned or retained by either one of the programs.

2. *Sales to Production Purchase or Income Programs.* Neither the sponsor nor the affiliate, including an affiliated program, shall sell, transfer or convey any property to a production purchase or income program, directly or indirectly, except pursuant to transactions that are fair and reasonable to the participants of the program and then subject to the following conditions:

- (a) The prospectus discloses the possibility that the sponsor or an affiliate may sell property to the program and whether the property may be sold from an existing inventory.
- (b) If the property has been held for less than two years and there have not been significant expenditures made in connection with the property, the sale, transfer or conveyance to the program from the sponsor or an affiliate, other than an affiliated program in which the interest of the sponsor is substantially similar to or less than its interest in the subject program, must be at cost as adjusted for intervening operations, unless the sponsor has cause to believe that such adjusted cost is materially more than the fair market value of such property, in which case such sale must be made at fair market value.
- (c) If the property has been held for less than six months and there have not been significant expenditures made in connection with the property, the sale, transfer or conveyance to the program from an affiliated program, in which the interest of the sponsor is substantially similar to or less than its interest in the subject program, must be at cost as adjusted for intervening operations, unless the sponsor has cause to believe that such adjusted cost is materially more than the

fair market value of such property, in which case such sale must be made at fair market value.

- (d) In all other circumstances, the sale, transfer or conveyance to the program from the sponsor or an affiliate, including an affiliated program, must be made at not more than fair market value.

3. *Purchases from All Programs.* Neither the sponsor nor any affiliate, including affiliated programs, may purchase or acquire any property from the program, directly or indirectly, except pursuant to transactions that are fair and reasonable to the participants of the program and then subject to the following conditions:

- (a) A sale, transfer or conveyance, including a farmout, of an undeveloped property from the program to the sponsor or an affiliate, other than an affiliated program, must be made at the higher of cost or fair market value.
- (b) A sale, transfer or conveyance of a developed property from the program to the sponsor or an affiliate, other than an affiliated program in which the interest of the sponsor is substantially similar to or less than its interest in the subject program, shall not be permitted except in connection with the liquidation of the program and then only at fair market value.
- (c) Except in connection with farmouts or joint ventures made in compliance with Section VI.A.1(h) above, a transfer of an undeveloped property from a program to an affiliated drilling program must be made at fair market value if the property has been held for more than two years. Otherwise, if the sponsor deems it to be in the best interest of the program, the transfer may be made at cost.
- (d) Except in connection with farmouts or joint ventures made in compliance with Section VI.A.1(h) above, a transfer of any type of property from a program to an affiliated production purchase or income program must be made at fair market value if the property has been held for more than six months or there have been significant expenditures made in connection with the property. Otherwise, if the sponsor deems it to be in the best interest of the program, the transfer may be made at cost as adjusted for intervening operations.

4. *Determination of Fair Market Value.* A determination of fair market value as required by the provisions of this Section VI must be supported by an appraisal from an independent expert. Such opinion and any associated supporting information must be maintained in the program's records for at least six years.

B. *Custody of Program Funds and Properties.* 1. Funds of a program must not be commingled with funds of any other entity and the prospectus and program agreement must clearly prohibit any such commingling. Notwithstanding the above, the sponsor may establish a master fiduciary account pursuant to which separate subtrust accounts are maintained for the benefit of affiliated programs, provided, the program's funds are protected from the claims of such other programs and their creditors. The prohibition of this Section VI.B.1 shall not apply to investments meeting the requirements of Section VI.B.4 below.

2. Advance payments to the sponsor or its affiliates are prohibited, except where necessary to secure tax benefits of prepaid drilling costs. These payments, if any, shall not include nonrefundable payments for completion costs prior to the time that a decision is made that the

well or wells warrant a completion attempt.

3. Program properties may be held in the names of nominees temporarily to facilitate the acquisition of properties and for similar valid purposes. On a permanent basis, program properties may be held in the name of a special nominee entity organized by the sponsor provided the nominee's sole purpose is the holding of record title for oil and gas properties and it engages in no other business and incurs no other liabilities. If properties are held in the name of a special nominee, either a ruling from the Internal Revenue Service or an opinion of qualified tax counsel shall be obtained to the effect that such arrangement shall not change the ownership status of the program for federal income tax purposes.

4. Program funds may not be invested in the securities of another person except in the following instances:

- (a) investments in working interests or undivided lease interests made in the ordinary course of the program's business;
- (b) temporary investments made in compliance with Section VI.B.5;
- (c) multi-tier arrangements meeting the requirements of Section VI.C.1;
- (d) investments involving less than 5% of program capital which are a necessary and incidental part of a property acquisition transaction; and
- (e) investments in entities established solely to limit the program's liabilities associated with the ownership or operation of property or equipment, provided, in such instances duplicative fees and expenses shall be prohibited.

5. Until proceeds from the public offering are invested in the program's operations, such proceeds may be temporarily invested in income producing short-term, highly liquid investments, where there is appropriate safety of principal, such as U.S. Treasury Bills. Any such income shall be allocated pro rata to the participants providing such capital contributions.

6. Any proceeds of the public offering of a drilling program not used, or committed for use, as evidenced by a written agreement, in the program's operations within one year of the closing of the offering, except for necessary operating capital, must be distributed pro rata to the participants as a return of capital, and the sponsor shall reimburse the participants for selling, management fees and offering expenses allocable to the return of capital.

7. If a production purchase program sponsor has not used, or committed for use, as evidenced by a written agreement, an amount equal to 100% of the net proceeds of the public offering for property acquisitions within two years of the closing of the offering, any excess proceeds, except for necessary operating capital and amounts reserved for identified activities, must be distributed pro rata to the participants as a return of capital, and the sponsor shall reimburse the participants for selling, management fees and offering expenses allocable to the return of capital.

C. *Other Restricted and Prohibited Activities.* 1. Programs structured to participate in other partnerships or joint ventures (multi-tier arrangements) shall be permitted provided that the terms of any such arrangements do not result in the circumvention of any of the requirements or prohibitions contained in these guidelines. In particular, all such program agreements shall accompany the prospectus and shall contain provisions which assure:

- (a) that there will be no duplication or increase in organization and offering expenses, sponsor's compensation, program expenses or other fees and costs;
 - (b) there will be no substantive alteration in the fiduciary and contractual relationship between the sponsor and the participants; and
 - (c) there will be no diminishment in the voting rights of the participants.
2. A sponsor or affiliate shall not take any action with respect to the assets or property of the program which does not primarily benefit the program, including among other things;
- (a) the utilization of program funds as compensating balances for its own benefit, and
 - (b) the commitment of future production.
3. All benefits from marketing arrangements or other relationships affecting property of the sponsor or affiliate and the program shall be fairly and equitably apportioned according to the respective interests of each
4. Any agreements or arrangements which bind the program must be fully disclosed in the prospectus.
5. Anything to the contrary notwithstanding, a sponsor or affiliate may never profit by drilling in contravention of his fiduciary obligation to the participants.
6. No loans may be made by the program to the sponsor or any affiliate of the sponsor.
7. On loans made available to the program by the sponsor or affiliate, the sponsor or affiliate may not receive interest in excess of its interest costs, nor may the sponsor or affiliate receive interest in excess of the amounts which would be charged the program (without reference to the sponsor's financial abilities or guaranties) by unrelated banks on comparable loans for the same purpose, and the sponsor or affiliate shall not receive points or other financing charges or fees, regardless of the amount.
8. No rebates or give-ups may be received by the sponsor or any affiliate nor may the sponsor or any affiliate participate in any reciprocal business arrangements which would circumvent these guidelines.
- VII. FARMOUTS, SPECIAL DISCLOSURE REQUIREMENTS.** A. The prospectus shall contain the definition of farmout and no other term shall be used to describe a farmout transaction.
- B. The prospectus shall state the circumstances under which the sponsor may farmout a prospect or lease, the ability to farmout to other public programs of the sponsor or its affiliates and any limitations on the ability to farmout to such public programs.
- C. The prospectus shall state that no program lease will be farmed out, sold or otherwise disposed of unless the sponsor, exercising the standard of a prudent operator, determines:
- 1. the program lacks sufficient funds to drill on the leases and cannot obtain suitable alternative financing for such drilling; or

2. the leases have been downgraded by events occurring after assignment to the program so that drilling would no longer be desirable for the program; or
3. drilling on the leases would result in an excessive concentration of program funds creating in the sponsor's opinion undue risk to the program; or
4. the best interests of the program would be served by the farmout.

D. The prospectus shall state that the decision with respect to making a farmout and the terms of a farmout to a program involve conflicts of interest, as the sponsor may benefit from cost savings and reduction of risk, and in the event of a farmout to an affiliated public program, the sponsor will represent both partnerships.

E. Except as required by Section VI.A.1, the prospectus shall state that the program shall acquire only those leases that are reasonably acquired for the stated purpose of the program and no leases shall be acquired for the purpose of subsequent sale or farmout, unless the acquisition of such leases by the program is made after a well has been drilled to a depth sufficient to indicate that such an acquisition is believed to be in the best interests of the program.

F. The prospectus shall state that the sponsor shall not farmout a lease for the primary purpose of avoiding payment of sponsor's costs relating to drilling a lease or prospect.

VIII. RIGHTS AND OBLIGATIONS OF PARTICIPANTS. A. *Meetings.* Meetings of the participants may be called by the sponsor or by participants holding 10% or more of the then outstanding units for any matters for which the participants may vote as set forth in the program agreement. Such call for a meeting shall be deemed to have been made upon receipt by the sponsor of a written request from holders of the requisite percentage of units stating the purposes(s) of the meeting. The sponsor shall deposit in the United States mails within 15 days after receipt of said request, written notice to all participants of the meeting and the purpose of such meeting, which shall be held on a date not less than 30 nor more than 60 days after the date of mailing of said notice, at a reasonable time and place. Provided however, that the date for notice of such a meeting may be extended for a period of up to 60 days, if in the opinion of the sponsor such additional time is necessary to permit preparation of proxy or information statements or other documents required to be delivered in connection with such meeting by the Securities and Exchange Commission or other regulatory authorities. Participants shall be granted the right to vote in person or by proxy.

B. *Annual and Periodic Reports.* The program agreement shall provide for the transmittal to each participant of an annual report within 120 days after the close of the fiscal year, and commencing with the year following investment of substantially all the program subscriptions, a report within 75 days after the end of the first six months of its fiscal year, containing, except as otherwise indicated, at least the following information:

- (a) Financial statements, including a balance sheet and statements of operations, partners' equity and cash flows prepared in accordance with generally accepted accounting principles and accompanied by a report of an independent certified public accountant stating that his audit was made in accordance with generally accepted auditing standards and that in his opinion such financial statements present fairly the financial position, results of operations, partners' equity and cash flows in accordance with generally accepted accounting principles, except that semiannual reports need not be audited.
- (b) A summary itemization, by type and/or classifications of the total fees and compensation, including any administrative cost reimbursements and operating

fees, paid by the program, or indirectly on behalf of the program, to the sponsor and affiliates of the sponsor together with the accountant's attestation as required by Section V.C of these guidelines. If compensation is paid on a subordinated interest, a reconciliation of all such payments to the conditions precedent and limitations thereto.

- (c) A description of each property in which the program owns an interest, including the cost, location, number of acres under lease and the interest owned therein by the program, except succeeding reports need contain only material changes, if any, regarding such property.
- (d) If a drilling program, a list of the wells drilled or abandoned by such program during the period of the report (indicating whether each of such wells has or has not been completed), and a statement of the cost of each well completed or abandoned. Justification shall be included for wells abandoned after production has commenced.
- (e) A description of all farmouts, farmins and joint ventures, made during the period of the report, including sponsor's justification for the arrangement and a description of the material terms.
- (f) If assessments have been made during any period covered by the report, then such report shall contain a detailed statement of such assessments and the application of the proceeds derived from such assessments.
- (g) With respect to a program which compensated the sponsor on a basis related to certain costs paid by the sponsor; (1) a schedule reflecting the total program costs, and where applicable, the costs pertaining to each prospect, the costs paid by the sponsor and the costs paid by the participants, (2) the total program revenues, the revenues received or credited to the sponsor and the revenues received or credited to the participants, and (3) a reconciliation of such expenses and revenues to the limitations prescribed.
- (h) Annually, beginning with the fiscal year succeeding the fiscal year in which the program commenced operations, a computation of the total oil and gas proved reserves of the program and dollar value thereof at then existing prices and of each participant's interest in such reserve value. The reserve computations shall be based upon engineering reports prepared by qualified independent petroleum consultants. In addition, there shall be included an estimate of the time required for the extraction of such reserves and the present worth of such reserves, with a statement that, because of the time period required to extract such reserves, the present value of revenues to be obtained in the future is less than if immediately receivable. In addition to the annual computation and estimate required, as soon as possible, and in no event more than 90 days after the occurrence of an event leading to reduction of such reserves of the program of 10% or more, excluding reduction as a result of normal production, sales of reserves or product price changes, a computation and estimate shall be sent to each participant.

2. By March 15 of each year, the general partner must furnish a report to each participant containing such information as is pertinent for tax purposes.

3. Programs which agree to make all relevant financial and engineering reports available to participants on request, will not be required to transmit to participants reports other than:

- (a) the annual reports required under subsection (1) above,

- (b) the reports for tax purposes required by subsection (2) above, and
- (c) a quarterly cash receipts and disbursements statement after the program commences its operational phase.

C. *Access to Program Records.*

1. The participants and/or their accredited representatives shall be permitted access to all records, of the program, after adequate notice, at any reasonable time and may inspect and copy any of them. The sponsor shall maintain and preserve during the term of the program and for four (4) years thereafter all accounts, books and other relevant program documents. Notwithstanding the foregoing, the sponsor may keep logs, well reports and other drilling data confidential for a reasonable period of time.
2. The limited partnership agreement, by-laws or other program agreement shall include the following provisions regarding access to the list of participants:
 - (a) An alphabetical list of the names, addresses and business telephone numbers of the participants of the program along with the number of program units held by each of them (the "participant list") shall be maintained as a part of the books and records of the program and shall be available for inspection by any participant or its designated agent at the home office of the program upon the request of the participant;
 - (b) The participant list shall be updated at least quarterly to reflect changes in the information contained therein;
 - (c) A copy of the participant list shall be mailed to any participant requesting the participant list within ten days of the request. The copy of the participant list shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the program;
 - (d) The purposes for which a participant may request a copy of the participant list include, without limitation, matters relating to participant's voting rights under the program agreement and the exercise of participants' rights under federal proxy laws; and
 - (e) If the sponsor of the program neglects or refuses to exhibit, produce, or mail a copy of the participant list as requested, the sponsor shall be liable to any participant requesting the list for the costs, including attorneys' fees, incurred by that participant for compelling the production of the participant list, and for actual damages suffered by any participant by reason of such refusal or neglect. It shall be a defense that the actual purpose and reason for the request for inspection or for a copy of the participant list is to secure the list of participants or other information for the purpose of selling such list or information or copies thereof, or of using the same for a commercial purpose other than in the interest of the applicant as a participant relative to the affairs of the program. The sponsor may require the participant requesting the participant list to represent that the list is not requested for a commercial purpose unrelated to the participant's interest in the program. The remedies provided hereunder to participants requesting copies of the participant list are

in addition to, and shall not in any way limit, other remedies available to participants under federal law, or the laws of any state.

D. *Admission of Participants.* 1. Upon the original sale of program units, the participants should be admitted as unit holders not later than 15 days after the release from escrow of participants' funds to the program, and thereafter participants should be admitted into the program not later than the last day of the calendar month in which their subscriptions were accepted by the program. Subscriptions shall be accepted or rejected by the program within 30 days of their receipt; if rejected, all funds shall be returned to the subscriber immediately.

2. The program shall amend its records at least once each calendar quarter to effect the substitution of substituted participants, although the sponsor may elect to do so more frequently. In the case of assignments, where the assignee does not become a substituted participant, the program shall recognize the assignment not later than the last day of the calendar month following receipt of notice of assignment and required documentation.

Restrictions on the assignment of units or the substitution of participants are generally disfavored and will be allowed only to the extent necessary to preserve the tax status of the partnership or the classification of program income for tax purposes and any restriction must be supported by opinion of counsel as to its legal necessity.

E. *Assessability and Defaults.* 1. In appropriate cases there may be a provision for assessability; provided however, that the maximum amount for voluntary assessments shall not exceed 100% of initial subscriptions and for mandatory assessments shall not exceed 25% of initial subscriptions, and provided further, that in no case shall the total of all assessments exceed 100% of initial subscriptions. All assessments shall be made solely for the purpose of conducting subsequent operations on prospects upon which evaluation had begun during a program's initial operations, or on leases sufficiently related to such prospects as to merit, in the sponsor's judgment, additional operations to fully develop those prospects. In such cases, the aggregate offering price of the units as set forth in the application for qualification shall include and show separately the basic unit offering price and the maximum amount of the assessment.

2. In the event of a default in all or a portion of the payment of assessments, the participant's percentage interest in the program represented by his unit should not be subject to forfeiture, but may be subject to a reasonable reduction for the failure of the participant to meet his commitment. Unless the sponsor agrees to pay all defaulted assessments, the nondefaulting limited partners shall have the first option to pay any defaulted assessments. Provisions which conform to the following will be considered reasonable.

(a) For voluntary assessments,

- (1) A proportionate reduction of the participant's percentage interest in revenues derived from the wells drilled and/or completed with the proceeds of the assessments based on the ratio of the participant's unpaid assessment to all capital contributions and assessments used for such drilling and/or completion, or
- (2) A subordination of the defaulting participant's right to receive revenues from the wells drilled and/or completed with the proceeds of the assessments until those nondefaulting participants who have paid the defaulting participant's assessment have received an amount of revenues from revenues of the program from such wells equal to 300% of the proportionate amount of the defaulted assessment which they paid.

- (b) For mandatory assessments,
- (1) A proportionate reduction of the participant's percentage interest in program revenues, based on the ratio of his unpaid assessment to all capital contributions and assessments, or
 - (2) A subordination of the defaulting participant's right to receive revenues from the program until those nondefaulting participants who have paid the defaulting participant's assessment have received an amount of revenues from all revenues of the program equal to 300% of the proportionate amount of the defaulted assessment which they paid, or
 - (3) Personal liability of a participant as to the amount defaulted upon. The sponsor may enforce such personal liability through a lien on the participant's program interest, which permits the sponsor to withhold and apply all revenues attributable to the participant to the payment of any delinquent assessment. For purposes of this subsection, voluntary assessments which a participant has committed to pay will be considered mandatory assessments.
- (c) In order to make any assessment, the sponsor shall include with the call for such assessment a statement of the purpose and intended use of the proceeds from such assessment, a statement of the reduction to be imposed for failure of the participant to meet the assessment, and to the extent practicable, a summary of pertinent geological data on the relevant properties to which the assessments relate and any other information material to a participant's decision to fund the assessment.
- (d) The above alternatives, set forth in (a) and (b), are not exclusive and other provisions demonstrated to be essentially equivalent to these alternatives may be permitted by the Administrator.

F. *Voting Rights of Participants.*

1. To the extent the law of the state of organization is not inconsistent, the program agreement must provide that a majority in interest of the then outstanding unit holders may, without the necessity for concurrence by the sponsor, vote to:
 - (a) Amend the program agreement; provided however, any such amendment may not increase the duties or liabilities of any participant or sponsor or increase or decrease the profit or loss sharing or required capital contribution of any participant or sponsor without the approval of such participant or sponsor. Furthermore, any such amendment may not affect the classification of program income and loss for federal income tax purposes without the unanimous approval of all participants;
 - (b) Dissolve the program;
 - (c) Remove the sponsor and elect a new sponsor;
 - (d) Elect a new sponsor if the sponsor elects to withdraw from the program;
 - (e) Approve or disapprove the sale of all or substantially all of the assets of the program; and
 - (f) Cancel any contract for services with the sponsor or any affiliate without

penalty upon 60 days notice.

2. With respect to any program units owned by the sponsor, the sponsor may not vote or consent on matters submitted to the participants regarding the removal of the sponsor or regarding any transaction between the program and the sponsor. In determining the requisite percentage in interest of program units necessary to approve a matter on which the sponsor may not vote or consent, any program units owned by the sponsor shall not be included.

G. Removal or Withdrawal of the Sponsor. 1. In the event the sponsor is removed in accordance with subsection F above, the incoming sponsor and the removed sponsor shall, by mutual agreement, select an independent expert to value the removed sponsor's interest in the program. In determining the value of the sponsor's interest, the independent expert will take into account appropriate discount factors in light of the risk of recovery of oil and gas reserves, and, in any event, will utilize a risk factor discount no less than that utilized in the most recent offer extended pursuant to Section IX.C of these guidelines (relating to cash redemptions), if any. The incoming sponsor, or the program, shall have the option to purchase at least 20% of the interests of the removed sponsor for the value determined by the expert.

The method of payment for such interest must be fair and must protect the solvency and liquidity of the program. Where the termination is voluntary, the method of payment will be deemed presumptively fair where it provides for a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the terminated sponsor otherwise would have received under the program agreement had the sponsor not been terminated. Where the termination is involuntary, the method of payment will be deemed presumptively fair where it provides for an interest bearing promissory note coming due in no less than five years with equal installments each year.

2. If the sponsor withdraws as sponsor and the participants elect to continue the program, the valuation procedure outlined in subsection 1 hereof applies. The sponsor may not voluntarily withdraw from the program prior to the program's completion of its primary drilling and/or acquisition activities, and then only after giving 120 days written notice. The sponsor may not partially withdraw its property interests held by the program unless such withdrawal is necessary to satisfy the bona fide request of its creditors or approved by a majority in interest vote of the participants. The sponsor must fully indemnify the program against any additional expenses which may result from a partial withdrawal of property interests and such withdrawal may not result in a greater amount of direct costs or administrative costs being allocated to the participants. The withdrawing sponsor shall pay all expenses incurred as a result of its withdrawal.

IX. MISCELLANEOUS PROVISIONS. A. *Minimum Program Capital.* The minimum amount of funds to activate a program shall be sufficient to accomplish the objectives of the program, including "spreading the risk". Any minimum less than 1,000,000 will be presumed to be inadequate to spread the risk of the public investors. In those instances where it appears unlikely that the stated objectives of the program can be achieved with the minimum subscriptions, the Administrator may require a greater amount or a reduction of the stated objectives of the program. Provision must be made for the return to public investors of one hundred percent (100%) of paid subscriptions in the event that the established minimum to activate the program is not reached. All funds received prior to activation of the program must be deposited in an interest bearing account with an independent custodian, trustee, or escrow agent

whose name and address shall be disclosed in the prospectus.

B. *Deferred Payment.* Arrangements for deferred payments on account of the purchase price of program interests may be allowed when warranted by the investment objectives of the partnership, but in any event such arrangements shall be subject to the following conditions:

1. The period of deferred payments shall coincide with the anticipated cash needs of the program, but the full amount of the purchase price shall be paid within nine (9) months of the date on which the program commences operations.
2. Selling commissions paid upon deferred payments are collectible when such payment is made.
3. The program shall not sell or assign the deferred payments.
4. Such deferred payments shall be contractually binding obligations of the buyer whether or not a promissory note is taken.
5. In the event of a default in the payment of any deferred payment when due, the participant's percentage interests in the program shall not be subject to forfeiture but may be subject to a reasonable reduction for failure of the participant to meet his commitment. Reduction provisions will be considered reasonable if they conform to the reduction provisions provided for in Section VIII.E.2(b) of these guidelines, relating to defaults of mandatory assessments.

C. *Cash Redemptions.* 1. When cash redemption values of units are computed, such values must be supported by an appraisal of properties prepared by an independent petroleum consultant within 120 days of the commencement date of such cash redemptions. Any evaluation by company personnel must be based on such independent appraisal. Any redemption must be for cash. No redemption shall be considered effective until after cash payments have been paid to the participants.

2. Provisions in the program agreement or other documents which require a participant to sell his unit or give the program or any other person the right to repurchase such unit, irrespective of the desire of the participant to sell, will not be approved unless the participant made misrepresentations which jeopardize the legal or tax status of the program.

D. *Appraisal and Compensation*

1. In connection with a proposed roll-up, an appraisal of all program assets shall be obtained from a competent independent expert. If the appraisal will be included in a prospectus used to offer the securities of a roll-up entity, the appraisal shall be filed with the Securities and Exchange Commission and the Administrator as an Exhibit to the Registration Statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under State law for any material misrepresentations or material omissions in the appraisal. Program assets shall be appraised on a consistent basis. The appraisal shall be based on all relevant information, including current reserve estimates prepared by an independent petroleum consultant, and shall indicate the value of the program's assets as of a date immediately prior to the announcement of the proposed roll-up transaction. The appraisal shall assume an orderly liquidation of program assets over a 12 month period. The terms of the engagement of the independent expert shall clearly state that the engagement is for the benefit of the program and its participants. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to the participants in connection with a proposed roll-up.

2. In connection with a proposed roll-up, the person sponsoring the roll-up shall offer the participants who vote "no" on the proposal the choice of:
 - (a) accepting the securities of the roll-up entity offered in the proposed roll-up;
or
 - (b) one of the following:
 - (1) remaining as participants in the program and preserving their interests therein on the same terms and conditions as existed previously; or
 - (2) receiving cash in an amount equal to the participants' pro-rata share of the appraised value of the net assets of the program.
3. The program shall not participate in any proposed roll-up which would result in the participants having democracy rights in the roll-up entity which are less than those provided under Sections VIII.A and VIII.F of these guidelines. If the roll-up entity is a corporation, the democracy rights of participants shall correspond to the democracy rights provided for in these guidelines to greatest extent possible.
4. The program shall not participate in any proposed roll-up which includes provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the roll-up entity (except to the minimum extent necessary to preserve the tax status of the roll-up entity). The program shall not participate in any proposed roll-up which would limit the ability of a participant to exercise the voting rights of its securities of the roll-up entity on the basis of the number of program units held by that participant.
5. The program shall not participate in any proposed roll-up in which participants' rights of access to the records of the roll-up entity will be less than those provided for under Section VIII.C of these guidelines,
6. The program shall not participate in any proposed roll-up in which any of the costs of the transaction would be borne by the program if the roll-up is not approved by participants.

E. *Reinvestment Plans.* 1. No offering will be approved by the Administrator that includes a provision which requires that the participant reinvest his share of distributable cash distributions.

2. If permitted under applicable securities laws, a program may make available to its participants a voluntary plan for systematic reinvestments in such program or in any other program if the terms of the plan are fair and reasonable to the participants.

3. To the extent it is economically feasible, money held for reinvestment must be placed in an income-producing account which provides an appropriate safety for the principal, and must be subject to withdrawal by the participant upon not less than 10 days notice. If the funds are not reinvested within 180 days of the date of distribution, they must be distributed, with such income, if any, to the participants.

4. No sales commissions may be deducted directly or indirectly from the reinvested funds.

F. *Distribution of Revenues.* From time to time and not less often than quarterly, the sponsor must review the program's accounts to determine whether cash distributions are appropriate. The program shall distribute pro rata to the participants funds received by the program and allocated

to their accounts which the sponsor deems unnecessary to retain in the program. In no event, however, shall funds be advanced or borrowed for purposes of distributions, if the amount of such distributions would exceed the partnership's accrued and received revenues for the previous four quarters, less paid and accrued operating costs with respect to such revenues. The determination of such revenues and costs shall be made in accordance with generally accepted accounting principles, consistently applied. Cash distributions from the program to the sponsor shall only be made in conjunction with distributions to participants and only out of funds properly allocated to the sponsor's account.

G. *Distributions in Kind.* The program agreement shall provide that any in kind property distributions to the participants will be made to a liquidating trust or similar entity for the benefit of the participants, unless at the time of the distribution:

- (1) the sponsor shall offer the individual participants the election of receiving in kind property distributions and the participants accept such offer after being advised of the risks associated with such direct ownership; or
- (2) there are alternative arrangements in place which assure the participants that they will not, at any time, be responsible for the operation or disposition of program properties.

X. **PROSPECTUS DISCLOSURE.** *A. Offerings Registered with the Securities and Exchange Commission.* With respect to offerings registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and registered or qualified with the Administrator, a prospectus which is part of a registration statement which has been declared effective by said Commission shall be deemed to comply with all requirements as to form; provided, however, the Administrator reserves the right to require additional disclosure in his discretion.

B. Offerings Not Registered with the Securities and Exchange Commission. 1. A prospectus which is not part of a registration statement filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933 shall generally conform to the disclosure requirements which would apply if the offering was registered with the Securities and Exchange Commission. The format and information requirements of Guides Two and Four promulgated by the Securities and Exchange Commission should be followed, with appropriate adjustments made for the different business objectives of the program.

2. At the minimum and in addition to the specific disclosures required by Sections II, III, IV, V, VI, VII and VIII of these guidelines, the following topics shall be thoroughly covered in the prospectus:

- (a) the definition of technical terms;
- (b) the suitability requirements of participants;
- (c) risk factors;
- (d) sponsor experience;
- (e) sponsor compensation;
- (f) use of proceeds;

- (g) proposed activities;
- (h) deferred payment and/or assessment policies;
- (i) property descriptions (if applicable);
- (j) prior performance information as required by Section X.C;
- (k) federal tax consequences;
- (l) plan of distribution;
- (m) legal proceedings involving the program, the sponsor or affiliates, if material;
- (n) conflicts of interest and possible transactions between the program and the sponsor or its affiliates; and
- (o) financial statements are required by Section X.B.3.

3. *Financial Statements.*

- (a) *The Program.* If the program is operational at the time the offering commences, the prospectus shall include complete financial statements prepared in accordance with generally accepted accounting principles and accompanied by an audit report from an independent certified public accountant. The financials shall include a balance sheet and statements of operations, partner's or shareholder's equity and cash flows. The statements must show financial results for the three most recent fiscal years (or period of existence, if less), and if the most recent fiscal year ended as of a date more than 90 days prior to the filing of the registration application, supplemental unaudited statements shall be included which show financial results for an interim period ending not more than 90 days prior to the filing of the application.
- (b) *The Sponsor.* The financial statements of the managing or controlling general partner and any guarantor, as, required by Section II.C of these guidelines, shall be included in the prospectus, except that individual managing or controlling general partners will not be required to disclose their statement of financial condition if the prospectus contains a representation of the amount of the individual's net worth and the prospectus discloses that the statement of financial condition is available for review by participants upon request.

C. *Prior Performance.* The prospectus shall contain a narrative summary of the "track record" or prior performance of programs sponsored by the sponsor and its affiliates containing at least the information set forth below.

The prior performance tables should be preceded by a narrative introduction with appropriate cross references. The narrative summary in the text should explain the significance of the track record disclosed in the tables and explain where additional information can be obtained.

Each table should be introduced by a brief narrative explaining the objective of the table and what it covers so that the investor will be able to understand the significance of the information presented. There also should be set forth with or in each table any further material information

that may be necessary to make the required tabular data, in light of the circumstances under which it is presented, not misleading. Information should be given for each prior program, public or nonpublic, with investment objectives similar to those of the program offered by the prospectus. If the sponsor has not sponsored at least five such programs, then information must be given for each prior program, public or nonpublic, even if the investment objectives for those programs are not similar to those of the program in question. In that case, programs with investment objectives that are not similar to those of the program should be grouped together according to the investment objective and information about those programs presented separately.

1. *Experience in Raising Funds.* Information presented shall include at least the following:
 - (a) the date each program commenced operations;
 - (b) the gross amount of capital raised by each program;
 - (c) the number of participants in each program; and
 - (d) the amount of the investment of the sponsor, if any.

2. *Experience in Investing Funds.* Information presented shall include at least the following:
 - (a) if the program is a drilling program, the drilling results of the program, including the number and classification (i.e., exploratory or development) of gross and net wells drilled and completed or abandoned;
 - (b) if the program is a production purchase program, the costs incurred in connection with the property acquisitions and the period during which the program was engaged in property acquisitions; or
 - (c) if the program has other investment objectives, then a description of the investments made or assets acquired and the period during which the program was engaged in making investments or acquiring assets.

3. *Operating Results and Prior Programs.* Information should be presented on the basis of generally accepted accounting principles. However, where information about non-public programs is included, such information may be presented on a tax basis if the program's books have not been kept in accordance with generally accepted accounting principles. If there are any significant differences between these methods in the operating results, they should be explained. This explanation should provide the reader with any additional information about the particular program presented that may be necessary to make the information contained in the table not materially misleading in light of the circumstances under which the information is given.

Information presented shall include the following:

- (a) any borrowings by the program;
- (b) total program revenues allocated;
- (c) total expenditures of the program for other than operating costs, administrative costs and direct costs;
- (d) total operating costs, administrative costs and direct costs, separately;

- (e) total cash distributed on a cumulative basis and for the last three months for which information is presented; and
- (f) the discounted present value, at a 10% discount rate, of future net cash flow associated with program reserves, if available, prepared by an independent petroleum consultant, in accordance with the Statement of Financial Accounting Standards (SFAS) Number 69, before tax, as of the latest practicable date, but in any event not more than 15 months prior to the date of the prospectus. The disclosure should also show the expected timing of revenues to be recognized from the sale of the reserves.

|D.| |sic|

E. *Demonstration of Guideline Compliance in Program Agreement.* The requirements and/or provisions of appropriate portions of the following sections shall be included in the program agreement: I.B. (Definitions); II.D., F., H., I. and J. (Sponsor Requirements); IV.F. (Participant Suitability Records); V.A.-C. (Fees, Compensation and Expenses); VI.A.-C. (Affiliated Transactions and Restricted Activities); V111.A—G. (Rights and Obligations of Participants); IX.B., C., D., E., F. and G. (Miscellaneous Provisions).

OIL AND GAS PROGRAMS GUIDELINES CROSS REFERENCE SHEET

Name of Applicant _____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
I.B. Definitions			
1. Administrative Costs	_____	_____	_____
2. Administrator	_____	_____	_____
3. Affiliate	_____	_____	_____
4. Assessments	_____	_____	_____
5. Capital Contributions	_____	_____	_____
6. Capital Expenditures	_____	_____	_____
7. Carried Interest	_____	_____	_____
8. Cost	_____	_____	_____
9. Cross Reference Sheet	_____	_____	_____
10. Development Well	_____	_____	_____
11. Direct Costs	_____	_____	_____
12. Exploratory Well	_____	_____	_____
13. Farmout	_____	_____	_____
14. Horizon	_____	_____	_____
15. Independent Expert	_____	_____	_____
16. Landowner's Royalty Interest	_____	_____	_____
17. Non-Capital Expenditures	_____	_____	_____
18. Operating Costs	_____	_____	_____
19. Organizational & Offering Expenses	_____	_____	_____
20. Overriding Royalty Interest	_____	_____	_____
21. Participant	_____	_____	_____
22. Person	_____	_____	_____
23. Production Purchase or Income Program	_____	_____	_____
24. Program	_____	_____	_____
25. Prospect	_____	_____	_____
26. Proved Reserves (a)(1) Proved Developed	_____	_____	_____

<u>Guideline Section</u>	<u>Section Number</u>	<u>Page Number</u>	<u>Endnote</u>
	<u>Program Agreement</u>	<u>Prospectus</u>	
Producing Reserves			
(a)(2) Proved Developed Non-Producing Reserves			
(b) Proved Undeveloped Reserves			
27. Roll-Up			
28. Roll-Up Entity			
29. Sponsor			
30. Subordinate Interest			
31. Working Interest			
II. Requirements of Sponsor			
A. Experience			
B. Net Worth			
1. (a) Limited Partnership Offerings: 5% of offering not to exceed \$2 million			
(b) General Partnership Offerings-\$5 million.			
C. Financial Statements			
D. Additional Requirements for General Partnerships and Working Interests Program			
1. Participant Indemnification			
2. Insurance Coverage			
3. Terms of indemnification agreement & insurance coverage			
E. Tax Ruling or Opinion			
F. Investment in Program			
G. Reports – Administrator			
H. Fiduciary Duty			
I. Liability &			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
Indemnification			
1.(a) course of conduct in best interest of program			
(b) services for program			
(c) not negligence or misconduct			
(d) payments only from tangible net assets			
2. Securities Law Violations if:			
(a) successful adjudication;			
(b) dismissed with prejudice			
(c) court approved and court advised of SEC and state regulatory agencies			
3. Prohibited insurance			
4. Advance of program funds for legal expenses			
(a) Performance of duties or services			
(b) Legal action initiated by third party who is not a participant			
(c) Undertake to repay if not entitled to indemnification			
III. Selling of Units & Sales Materials			
A. Sales of Units			
B. Sales Material			

IV. Suitability of Participants

B. Income & Net Worth Standards

- 1. Income Programs _____
- 2. Drilling Programs- Limited Liability _____
- 3. Drilling Programs- Unlimited Liability _____

C. Determination that Sale to Participant is Suitable & Appropriate

- D. Subscription Agreements _____
- E. Completion of Sale _____
- F. Minimum Investment _____

V. Fees, Compensation & Expenses

A. Organizational & Offering Expenses, and Management Fees

B. Compensation

1. Drilling Programs

(a) Sponsor Payment of Capital Expenditures of 10% then 25% of program revenues. Additional 1% for each 1% additional capital expenditure not exceeding 50% _____

(b) Facilities Downstream & Farmout Reduction _____

(c) Sponsor Net Worth _____

(d) Abandoned Well _____

(e) Reasonableness _____

2. Drilling Programs- Subordinate Interest of 25% of program distributions after _____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
investors receive capital contribution			
3. Drilling Programs (other alternatives)- 11% program revenues if pays 1% of all program costs. Additional 1% for each 1% of costs paid up to 50% maximum			
4. Prospect Origination Services by Sponsor			
5. Income or Production Purchase Programs			
(a) With no technical staff, 3% carried interest until 100% return, then 5%			
(b) 10% carried interest if technical staff or 1% until 100% then 20% carried interest			
6. Operator Services			
7. Drilling Contractor Services			
8. Equipment Supplies & Services			
9. Written Contract			
C. Program Expenses			
1. Administrative Costs and Other Charges			
2. Directly Paid by Program			
3. Reimbursement for administrative costs			
4.-6. Tabular Form			

VI. Property Transactions with Affiliates & Other Restricted Activities

A. Sales & Purchases of Properties

- | | | | |
|--|-------|-------|-------|
| 1. Drilling Programs | _____ | _____ | _____ |
| 2. Production Purchase or
Income Programs | _____ | _____ | _____ |
| 3. Purchases from All
Programs | _____ | _____ | _____ |
| 4. Fair Market Value | _____ | _____ | _____ |

B. Custody of Program Funds & Property

- | | | | |
|--|-------|-------|-------|
| 1. Commingling | _____ | _____ | _____ |
| 2. Advance Payments to
Sponsor | _____ | _____ | _____ |
| 3. Property Acquisitions | _____ | _____ | _____ |
| 4. Investment in
Securities | _____ | _____ | _____ |
| 5. Temporary
Investments | _____ | _____ | _____ |
| 6. Offering Proceeds-
Drilling Programs | _____ | _____ | _____ |
| 7. Offering Proceeds-
Production Purchase
Programs | _____ | _____ | _____ |

C. Other Restricted and Prohibited Activities

- | | | | |
|--|-------|-------|-------|
| 1. Multi-Tier
Arrangements | _____ | _____ | _____ |
| 2. Assets Benefit
Program | _____ | _____ | _____ |
| 3. Marketing & Relation-
ship Benefits
Apportionment | _____ | _____ | _____ |
| 4. Disclosure of Agree-
ments or Arrange- | _____ | _____ | _____ |

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
ments			
5. Drilling & Fiduciary Duty			
6. Loans to Sponsor/Affiliate			
7. Sponsor Loans to Programs			
8. Rebates/Give-ups			
VII. Farmouts			
A. Definition			
B. Disclosure of Circumstances/ Limitations			
C. Conditions to Farmout			
1. Insufficient Funds/ Financing			
2. Downgraded Leases			
3. Excessive Concentration of Funds			
4. Best Interest of Program			
D. Conflicts Disclosure			
E. Acquisition not for Farmout			
F. Farmout Covering Sponsor Drilling Cost			
VIII. Rights & Obligations			
A. Meetings			
B. Annual & Periodic Reports			
C. Access to Program Records			
D. Admission of Participants			

Name: _____

Title: _____

Signature _____

REGISTRATION OF PUBLICLY OFFERED CATTLE- FEEDING PROGRAMS

Adopted on September 17, 1980

PREFACE. Nothing contained in these *Guidelines* shall prevent a securities administrator from considering variations therefrom to be fully justified when viewed in the light of the facts of the entire offering.

PURPOSE. These *Guidelines* have been constructed with a threefold purpose:
To provide for uniform treatment of certain problem areas encountered in the analysis of registration of securities consisting of interests in cattle feeding ventures; by defining terms, establishing maximums and minimums, restrictions, prohibitions and requirements to set out in orderly form a policy which may be adopted by Administrators of States to formulate standards for the evaluation of cattle feeding ventures.
To assure industry that programs with plans of business falling within the bounds of these *Guidelines* are fair and reasonable, and that other plans of business not contemplated herein may be equally fair and reasonable.
To assure public investors that sponsors are adequately capitalized to perform their commitments and that success of the ventures will be fairly shared between investors and sponsors.

DEFINITIONS OF TERMS AS USED IN THE GUIDELINES. The following terms mean:

Affiliate: An affiliate of another person (any entity) means (a) any person directly or indirectly owning, controlling or holding power to vote ten percent or more of the outstanding voting securities of such other person; (b) any person ten percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other person; (c) any person directly or indirectly controlling, controlled by, or under common control with such other person; (d) any officer, director, partner, co-partner, or employee of such other person.

Pay-out: That point at which public investors have received a 100 percent return of their investment, before taxes, and without considering any tax deductions.

Sponsor: Any corporation, partnership or individual which originates, promotes and/or manages a cattle-feeding venture: for example, a general partner in a limited partnership set up for that purpose. An Attorney or accountant who only renders professional advice and services to a cattle-feeding venture shall not be deemed a sponsor only as a result of such advice and services.

Net Assets: Total assets less total liabilities.

Affiliate Dealings: Dealings in which feed is purchased, directly or indirectly, from the sponsor or an affiliate, or cattle are fed in feed lots owned by the sponsor or an affiliate; provided, however, the sale of proprietary feed supplements by an affiliate to independent feed lots shall not be deemed "affiliate dealings" if such sales are at prices

not greater than those in completely unrelated sales.

Custom Feeding: Includes the feeding of all cattle, other than those fed for publicly offered ventures and those fed for the account of the sponsor and/or any affiliate of the sponsor.

Administrator: The State Securities Administrator or Commissioner or other person designated under State law to approve or disapprove the application to register securities for sale in his jurisdiction.

Hedging: The sale of futures against a purchase of spots (cattle or other commodities) or the purchase of futures against commitments for spot purchases. Hedging is a medium through which offsetting commitments are employed to eliminate or minimize the impact of an adverse price movement on inventories or other previous commitments.

Speculation: Frequent movement in and out of the commodity futures market, holding either long or short positions, or both, without corresponding sales or purchases of commodities on the cash market.

Basic Feed Cost: Costs of the ration ingredients, plus the milling charge. This excludes the mark-up charge for yardage and management.

I. THE PLAN OF BUSINESS. The form of the business entity (herein sometimes referred to as the "venture") must be a limited partnership, or such other form of entity as to ensure that liability of public investors will be limited to the amounts of their respective investments, must provide adequate capitalization and investment in the venture by the sponsors and must reasonably assure the flow-through of tax deferral benefits to public investors.

- A. *Experience of Management.* At least one principal of the sponsor must have adequate experience in the cattle feeding business, including buying, selling, feeding and maintenance of beef cattle. Such experience must be of at least five years duration, with three of such years in feed lot operations exceeding 1,000 head capacity, and recently preceding the commencement of the publicly financed venture.
- B. *Capitalization of Sponsor and Investment by Sponsor.*
 - 1. The prospectus must contain audited financial statements of all sponsors which are corporations or partnerships indicating an ability to perform any commitment which is made in regard to the venture.
 - 2. The corporation or partnership; acting as a sponsor, must have a net worth sufficient to meet the requirements of the Ruling Branch of the Internal Revenue Service and have a favorable tax ruling, or an opinion of qualified tax counsel (acceptable to the administrator), assuring flow-through of tax benefits to the public investor.
 - 3. The sponsor must purchase for cash a minimum of \$100,000 in participation interests (which will be treated equally with investments by

public investors) in any entity which offers its cattle feeding interests to the public. If the aggregate offering of the equity (less underwriting discounts and commissions) is less than \$1,000,000, the sponsor may, in lieu of this requirement, purchase 10% of the offering, less underwriting discounts and commissions. In either case, the sponsor's required investment in participation interests may be reduced by 10% for each \$35,000 in tangible net equity possessed by the sponsor. In lieu of the sponsor making the above-described investment (if any is required), such investment may be made by any person or company owning 50% or more of the voting control of the sponsor.

- C. *Compensation.* Compensation to the sponsor (and its affiliates) of a venture is to be limited as follows:
1. All expenses of organizing the venture and selling interests therein to the public, including underwriting discounts and commissions, if any, must be borne solely by the sponsor if the sponsor is to receive up to the full 12Vjj% first year management fee described in Paragraphs 2 and 3 below, but such management fee shall not exceed the *actual* expenses of organizing the venture and selling interests therein to the public. If the publicly-owned venture (limited partnership, etc.) is to pay such expenses, the total of such expenses it shall pay, together with the first year management fee, shall not exceed 12~% of the gross receipts of the public offering.
 2. Ventures Which Do Not Engage in Affiliate Dealings. A maximum of 12Vj% of the dollar amount of gross cash receipts from a public offering is allowable to the sponsor as a "management fee" for the first year of operation. For each year thereafter, 5/8% per month of the venture's net assets is allowable to the sponsor as a management fee. Following pay-out to public investors, the sponsor may participate in the venture's profits in the following ratio: 25% to the sponsor and 75% to the public investors. The sponsor must pay all its administrative and overhead expenses. Other expenses of the limited partnership, including, but not limited to, buying services, transportation, interest on borrowed funds, legal, accounting and reporting expenses, branding and feed cost, where required to be paid by the venture, shall be billed to and paid directly by the venture to facilitate auditing. Veterinary services and medicines maybe allocated, where direct billing is impractical.
 3. Ventures Which Engage in Affiliate Dealings. A maximum of 12V,% of the dollar amount of gross cash receipts from a public offering is allowable to the sponsor as a management fee for the first year of operation. Reasonable and competitive feed markups on feed sold to the partnership will be allowable. Basic feed costs shall not exceed those charged to other non-affiliated customers of the feed lot for the same types and grades of such feed nor may they exceed the cost of such types and grades of feed generally prevailing in the locale, at the time of purchase. The mark-up on feed sold to the partnership shall in no event exceed 20% of the basic feed cost. If any "yardage," "per head" or other handling charges of a general nature are to be made, the total of such charges together with the mark-up on feed shall not exceed 20% of the basic feed cost for any feeding cycle. If the sponsor deems it necessary to raise the foregoing limitations as to feed mark-up and handling charges, it may do so only annually and only upon

written notice to investors in the venture at least 60 days prior to the "beginning redemption date" mentioned in Section III.E. of these guidelines. Following pay-out to public investors, the sponsor may participate in the venture's profits in the following ratio: 25% to the sponsor and 75% to the public investors. The sponsor must pay all its administrative and overhead expenses. Other expenses of the limited partnership, including, but not limited to, buying services, transportation, interest on borrowed funds, legal, accounting, and reporting expenses, branding and feed cost, where required to be paid by the venture, shall be billed to and paid directly by the venture to facilitate auditing. Veterinary services and medicines may be allocated, where direct billing is impractical.

4. Other Fees and Compensation in Ventures Which Engage in Affiliate Dealings. The prospectus must clearly describe all dealings which the venture will have with the sponsor or its affiliates. Such description must contain a detailed disclosure of the fees to be paid to such parties. In addition, the prospectus must contain a schedule setting out, in summary, all fees and compensation to be paid directly to the sponsor as well as indirect fees to be paid to the sponsor or its affiliates.

D. *Periodic Reports.*

1. The sponsor shall provide periodically, at least quarterly, each public investor with a report which states the current value of his interest (on a cost basis or otherwise) and progress of the venture, in clear and concise terms in accordance with practices in general usage in the industry. Annual audited financial reports and tax information shall be furnished to the investor in a form which may be used in the preparation of the investor's individual income tax return.
2. The information to be provided in such report should comply with Section III.B. of these guidelines, and should include any other pertinent information regarding fixed and variable costs.

E. *Future Exchanges.* Any future exchanges of interests in the venture for common stock or other securities of any other entity shall be made solely upon compliance with applicable securities laws, both Federal and State, and must be in compliance with financial and other requirements generally applicable to initial public offerings by such entities. The public investors must be advised, in the prospectus, that any future exchange offers may not be available to them if the exchange offer fails to meet the registration requirements of the particular jurisdiction in which the investor resides. The sponsor must undertake to continue management, on the same terms, of the interest of investors who do not exchange their interests for interests in the new entity, until orderly liquidation of all cattle in the venture is completed.

F. *Exculpatory Clause.* The sponsor of a venture shall be deemed to be in a fiduciary relationship to the public investors, and the prospectus shall so state. Sponsors and affiliates shall not be exonerated from liability to investors for any losses caused by gross negligence or willful or wanton misconduct.

G. *Insurance and Death Loss.*

1. Casualty insurance or full mortality insurance may be maintained on all cattle

belonging to the venture, in the discretion of the sponsor, and if the best judgment of the sponsor the costs of such insurance are economically feasible.

2. The sponsor, at no additional cost to the venture, must guarantee against death loss above 4% occurring during the term of the venture or upon earlier termination of the management agreement. Such guarantee must include a specified indemnity which will be made at the earlier of termination of the venture or termination of the management agreement. Proof of loss must be produced in order for the sponsor to receive credit toward the 4% (in some manner subject to audit). The sponsor must provide for indemnification for any death loss whatever brought about due to negligence or misconduct on the part of the sponsor and/or its employees.

- H. *Leverage.* A venture may not engage in leveraging in excess of four to one and a limitation of the leveraging to be used must be set out in the prospectus, along with a clear explanation of the risk involved in leveraging.
- I. *Hedging and Speculation.* If the plan of business of the venture includes the purchase or sale of commodities futures contracts, such purchases and sales must be limited in extent and frequency to those instances deemed reasonably necessary to protect the venture against price fluctuations in the cattle or grain market. The purchase or sale of commodities futures contracts may be for the purpose of hedging only and such transactions may not be for purposes of speculation. The public investors must be notified, in writing, at the earliest practicable time (at least monthly) of the terms of any commodity futures contract transactions for the venture.
- J. *Facilities.* Feed lots in which the venture's cattle are to be fed must have a capacity of 5,(XX) head or more. The sponsor must have reasonable assurance that it will have access to feed lots with combined total capacity of 20,000 head or more for feeding of the venture's cattle prior to the public offering. All such feed lots must have available the services of a veterinarian and nutritionist and must keep detailed records of all cattle processed, including the venture's cattle, and all services and goods provided for all cattle in the feed lot, and must agree to make all such records available to the venture's auditors and to the sponsor. In geographic areas where the feed lots of 5,000-head capacity or more are unusual, the numbers mentioned above in this paragraph may be reduced by as much as one half in the administrator's discretion.
- K. *Branding and Accountability of Property.* Cattle belonging to the venture must be clearly distinguishable (branded with the venture's brand) at the earliest practicable time, and not more than 24 hours after placement in the feed lot under normal circumstances. All cattle, feed and funds belonging to the venture must be strictly accounted for, and identified to the extent practicable, throughout the life of the venture. The cost of feed and services to the venture shall not be in any way artificially increased (other than customary, mark-ups mentioned elsewhere herein. See Section 1. C. 3.), which duty the sponsor shall indicate in the prospectus.
The weighing of all feed and cattle to be sold to the Venture and all cattle to be sold by the venture shall be done on sealed certified scales, certified by the governmental authority (if any) having jurisdiction thereof in the particular locality. The weighing of feed ration upon delivery to the venture's cattle shall be done on certified scales when practicable, and otherwise on truck scales which are daily compared for accuracy with certified scales.

L. *Conflicts of Interest.*

1. The prospectus must fully describe all conflicts of interest between the public investors and the sponsor and its affiliates.
2. No fees, commissions, or other remuneration of any kind may be received by the sponsor or its affiliates, directly or indirectly, in connection with the venture which are not set out and fully disclosed in the prospectus.
3. No fee may be charged the venture upon the sale of venture cattle.
4. The venture's cattle may not be sold to the sponsor or its affiliates, directly or indirectly, except that finished cattle may be sold to an affiliated packer on a dressed carcass basis with payment on the basis of U.S.D.A. quality and yield grades, provided the packer reports to the public investors prices paid for other cattle on the same date and reports the nearest U.S.D.A. Market News Quotations of comparable grade and yield. The venture's cattle may not be purchased from the sponsor or its affiliates, directly or indirectly. When an affiliate acts as a commission buyer, he may be paid commissions on the purchase of cattle for the venture at rates not exceeding those customary in the industry, and may take title to the cattle on behalf of the registered ventures during any necessary interim while pen-size lots are being formed.

II. PLAN OF DISTRIBUTION.

- A. *Minimum Unit.* The minimum investment by a public investor shall be \$5,000 and the initial investment by a public investor shall be no less than \$5,000, all of which must have been paid at the date the venture commences. Assignability of a public investor's interest must be limited so that no assignee (transferee) or assignor (transferor) may hold less than a \$5,000 interest, except by gift, inheritance, or Court decree.
- B. *{Prohibition of Assessment.}* Public investors' interests in a cattle feeding venture may not be assessed (the public investors may not be compelled in any way to make additional capital contributions to the venture).
- C. *Advertising Materials.* Sales of the venture interests must be made by and through a prospectus. Supplementary material must be submitted to the administrator in advance of use, and its use must either be preceded by or accompanied with an effective prospectus. Informational material may, and should be, distributed to public investors already in the venture on a periodic basis.
- D. *Sale of Venture Interests.*
 1. Interests may be sold by sponsors and/or registered broker-dealers and/or affiliates of the sponsors. Officers and directors of the sponsors who sell interests must be licensed as broker-dealers when required by statute and may be paid no commission, either directly or indirectly, in any form in connection with the sale of the interests.

2. Compensation to broker-dealers shall be a one time only cash commission. Indeterminate compensation to broker-dealers is prohibited. In the absence of a firm underwriting, warrants or options to broker-dealers are prohibited.
3. The broker-dealer, or the sponsor in the case of direct sales, shall take all action reasonably required to assure that venture interests are sold only to purchasers for whom such interests are suitable.

Judgment of suitability of any particular venture interest for an individual investor shall be based on the financial capacity of the purchaser, including the purchaser's net worth and income tax bracket, after as reasonable inquiry into the purchaser's financial condition and other related and relevant factors as may be appropriate.

The broker-dealer or sponsor shall retain all records necessary to substantiate the fact that interests were sold only to purchasers for whom such securities were suitable. Securities administrators may require broker-dealers or sponsors to obtain from the purchaser a letter justifying the suitability of such investment.

4. Compensation to wholesale dealers must be a cash commission and such commission must be reasonable and fully disclosed.

III. PROSPECTUS AND ITS CONTENTS.

- A. *Term of the Venture.* The prospectus must clearly state the period of time for which the venture will operate. Such term may not initially exceed ten years in duration. If the sponsor retains the right to extend the period of the venture beyond the initial term, such right of continuance must be disclosed in the prospectus. No venture shall be formed with a contemplated term of less than three years.
- B. *History of Operations and Reporting Requirements.* The sponsor's history of operation shall be fully disclosed, and all fees and remunerations, direct and indirect, received by the sponsor or an affiliate in each publicly-owned venture shall be scheduled. The prospectus must contain a schedule setting out, on an annual or other accounting period basis, the following information for the preceding three-year period or for such shorter period as the sponsor has been engaged in cattle feeding operations:
 1. Average purchase weight of feeder cattle, by sex.
 2. Average weight into the feed lot, by sex.
 3. Average cost per head.
 4. Buying commissions paid.
 5. Average freight costs into the yard.
 6. Average length of time on feed, by sex.
 7. Average total cost of gain (per pound); specifying basis of computation of weight gain (pay weight to pay weight or in-weight to pay weight).
 8. Average feed cost of gain (per pound); specifying basis of computation of weight gain (pay weight to pay weight or in-weight to pay weight).
 9. Average interest rate on borrowed operating capital.
 10. Other management or selling charges, if any.
 11. Death loss (per cent).
 12. Average sales weight, by sex (after 4% shrink at feed lot).

13. Average sales price per cwt, by sex.
14. Average profit or loss per head, by sex (estimated if not known).
15. Average equity investment per head, by sex (estimated if not known).

For ventures which engage in affiliate dealings, the prospectus must set out the above information, for each feed lot, for the following categories:

1. Custom feeding, to the extent such information is known.
2. Cattle fed for the account of the sponsor and/or all affiliates.

The above information shall also be furnished to the public investors in the venture on at least an annual basis.

- C. *Area of Operations.* A general description of the areas in which it is anticipated that the venture's activities will be conducted shall be set out.
- D. *Maximum and Minimum.* The prospectus shall indicate the maximum amount of subscriptions to be sought from the public and the minimum amount of subscriptions necessary to activate the venture. The minimum amount of funds to activate the venture shall be sufficient to accomplish the objectives of the venture, including "spreading the risk" and shall be set out in the prospectus. Any minimum less than \$250,000 will be presumed to be inadequate to spread the risk of the public investors. Provision must be made for the return to public investors of 100% of paid subscriptions in the event that the established minimum to activate the venture is not reached.
- E. *Repurchase of Venture interests.* No representations shall be made that venture interests are readily marketable. Public investors must be allowed to withdraw from the venture on at least an annual basis, following the first full year of operation of the venture. The beginning redemption date for each year shall be specified in the prospectus, and public investors desiring to withdraw shall give written notice to the sponsor at least 30 days prior to such beginning redemption date. As to all cattle owned by the venture on the beginning redemption date, the-withdrawing investor shall have a liquidating interest, and his account will be credited with his pro rata share of the proceeds of sales of all such cattle. As soon as practicable after the liquidation of all such cattle, the withdrawing investor shall be paid his pro rata share of such proceeds. A penalty, not to exceed ten per cent of the proceeds credited to his account, may be charged the investor who chooses to withdraw prior to the end of the venture. No penalty may be charged at the termination date of the venture, nor at any time thereafter if the termination date is extended, nor after the venture has been in existence for five years, whichever time is earlier. The ten per cent penalty for early withdrawal must be credited to the venture.
- F. *Tax Considerations.*
 1. The sponsor of the venture must obtain an Internal Revenue Service ruling, or an opinion of qualified-tax counsel (acceptable to the administrator) stating that the desired income tax treatment will be accorded the venture.
 2. The prospectus must fully disclose all tax benefits and liabilities associated with investment in the venture. It shall be clearly disclosed in the prospectus that the venture is not a tax shelter.
- G. *Use of Proceeds.* The prospectus must clearly account for the use of the proceeds of the offering. Proposed use should be set out in dollar amounts as well as percentages of the total offering proceeds. Funds to be obtained through leveraging are also subject to these

requirements.

- H. *{Schedule of Investment Examples}* The prospectus may contain, in summary form, a schedule setting forth examples of an investment in a cattle feeding venture. Such schedule must contain three examples: (1) Showing a loss on investment, (2) Showing a break-even on investment, and (3) Showing a profit on investment, commensurate with the loss shown in the first schedule.
- I. *Completeness.* The prospectus must contain all material facts necessary for the public investor to make an investment decision and for the administrator to make a finding after examination as to the fairness of the proposed offering. Any disclosure required by these guidelines to be included in the prospectus, which disclosure is prohibited by the United States Securities and Exchange Commission, may be waived by the administrator.

REGISTRATION OF COMMODITY POOL PROGRAMS

Adopted on September 21, 1983, effective January 1, 1984; amended and adopted May 7, 2007; May 6, 2012

I. INTRODUCTION

A. Application

1. The standards contained in these Guidelines pertain to the offer and sale of securities by commodity pool limited partnerships or analogous corporate entities and are designed to establish uniform and consistent standards to be applied by the various state securities ADMINISTRATORS. The primary focus of the Guidelines is on the securities related aspects of commodity pool limited partnerships or analogous corporate entities rather than the technical aspects of futures trading. The Guidelines do not purport to supplant existing or future rules and regulations promulgated by the Commodity Futures Trading Commission or the National Futures Association.
2. The ADMINISTRATOR may modify or waive the guidelines if the object sought to be achieved thereby is accomplished by other means. Where the individual characteristics of specific PROGRAMS warrant modification from these standards, they will be accommodated, insofar as possible, while still being consistent with the spirit of these Guidelines.

COMMENT: In granting modifications or waivers from these Guidelines, the ADMINISTRATOR may take into consideration such factors as (i) the experience and prior performance of the SPONSOR and/or ADVISOR; (ii) reduction of ORGANIZA-

TIONAL AND OFFERING EXPENSES, management, advisory or incentive fees, brokerage commissions, other fees, costs and expenses below the limits set forth in Section IV; and (iii) more

3. Where applicable, the ADMINISTRATOR may require compliance with the jurisdiction's guidelines for corporate securities and may not allow a security with different rights and privileges to be issued unless there is a jurisdiction therefor.
4. When required by the ADMINISTRATOR, a CROSS REFERENCE SHEET shall be furnished with the application.

B. Definitions. As used in these Guidelines, the following terms shall mean:

1. ADMINISTRATOR—The official or agency administering the securities laws of a state.
2. ADVISOR—Any PERSON who for any consideration engages in the business of advising others, either directly or indirectly, as to the value, purchase, or sale of COMMODITY CONTRACTS or commodity options.
3. AFFILIATE—An AFFILIATE of a PERSON means (a) any PERSON directly or indirectly owning, controlling or holding with power to vote 10% or more of the outstanding voting securities of such PERSON; (b) any PERSON 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote, by such PERSON; (c) any PERSON, directly, or indirectly, controlling, controlled by, or under common control of such PERSON; (d) any officer, director or partner of such PERSON; or (e) if such PERSON is an officer, director or partner, any PERSON for which such PERSON

- acts in any such capacity.
4. CAPITAL CONTRIBUTIONS—The total investment in a PROGRAM by a PARTICIPANT or by all PARTICIPANTS, as the case may be.
 5. COMMODITY BROKER—Any PERSON who engages in the business of effecting transactions in COMMODITY CONTRACTS for the account of others or for his own account.
 6. COMMODITY CONTRACT—A contract or option thereon providing for the delivery or receipt at a future date of a specified amount and grade of a traded commodity at a specified price and delivery point.
 7. CROSS REFERENCE SHEET—A compilation of the Guideline sections, referenced to the page of the prospectus; PROGRAM agreement, or other exhibits, and justification of any deviation from the Guidelines.
 8. NET ASSETS—The total assets, less total liabilities, of the PROGRAM determined on the basis of generally accepted accounting principles. NET ASSETS shall include any unrealized profits or losses on open positions, and any fee or expense including NET ASSET fees accruing to the PROGRAM.
 9. NET ASSET VALUE PER PROGRAM INTEREST—The NET ASSETS divided by the number of PROGRAM INTERESTS outstanding.
 10. NET WORTH—The excess of total assets over total liabilities as determined by generally accepted accounting principles. NET WORTH shall be determined exclusive of home, home furnishings and automobiles.
 11. NEW TRADING PROFITS—The excess, if any, of NET ASSETS at the end of the period over NET ASSETS at the end of the highest previous period or NET ASSETS at the date trading commences, whichever is higher, and as further adjusted to eliminate the effect on NET ASSETS resulting from new CAPITAL CONTRIBUTIONS, redemptions, or capital distributions, if any, made during the period decreased by interest or other income, not directly related to trading activity, earned on PROGRAM assets during the period, whether the assets are held separately or in margin account.
 12. ORGANIZATIONAL AND OFFERING EXPENSES—All expenses incurred by the PROGRAM in connection with and in preparing a PROGRAM for registration and subsequently offering and distributing it to the public, including, but not limited to, total underwriting and brokerage discounts and commissions (including fees of the underwriter's attorneys), expenses for printing, engraving, mailing, salaries of employees while engaged in sales activity, charges of transfer agents, registrars, trustees, escrow holders, depositories, experts, expenses of qualification of the sale of its PROGRAM INTEREST under federal and state law, including taxes and fees, accountants' and attorneys' fees.
 13. PARTICIPANT—The holder of a PROGRAM INTEREST.
 14. PERSON—Any natural PERSON, partnership, corporation, association or other legal entity.
 15. PIT BROKERAGE FEE. PIT BROKERAGE FEE shall include floor brokerage, clearing fees, National Futures Association fees, and exchange fees.
 16. PROGRAM—A Limited partnership, joint venture, corporation, trust or

- other entity formed and operated for the purpose of investing in COMMODITY CONTRACTS.
17. PROGRAM BROKER—A COMMODITY BROKER that effects trades in COMMODITY CONTRACTS for the account of a PROGRAM.
 18. PROGRAM INTEREST—A limited partnership interest or other security representing ownership in a PROGRAM.
 19. PYRAMIDING—A method of using all or a part of an unrealized profit in a COMMODITY CONTRACT position to provide margin for any additional COMMODITY CONTRACTS of the same or related commodities.
 20. SPONSOR—Any PERSON directly or indirectly instrumental in organizing a PROGRAM or any PERSON who will manage or participate in the management of a PROGRAM, including a COMMODITY BROKER who pays any portion of the ORGANIZATIONAL EXPENSES of the PROGRAM, and the general partner(s) and any other PERSON who regularly performs or selects the PERSONS who perform services for the PROGRAM. SPONSOR does not include wholly independent third parties such as attorneys, accountants, and underwriters whose only compensation is for professional services rendered in connection with the offering of the units. The term "SPONSOR" shall be deemed to include its AFFILIATES.
 21. VALUATION DATE—The date as of which the NET ASSETS of the PROGRAM are determined.
 22. VALUATION PERIOD—A regular period of time between VALUATION DATES.

II. REQUIREMENTS OF THE SPONSOR

- A. Experience. Both the SPONSOR and the ADVISOR must be able to demonstrate sufficient knowledge and experience to carry out the PROGRAM policies and objectives and to manage PROGRAM operations. Ordinarily a minimum of three years of relevant experience will be deemed sufficient.
- B. Financial Condition. The financial condition of the Sponsor must be commensurate with any financial obligations assumed in the operation of the PROGRAM. At a minimum, the NET WORTH of the general partner shall be:
 1. An amount equal to 5% of CAPITAL CONTRIBUTIONS in all existing PROGRAMS in which the SPONSOR has potential liability as a general partner plus 5% of the PROGRAM INTERESTS being offered.
 2. For this section, the minimum required NET WORTH shall in no case be less than \$50,000 nor shall NET WORTH in excess of \$1,000,000 be required.
 3. Evaluation will be made of contingent liabilities and the use of promissory notes to determine the appropriateness of their treatment in the computation of NET WORTH. If stock subscriptions or promissory notes are used, the ADMINISTRATOR may request that the SPONSOR demonstrate that the prospective subscriber or maker have sufficient NET WORTH to fund its obligation for the maximum amount of PROGRAM INTERESTS being offered. A currently enforceable contract shall exist that will require the prospective subscriber or maker

to honor its obligation upon CAPITAL CONTRIBUTION to the PROGRAM.

COMMENT: See Section VI.C.4.(b) for specific Requirements relating to the balance sheet of the SPONSOR.

- C. *Investment in the PROGRAM.* The SPONSOR must make a permanent investment in the PROGRAM equal to the greater of 1% of CAPITAL CONTRIBUTIONS or \$25,000. The SPONSOR'S investment should be made prior to the commencement of trading and shall be maintained throughout the existence of the PROGRAM. In appropriate cases, the ADMINISTRATOR may require the SPONSOR to purchase for cash additional interests in the PROGRAM.
- D. *Reports.* The SPONSOR shall submit to the ADMINISTRATOR any information required to be filed with the ADMINISTRATOR, including, but not limited to, reports and statements required to be distributed to PARTICIPANTS.
- E. *Tax Ruling or Opinion.* If the PROGRAM is organized as a limited partnership, the SPONSOR must obtain a favorable tax ruling from the Internal Revenue Service or an opinion of qualified tax counsel in a form acceptable to the ADMINISTRATOR concerning the tax status of a limited partnership.
- F. *Liability and Indemnification.*
 - 1. The PROGRAM shall not provide for indemnification of the SPONSOR (which shall include AFFILIATES only if such AFFILIATES are performing services on behalf of the PROGRAM) for any liability or loss suffered by the SPONSOR, nor shall it provide that the SPONSOR be held harmless for any loss or liability suffered by the PROGRAM, unless all of the following conditions are met:
 - (a) The SPONSOR has determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the PROGRAM, and
 - (b) The SPONSOR was acting on behalf of or performing services for the PROGRAM, and
 - (c) such liability or loss was not the result of negligence or misconduct by the SPONSOR, and
 - (d) such indemnification or agreement to hold harmless is recoverable only out of the assets of the PROGRAM and not from the PARTICIPANTS.
 - 2. Notwithstanding anything to the contrary contained in Section II.F.1., the SPONSOR and any PERSON acting as a broker-dealer shall not be indemnified for any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws unless the following conditions are met:
 - (a) There has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee, or
 - (b) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee, or
 - (c) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and related costs should be

- made, and
- (d) in the case of subparagraph (c), the court of law considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and the position of any state securities regulatory authority where PROGRAM INTERESTS were offered or sold as to indemnification for violations of securities laws; provided that the court need only be advised and consider the positions of the securities regulatory authorities of those states (i) which are specifically set forth in the PROGRAM agreement and (ii) in which plaintiffs claim they were offered or sold PROGRAM INTERESTS.
- 3. The PROGRAM may not incur the cost of that portion of liability insurance which insures the SPONSOR for any liability as to which the SPONSOR is prohibited from being indemnified under this section.
 - 4. The provision of advancement from PROGRAM funds to a SPONSOR or its AFFILIATES for legal expenses and other costs incurred as a result, of any legal action is permissible if the following conditions are satisfied:
 - (a) the legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the PROGRAM;
 - (b) the legal action is initiated by a third party who is not a PARTICIPANT, or the legal action is initiated by a PARTICIPANT and a court of competent jurisdiction specially approves such advancement; and
 - (c) the SPONSOR or its AFFILIATES undertake to repay the advanced funds to the PROGRAM together with the applicable legal rate of interest thereon, in cases in which such PERSON is not entitled to indemnification under Section II.F.1.
- G. *Removal or Withdrawal of General Partner(s)*. In PROGRAMS organized as limited partnerships, the general partner(s) may not voluntarily withdraw from the partnership without 120 days prior written notice thereof to the limited partners. If a general partner withdraws as general partner and the limited partners or remaining general partners elect to continue the partnership, the withdrawing general partner shall pay all expenses incurred as a result of its withdrawal. In the event of removal or withdrawal, the general partner shall be entitled to a redemption of its interest in the partnership at its NET ASSET value on the next VALUATION DATE following the date of removal or withdrawal.
- H. Proper Registration. A SPONSOR and ADVISOR must be in compliance with applicable registration requirements under the COMMODITY EXCHANGE ACT as amended.

III. SUITABILITY OF PARTICIPANTS

- A. *General Policy*
 - 1. The SPONSOR shall establish minimum income and net worth standards for PERSONS who purchase PROGRAM INTERESTS.
 - 2. The SPONSOR shall propose minimum income and net worth standards which are reasonable given the type of PROGRAM and the risks associated with the purchase of PROGRAM INTERESTS. PROGRAMS with greater investor risk shall have minimum standards with a substantial NET WORTH requirement. The ADMINISTRATOR shall

evaluate the standards proposed by the SPONSOR when the PROGRAM'S application for registration is reviewed. In evaluating the proposed standards, the ADMINISTRATOR may consider the following:

- (a) potential volatility in net asset value;
- (b) potential PARTICIPANTS;
- (c) relationships among potential PARTICIPANTS, SPONSOR, and ADVISOR;
- (d) liquidity of PROGRAM INTERESTS;
- (e) prior performance of SPONSOR, ADVISOR, and, if applicable, PROGRAM;
- (f) financial condition of the SPONSOR;
- (g) potential transactions between the PROGRAM and the SPONSOR; and
- (h) any other relevant factors.

B. *Income and Net Worth Standards.*

- 1. Unless the ADMINISTRATOR determines that the risks associated with the PROGRAM would require lower or higher standards, each PARTICIPANT shall have:
 - (a) a minimum annual gross income of \$70,000 and a minimum NET WORTH of \$70,000; or
 - (b) a minimum NET WORTH of \$ 250,000
- 2. NET WORTH shall be determined exclusive of home, home furnishings, and automobiles.
- 3. In the case of sales to fiduciary accounts, these minimum standards shall be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the PROGRAM INTERESTS if the donor or grantors is the fiduciary.
- 4. The SPONSOR shall set forth in the final prospectus:
 - (a) the investment objectives of the PROGRAM;
 - (b) a description of the type of PERSON who might benefit from an investment in the PROGRAM; and
 - (c) the minimum standards imposed on each PARTICIPANT in the PROGRAM.

C. *Determination that Sale to PARTICIPANT is Suitable and Appropriate.*

- 1. The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT.
- 2. In making this determination, the SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall ascertain that the prospective PARTICIPANT:
 - (a) meets the minimum income and net worth standards established for the PROGRAM;
 - (b) can reasonably benefit from the PROGRAM based on the prospective PARTICIPANT'S overall investment objectives and portfolio structure;
 - (c) is able to bear the economic risk of the investment based on the prospective PARTICIPANT'S overall financial situation; and
 - (d) has apparent understanding of:
 - (1) the fundamental risks of the investment;

- (2) the risk that the PARTICIPANT may lose the entire investment;
 - (3) the restrictions on the liquidity of PROGRAM INTERESTS;
 - (4) the restrictions on transferability of PROGRAM INTERESTS;
 - (5) the background and qualifications of the SPONSOR and ADVISOR; and
 - (6) the tax consequences of the investment.
3. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM will make this determination on the basis of information it has obtained from a prospective PARTICIPANT. Relevant information for this purpose will include at least the age, investment objectives, investment experience, income, NET WORTH, financial situation, and other investments of the prospective PARTICIPANT, as well as any other pertinent factors.
 4. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain records of the information used to determine that an investment in PROGRAM INTERESTS is suitable and appropriate for each PARTICIPANT. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain these records for at least six years.
 5. The SPONSOR shall disclose in the final prospectus the responsibility of the SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM to make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT, based on information provided by the PARTICIPANT regarding the PARTICIPANT'S financial situation and investment objectives.

D. *Subscription Agreements.*

1. The ADMINISTRATOR may require that each PARTICIPANT complete and sign a written subscription agreement.
2. The SPONSOR may require that each PARTICIPANT make certain factual representations in the subscription agreement, including the following:
 - (a) The PARTICIPANT meets the minimum income and net worth standards established for the PROGRAM.
 - (b) The PARTICIPANT is purchasing the PROGRAM INTERESTS for his or her own account.
 - (c) The PARTICIPANT has received a copy of the prospectus.
 - (d) The PARTICIPANT acknowledges that the investment is not liquid except for limited redemption provisions.
3. The PARTICIPANT must separately sign or initial each representation made in the subscription agreement. Except in the case of fiduciary accounts, the PARTICIPANT may not grant any PERSON a power of attorney to make such representations on his or her behalf.
4. The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall not require a PARTICIPANT to make representations in the subscription agreement which are subjective or unreasonable and which:

- (a) might cause the PARTICIPANT to believe that he or she has surrendered rights to which he or she is entitled under federal or state law; or
 - (b) would have the effect of shifting the duties regarding suitability, imposed by law on broker-dealers, to the PARTICIPANT.
5. Prohibited representations include, but are not limited to the following:
- (a) The PARTICIPANT understands or comprehends the risks associated with an investment in the PROGRAM.
 - (b) The investment is a suitable one for the PARTICIPANT.
 - (c) The PARTICIPANT has read the prospectus.
 - (d) In deciding to invest in the PROGRAM, the PARTICIPANT has relied solely on the prospectus, and not on any other information or representations from other PERSONS or sources.
6. The SPONSOR may place the content of the prohibited representations in the subscription agreement in the form of disclosures to the PARTICIPANT. The SPONSOR may not place these disclosures in the PARTICIPANT representation section of the subscription agreement.
- E. *Completion of Sale.*
- 1. The SPONSOR or any PERSON selling PROGRAM INTERESTS ON behalf of the SPONSOR or PROGRAM may not complete a sale of PROGRAM INTERESTS to a PARTICIPANT until at least five business days after the date the PARTICIPANT receives a final prospectus.
 - 2. The SPONSOR or the PERSON designated by the SPONSOR shall send each PARTICIPANT a confirmation of his or her purchase.
- F. *Minimum Investment.* The ADMINISTRATOR may require a minimum initial and subsequent cash investment amount.

IV. FEES, COMPENSATION AND EXPENSES

A. *Organizational and Offering Expenses*

- 1. All ORGANIZATIONAL AND OFFERING EXPENSES, including commissions, and any other compensation for sales of PROGRAM INTERESTS shall be reasonable. In no event shall these expenses exceed 15% of the CAPITAL CONTRIBUTIONS of the offering, regardless of the source of payment. Any interest paid by the PROGRAM on deferred ORGANIZATIONAL AND OFFERING EXPENSES shall comply with Section VI.C.2.(e). Included in ORGANIZATIONAL AND OFFERING EXPENSES shall be the redemption fees as set forth in Section VII.B.
- 5. No SPONSOR shall directly or indirectly pay or award any commissions or other compensation to any PERSON engaged to sell PROGRAM INTERESTS or give investment advice to a potential PARTICIPANT; provided, however, that this clause shall not prohibit the payment to a registered broker-dealer or other properly licensed PERSON of normal sales commissions for selling PROGRAM INTERESTS.

COMMENT: Compensation paid to sales agents from a percentage of commodity brokerage commis-

sions (trail commissions) will not be considered objectionable offering expenses under Section IV.A.

- B. *Expenses of the PROGRAM.* All expenses of the PROGRAM shall be billed directly to and paid by the PROGRAM. The SPONSOR shall not be allowed (other than for ORGANIZATIONAL AND OFFERING EXPENSES) to allocate to the PROGRAM any portion of its indirect expenses incurred in connection with the administration of the PROGRAM, including but not limited to salaries, rent, travel expenses and such other items generally falling under the category of SPONSOR overhead expense. All customary and routine administrative expenses of the PROGRAM, except for the actual cost of legal and audit services provided by third parties, shall be subject to the limitations imposed by Section IV.C.1. of these Guidelines. The prospectus shall contain a separate estimate of the amount of legal and audit fees to be charged to the PROGRAM during the first full year of its operations based on minimum and maximum offering sizes.
- C. *Compensation.*
1. NET ASSET Fee—Management fees, advisory fees and all other fees, except for incentive fees and commodity brokerage commissions, when added to the customary and routine administrative expenses of the PROGRAM shall not exceed $i/2$ of 1% of NET ASSETS per month (not to exceed 6% annually). For the purpose of this limitation, customary and routine administrative expenses shall include all expenses of the PROGRAM other than commodity brokerage commissions, incentive fees, the actual cost of legal and audit services and extraordinary expenses. The SPONSOR shall not receive a NET ASSET fee if it receives, directly or indirectly, any portion of the brokerage commissions under Section IV.C.3. If necessary, the SPONSOR shall reimburse the PROGRAM, no less frequently than quarterly, for the amount by which such aggregate fees and expenses exceed the limitations herein provided during the period for which reimbursement is made up to an amount not exceeding the aggregate compensation received by the SPONSOR, including direct or indirect participation in commodity brokerage commissions charged to the PROGRAM. If reimbursement is required or extraordinary expenses are incurred, the SPONSOR shall include in the PROGRAM'S next regular report to the PARTICIPANTS a discussion of the circumstances or events which resulted in the reimbursement or extraordinary expenses.
 2. Incentive Fees.
 - (a) The aggregate incentive fee paid by the PROGRAM shall not exceed 15% of the NEW TRADING PROFITS of the PROGRAM, calculated not more often than quarterly on the VALUATION DATE, over the highest previous VALUATION DATE. For purposes of this calculation, PROGRAM losses shall be carried forward but shall not be carried back. In no event may a modification of ADVISOR compensation result in such compensation exceeding the limitations provided herein. Furthermore, any new contract with an existing ADVISOR must carry toward all losses attributable to that ADVISOR.
 - (b) The SPONSOR or ADVISOR will be entitled to an additional 2% incentive fee for each 1% by which the PROGRAM'S NET ASSET fee as set forth in IV.C.1. is reduced below 6% annually.
 - (c) Multi-ADVISOR PROGRAMS. The prospectus must clearly disclose, in both the prospectus summary and text of the prospectus, that incentive fees may be paid to an ADVISOR for

a given period despite aggregate PROGRAM losses for such period.

- (d) The prospectus shall contain a sample calculation of how incentive fees will be determined.

3. Brokerage Commissions:

- (a) The round turn commission to be initially charged to the PROGRAM for each commodity on each exchange on which the PROGRAM is expected to trade shall be disclosed immediately following the compensation table in the prospectus. An estimated range of such round turn commission shall be included in the prospectus summary section. Such round turn commission shall include all fees charged for each brokerage transaction; including, but not limited to, PIT BROKERAGE FEES. An estimate of the round turn commission should be included where a flat rate or asset based commission will be utilized.
- (b) The prospectus must clearly disclose, in both the prospectus summary and the text of the prospectus, an estimate of what the brokerage rate will equal as a percentage of average NET ASSETS annually.
- (c) The PROGRAM shall seek the best price and services available in its commodity futures brokerage transactions in COMMODITY CONTRACTS with any COMMODITY BROKER affiliated directly or indirectly with the SPONSOR or with any ADVISOR providing the SPONSOR with, research information, recommendations or other services which might be of value to the SPONSOR, unless such transactions are effected at competitive rates. In no event will the PROGRAM be allowed to enter into any exclusive brokerage contract. Brokerage commission charges will be presumptively reasonable if they satisfy one of the following maximum rates:
 - i. 80% of the published retail rate plus PIT BROKERAGE FEES, or
 - ii. 14% annually of the average NET ASSETS excluding the PROGRAM assets not directly related to trading activity. This 14% limitation shall include PIT BROKERAGE FEES.

The prospectus must state that the brokerage commissions to be charged will not exceed the limitations set forth herein. The ADMINISTRATOR may require the PROGRAM to file periodic reports concerning all brokerage transactions.

4. Other income.

- (a) Any interest or other income derived from any portion of the PROGRAM assets whether held in the PROGRAM'S margin account or otherwise shall accrue solely to the benefit of the PROGRAM except as set forth below:
 - (1) Interest income may be used to reimburse the SPONSOR for "deferred" ORGANIZATIONAL AND OFFERING EXPENSES. Such compensation must be within the overall limits set by Section IV.A.1.

- (2) Not more than 20% of interest income derived from PROGRAM assets may be allocated to the PROGRAM BROKER. However, any interest income allocated to the PROGRAM BROKER must be included in determining: whether the limitations imposed by Section IV.C.3.(c) have been satisfied.

Any interest or other income derived from any portion of the PROGRAM assets accruing to the benefit of the SPONSOR or PROGRAM BROKER pursuant to Sections (1) or (2) herein, must be clearly disclosed as compensation. The prospectus must include a statement regarding the disposition of any interest or other income earned by any portion of the PROGRAM assets.

- (b) A SPONSOR shall not take any action with respect to the assets or property of the PROGRAM which does not benefit the PROGRAM. Such a prohibited action, among others, would be the utilization of PROGRAM funds as compensating balances for the SPONSOR'S exclusive benefit.

(Ed Note: Former IV.B.5. is replaced by IV.B.)

5. Only those items of compensation permitted herein will be allowed. Any variance must be adequately justified to the ADMINISTRATOR.

V. **RIGHTS AND OBLIGATIONS OF PARTICIPANTS.**

- A. *Meetings.* Meetings of the PARTICIPANTS may be called by the general partner or by PARTICIPANTS holding more than 10% of the then outstanding PROGRAM INTERESTS for any matters for which the PARTICIPANTS may vote as set forth in a limited partnership agreement or charter document. Such call for a meeting shall be deemed to have been made upon receipt of the general partner of a written request, either in PERSON or by certified mail from holders of the requisite percentage of PROGRAM INTERESTS stating the purpose of the meeting. The general partner shall, within 15 days after receipt of said request, provide written notice, either in PERSON or by certified mail, to all PARTICIPANTS of the meeting and the purpose of such meeting which shall be held on a date not less than 30 or more than 60 days after the date of receipt of said notice at a reasonable time and place.
- B. *Voting Rights of Limited Partners.* To the extent permitted by the law of the state of formation, the PROGRAM agreement shall provide that a majority of the outstanding PROGRAM INTERESTS may, without necessity for concurrence by the general partner, vote to (1) amend the PROGRAM agreement, (2) remove the general partner(s), (3) elect a new general partner(s), (4) cancel any contract for services with the SPONSOR without penalty upon 60 days written notice, and (5) dissolve the PROGRAM. Without concurrence of a majority of the outstanding PROGRAM INTERESTS, the general partner(s) may not (i) amend the PROGRAM agreement except for amendments which do not adversely affect the rights of PARTICIPANTS, (ii) appoint a new general partner(s), or (iii) dissolve the PROGRAM. Any amendment to the PROGRAM agreement which modifies the compensation or distributions to which a general partner is entitled or which

affects the duties of a general partner may be conditioned upon the consent of the general partner. If the law of the state of formation provides that the PROGRAM will dissolve upon termination of a general partner(s) unless the remaining general partner(s) continues the existence of the PROGRAM, the PROGRAM agreement shall obligate the remaining general partner(s) to continue the PROGRAM'S existence; and if there will be no remaining general partner(s), the termination of the last general partner shall not be effective for a period of at least 120 days during which time a majority of the outstanding PROGRAM INTERESTS shall have the right to elect a general partner who shall agree to continue the existence of the PROGRAM. The PROGRAM agreement shall provide for a successor general partner where the only general partner of the PROGRAM is an individual.

- C. (Formerly Section VI.C.4.) *Material Changes*. Any material changes in the PROGRAM'S basic investment policies or structure shall require prior written approval by a majority of PROGRAM INTERESTS held by PARTICIPANTS.
- D. *Access to PROGRAM Records*
 - 1. The SPONSOR shall maintain at the principal office of the PROGRAM a list of the names and addresses of an PROGRAM INTERESTS owned by all PARTICIPANTS. Such list shall be made available for the review by any PARTICIPANT or his representative at reasonable times, and upon request, either in PERSON or by mail the SPONSOR shall furnish a copy of such list to any PARTICIPANT or his representative upon payment, in advance, of the reasonable cost of reproduction and mailing.
 - 2. The PARTICIPANTS and their representatives shall be permitted access to all records of the PROGRAM, after adequate notice, at any reasonable time. The SPONSOR shall maintain and preserve such records for a period of not less than five years.
- E. *Annual and Periodic Reports*. [Compliance with the provisions of CFTC regulations for Reporting to Pool PARTICIPANTS, 17 C.F.R. §4.22 will be considered sufficient to comply with this Section E.]
 - 1. The partnership agreement shall provide for the transmittal to each PARTICIPANT of an annual report within 120 days after the close of the fiscal year containing at least the following information:
 - (a) A balance sheet as of the end of the PROGRAM'S fiscal year and statements of income, partners' equity, and cash flows for the year then ended, all of which shall be prepared in accordance with generally accepted accounting principles and accompanied by an auditor's report containing an opinion of an independent certified public accountant or independent public accountant.
 - (b) A statement showing the total fees, compensation, brokerage commissions and expenses paid by the PROGRAM, segregated as to type, and stated both in aggregate dollar terms and as a percentage of NET ASSETS.
 - (c) The average round turn rate for the fiscal year shall be computed within the scope of the annual audit. Such rate shall be disclosed in the annual report.
 - 2. A SPONSOR shall be required to furnish PARTICIPANTS with quarterly reports, which may be unaudited, containing the same information as in (a) and (b) above within 60 days after the end of the quarter.
 - 3. A SPONSOR shall provide to all PARTICIPANTS, not later than March

- 15th of each year, all information necessary for the preparation of the PARTICIPANT'S income tax returns.
4. The SPONSOR shall calculate the NET ASSETS of the fund daily and shall make available upon the request of a PARTICIPANT, the NET ASSET VALUE PER PROGRAM INTEREST.
- F. *Transferability of PROGRAM INTERESTS.*
1. Restrictions on assignment of PROGRAM INTERESTS or on the substitution of a limited partner are generally disfavored and such restrictions will be allowed only if (1) they are necessary to comply with the safe harbor provisions of Internal Revenue Service Notice 88-75 (or other safe harbors adopted by the Internal Revenue Service that protect against treatment as a publicly traded partnership) or (2) they are necessary to preserve the tax status of the partnership or the characterization or treatment of income or loss. In the case of (2), any restriction must be affirmatively supported by an opinion of counsel. The PROGRAM agreement shall require the SPONSOR to eliminate or modify any restriction on substitution or assignment at such time as the restriction is no longer necessary.
2. No transfers may be made where, after the transfer, either the transferee or the transferor would hold less than the minimum number of PROGRAM INTERESTS equivalent to an initial minimum purchase, except for transfers by gift, inheritance, intrafamily transfers, family dissolutions, and transfers to AFFILIATES.
- G. *PARTICIPANT Liability.* A PROGRAM shall be structured so that a public investor cannot be exposed to liability in excess of the amount of the remaining balance of his capital account excluding partial redemptions, distributions consisting of a return of capital and accumulated profits.
- H. *ASSESSMENTS.* Assessments of any kind shall be prohibited.

VI. DISCLOSURE AND MARKETINT REQUIREMENTS.

- A. *Minimum PROGRAM Capital.* The minimum amount of funds to activate a PROGRAM shall be sufficient to accomplish the objectives of the PROGRAM, including "spreading the risk." Any minimum less than \$500,000, after deduction of all front end charges, will be presumed to be inadequate to spread the risk of the public investors. Provision must be made for the return of 100% of paid subscriptions in the event that the established minimum to activate the PROGRAM is not reached. All funds received prior to activation of the PROGRAM must be deposited with an independent custodian, trustee or escrow agent whose name and address shall be disclosed in the prospectus.

COMMENT: The purpose of this requirement is to assure the adequate diversification of the investments of the PROGRAM.

- B. *Sales Literature.* Sales literature, sales presentation (including prepared presentations to prospective investors at group meetings) and advertising used in the offer or sale of PROGRAM INTERESTS shall conform in all applicable respects to requirements of filing, disclosure and adequacy currently imposed on sales literature, sales presentations and advertising used in the sale of corporate securities.
- C. *Contents of the Prospectus.*

1. Prospectus. A prospectus which is not part of a registration statement declared effective by the Securities and Exchange Commission pursuant to the Securities Act of 1933 shall generally conform to the disclosure requirements which would apply if the offering were so registered.
2. Conflicts of Interest and Transactions with AFFILIATES.
 - (a) Any conflicts of interest between the PROGRAM and any SPONSOR, ADVISOR, COMMODITY BROKER or any AFFILIATE thereof, must be fully disclosed.
 - (b) Unless specifically provided by these Guidelines the SPONSOR shall not receive compensation or reimbursements for providing goods and services to the PROGRAM.
 - (c) The SPONSOR shall also be required to disclose the steps that will be taken to alleviate any real or potential conflict of interest.
 - (d) Prohibitions. Certain conflicts of interest are presumed to be materially sufficient to render the proposed PROGRAM incapable of accomplishing its stated objectives in the best interest of the PARTICIPANTS and shall be controlled as follows:
 - (1) It shall be presumptively unreasonable for the ADVISOR to be affiliated with the PROGRAM BROKER.
 - (2) It shall be presumptively unreasonable for the ADVISOR to be affiliated with the SPONSOR if the SPONSOR receives, directly or indirectly, any portion of the brokerage commissions, including trail commissions, from PROGRAM operations.
 - (3) Unless the issuer can overcome the presumptions outlined in (1) and (2) above, the prospectus shall state that at no time will the above affiliations exist.
 - (4) No loans may be made by the PROGRAM to the SPONSOR or any other PERSON.
 - (5) The funds of a PROGRAM shall not be commingled with the funds of any other PERSON. Funds used to satisfy margin requirements will not be considered commingled.
 - (6) No rebates or giveups may be received by the SPONSOR nor may the SPONSOR participate in any reciprocal business arrangements which could circumvent these guidelines. Furthermore, the prospectus and PROGRAM charter documents shall contain language prohibiting the above as well as language prohibiting reciprocal business arrangements which would circumvent the restrictions against dealing with AFFILIATES or other interested parties.
 - (7) A PROGRAM'S charter document shall prohibit the commodity trading ADVISOR or any other PERSON acting in such capacity from receiving a NET ASSET fee under Section IV.C.1. if he shares or participates, directly or indirectly, in any commodity brokerage commissions generated by the PROGRAM.
 - (8) The maximum period covered by any contract of the

partnership with the ADVISOR or SPONSOR shall not exceed one year. The agreement must be terminable without penalty upon 60 days' written notice by the PROGRAM.

- (9) Any other agreement, arrangement or transactions, proposed or contemplated, may be restricted in the discretion of the ADMINISTRATOR if it would be considered unfair to the PARTICIPANTS in the PROGRAM.
- (10) A PROGRAM shall not engage in PYRAMIDING.
- (11) All of the foregoing restrictions shall be disclosed in the prospectus and contained in the partnership agreement or charter document.

(e) On loans made available to the PROGRAM by the SPONSOR, the SPONSOR may not receive interest in excess of its interest costs, nor may the SPONSOR receive interest in excess of the amounts which would be charged the PROGRAM (without reference to the SPONSOR'S financial abilities or guarantees) by unrelated banks on comparable loans for the same purpose and the SPONSOR shall not receive points or other financing charges or fees regardless of the amount.

3. Notification.

- (a) Notice shall be sent to each PARTICIPANT within seven business days from the date of:
 - (i) any decline in the NET ASSET VALUE PER UNIT to less than 50% of the NET ASSET VALUE on the last VALUATION DATE
 - (ii) any material change in contracts with ADVISORS, including any change in ADVISORS or any modification in connection with the method of calculating the incentive fee;
 - (iii) any other material change affecting the compensation of any party.
- (b) No material change related to brokerage commissions shall be made until notice is given and PARTICIPANTS, based on such notice, have the opportunity to redeem pursuant to Section VII.B.
- (c) Included in the required notification shall be a description of the PARTICIPANT'S redemption rights pursuant to VII.B. and C. and voting rights pursuant to V.B. and a description of any material effect such changes may have on the interests of PARTICIPANTS.

4. *Financial Information Required on Application.* The SPONSOR or the PROGRAM shall provide as an exhibit to the application or where indicated below shall provide as part of the prospectus, the following financial statements:

- (a) Balance Sheet of the PROGRAM. A balance sheet of the PROGRAM as of the end of its most-recent fiscal year, prepared in accordance with generally accepted accounting principles and accompanied by an independent auditor's report containing no material qualification or explanatory paragraph relating to material uncertainties or going concern issues, and an unaudited

balance sheet as of a date not more than 135 days prior to the date of filing. Such balance sheets shall be included in the prospectus.

(b) Balance Sheet of the SPONSOR

(1) Corporate SPONSOR. A balance sheet of any corporate SPONSOR as of the end of its most recent fiscal year, prepared in accordance with generally accepted accounting principles and accompanied by an independent auditor's report containing no material qualification or explanatory paragraph relating to material uncertainties or going concern issues, and an unaudited balance sheet as of a date not more than 135 days prior to the date of filing. Such balance sheets shall be included in the prospectus.

(2) Individual SPONSOR. A statement of financial condition as of a time not more than 135 days prior to the date of filing an application. Such statement of financial condition shall be prepared in accordance with generally accepted accounting principles and reviewed and reported upon by an independent certified public accountant or independent public accountant under the review standards as set forth by the American Institute of Certified Public Accountants. A representation of the amount of such NET WORTH must be included in the prospectus.

(c) Filing of Other Statements. The ADMINISTRATOR may, where consistent with the protection of investors, request additional financial statements of the SPONSOR, ADVISOR, PROGRAM BROKER or any AFFILIATE thereof, or permit the omission of one or more of the statements required under this section and the filing, and substitution thereof, of appropriate statements verifying financial information having comparable relevance to an investor in determining whether he should invest in the PROGRAM.

VII. MISCELLANEOUS PROVISIONS.

A. *Fiduciary Duty.* The PROGRAM agreement shall provide that the SPONSOR shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the PROGRAM, whether or not in his immediate possession or control, and that he shall not employ, or permit another to employ such funds or assets in any manner except for the exclusive benefit of the PROGRAM. In addition, the PROGRAM shall not permit the PARTICIPANT to contract away the fiduciary obligation owed to the PARTICIPANT by the SPONSOR under common law.

B. *Redemptions.* The PROGRAM shall provide for the redemption of PROGRAM interests at least quarterly except that redemption need not be offered until six months after the commencement of trading. Redemption charges for units redeemed during the first, second, third, and fourth, six month periods following the commencement of trading, shall not exceed 4%, 3%, 2%, and 1% of the NET ASSET OF VALUE PER PROGRAM INTEREST respectively. The SPONSOR

shall state the VALUATION DATE in the prospectus. A PARTICIPANT must notify the SPONSOR in writing at least 10 days prior to the VALUATION DATE of his wish to redeem his PROGRAM INTERESTS. The SPONSOR must redeem such PROGRAM INTERESTS at the NET ASSET value on the VALUATION DATE unless the number of redemptions would be detrimental to the tax status of the PROGRAM; in which case, the SPONSOR shall select by lot so many redemptions as will, in its judgment, not impair the PROGRAM'S status. PARTICIPANTS shall be notified in writing within 10 days after the VALUATION DATE whether or not their PROGRAM INTERESTS have been redeemed. Payment for the redeemed PROGRAM INTERESTS shall be made within 30 days after the VALUATION DATE. The SPONSOR may provide that redemptions may be temporarily suspended if, in the SPONSOR'S judgment, additional redemptions would impair the ability of the PROGRAM to meet its objectives.

- C. *Special Redemption.* A Special Redemption period shall be established whenever a PROGRAM experiences a decline in the NET ASSET VALUE PER PROGRAM INTEREST as of the close of business on any business day to less than 50% of the NET ASSET VALUE PER PROGRAM INTEREST on the last VALUATION DATE. PROGRAM trading shall be temporarily suspended during such special redemption period.

COMMODITY POOL GUIDELINES POLICY CROSS REFERENCE SHEET

Name of Applicant _____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
I.B. Definitions			
1. Administrator	_____	_____	_____
2. Advisor	_____	_____	_____
3. Affiliate	_____	_____	_____
4. Capital Contributions	_____	_____	_____
5. Commodity Broker	_____	_____	_____
6. Commodity Contract	_____	_____	_____
7. Cross Reference Sheet	_____	_____	_____
8. Net Assets	_____	_____	_____
9. Net Asset Value per Program Interest	_____	_____	_____
10. Net Worth	_____	_____	_____
11. New Trading Profits	_____	_____	_____
12. Organizational & Offering Expenses	_____	_____	_____
13. Participant	_____	_____	_____
14. Person	_____	_____	_____
15. Pit Brokerage Fee	_____	_____	_____
16. Program	_____	_____	_____
17. Program Broker	_____	_____	_____
18. Program Interest	_____	_____	_____
19. Pyramiding	_____	_____	_____
20. Sponsor	_____	_____	_____
21. Valuation Date	_____	_____	_____
22. Valuation Period	_____	_____	_____
II. Requirements of Sponsor			
A. Experience	_____	_____	_____
B. Financial Condition-Net Worth 5% of Capital Contributions, \$1,000,000	_____	_____	_____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
limit			
C. Investment in the Program-1% of Capital Contributions			
D. Reports			
E. Tax Ruling or Opinion			
F. 1. Liability & Indemnification if:			
(a) course of conduct in best interest of Program			
(b) on behalf of or services for program			
(c) not negligence or misconduct			
(d) not from Participants			
2. Securities Law Violations if:			
(a) successful adjudication, or			
(b) dismissed with prejudice by court, or			
(c) court approved settlement, and			
(d) court advised of SEC and states position on indemnification			
3. Cost of liability insurance			
4. Advancement of funds for legal expenses			
G. Removal or Withdrawal of General Partner(s)			
H. Proper Registration			

<u>Guideline Section</u>	<u>Section Number Program Agreement</u>	<u>Page Number Prospectus</u>	<u>Endnote</u>
III. Suitability of Participant			
B. Income & Net Worth Standards	_____	_____	_____
C. Determination that Sale to Participant is Suitable & Appropriate	_____	_____	_____
D. Subscription Agreements	_____	_____	_____
E. Completion of Sale	_____	_____	_____
F. Minimum Investment	_____	_____	_____
IV. Fees, Compensation & Expenses			
A. Organizational & Offering Expenses	_____	_____	_____
B. Expenses of the Program	_____	_____	_____
C. 1. Compensation-Net Asset Fee	_____	_____	_____
2. Incentive Fees	_____	_____	_____
3. Brokerage Commissions	_____	_____	_____
a. Round turn commission	_____	_____	_____
b. Brokerage rate as a % of Net Assets	_____	_____	_____
c. Best Price & Services Available	_____	_____	_____
4. Other Income-(a) Interest Income to Program except:	_____	_____	_____
(1) Deferred O&O	_____	_____	_____
(2) 20% to Program Broker	_____	_____	_____
V. Rights & Obligations of Participants			
A. Meetings	_____	_____	_____
B. Voting Rights	_____	_____	_____
C. Material Changes	_____	_____	_____

Name: _____

Title: _____

Signature _____

EQUIPMENT PROGRAMS

As amended May 7, 2007 (originally adopted Nov. 20, 1986 and amended April 22, 1988)
Amended May 6, 2012

I. INTRODUCTION.

A. Application:

1. The rules contained in these guidelines apply to qualification, and registration of PROGRAMS formed to own equipment and either (a) lease it to non-AFFILIATES, or (b) operate the equipment themselves or through AFFILIATES. While applications not conforming to the standards contained herein shall be looked upon with disfavor, where good cause is shown, certain guidelines may be modified or waived by the ADMINISTRATOR.

COMMENT: The purpose of the guidelines is to establish uniform and consistent standards to be applied by the various state securities ADMINISTRATORS throughout the country. These standards are primarily designed for public programs which acquire and own and either lease or operate equipment of any kind. Excluded shall be PROGRAMS formed to acquire or develop and operate a business and eventually dispose of the business as a whole rather than dispose of identified pieces of equipment. In such PROGRAMS, actual ownership and operation of equipment is incidental to the business of the PROGRAM. An example of this exclusion would be a PROGRAM formed to acquire, develop and operate cable television systems, where the purchase of equipment is incidental to the business. Among other things, the guidelines apply to drilling rig PROGRAMS, service and supply PROGRAMS, and cable television PROGRAMS which do not fall within the above exclusion.

2. Where the individual characteristics of specific PROGRAMS warrant modification from these standards, they will be accommodated insofar as possible while still being consistent with the spirit of these guidelines. When required by the ADMINISTRATOR, a CROSS REFERENCE SHEET shall be furnished with the application.
3. Where these guidelines conflict with disclosure requirements of the Securities and Exchange Commission, the guidelines will not apply.

B. Definitions: Where terms used in the PROSPECTUS are subject to more than one interpretation and such terms are material to PROGRAM provisions, the PROSPECTUS shall contain a glossary of such terms. Any discrepancies between the definitions set forth in these GUIDELINES and the definitions set forth in the glossary shall be indicated in the application filed with the ADMINISTRATOR.

1. *ACQUISITION EXPENSES:* expenses including but not limited to legal fees and expenses, travel and communication expenses, costs of appraisals, accounting fees and expenses, and miscellaneous expenses relating to selection and acquisition of equipment, whether or not acquired.

which is reasonable, customary and competitive in light of the size, type and location of the equipment.

11. *CROSS REFERENCE SHEET*: a compilation of the Guideline sections, referenced to the page of the PROSPECTUS, PROGRAM agreement, or other exhibits, and justification for any deviation from the Guidelines.
12. *EQUIPMENT MANAGEMENT*: personnel and services necessary to the leasing activities of the PROGRAM, including but not limited to, leasing and re-leasing of PROGRAM equipment, arranging for necessary maintenance and repair of the equipment, collecting revenues, paying operating expenses, determining that the equipment is used in accordance with all operative contractual arrangements and providing clerical and bookkeeping services necessary to the operation of PROGRAM equipment.
13. *FRONT-END FEES*: fees and expenses paid by any party for any services rendered during the PROGRAM'S organizational or acquisition phase including ORGANIZATION AND OFFERING EXPENSES, LEASING FEES, ACQUISITION FEES, ACQUISITION EXPENSES, and any other similar fees, however designated by the SPONSOR. FRONT-END FEES shall not include any ACQUISITION FEES or ACQUISITION EXPENSES paid by a manufacturer of equipment to any of its employees unless such PERSONS are AFFILIATES of the SPONSOR.

COMMENT: It is anticipated that fees and expenses covered by the last sentence may be incorporated into the purchase price, and these are not to be construed as FRONT-END FEES. The general approach in these definitions and the limits contained in Section IV. is that there should be no duplication of fees.

14. *FULL PAYOUT LEASES*: leases under which the non-cancellable rental payments due during the initial term of the lease are sufficient to recover the PURCHASE PRICE OF EQUIPMENT.
15. *INDEPENDENT EXPERT*. A PERSON with no current material or prior business or personal relationship with the SPONSOR who is engaged to a substantial extent in the business of rendering opinions regarding the value of assets of the type held by the PROGRAM, and who is qualified to perform such work.
16. *INVESTMENT IN EQUIPMENT*: the amount of CAPITAL CONTRIBUTIONS actually paid or allocated to the purchase, manufacture, or renovation of equipment acquired by the PROGRAM, including the purchase of equipment, working capital reserves allocable thereto (except that working capital reserves in excess of 3% shall not be included), and other cash payments such as interest and taxes but excluding FRONT-END FEES.

26. *PROGRAM INTEREST*: the limited partnership unit or other indicia of ownership in a PROGRAM.
27. *PROSPECTUS*: shall have the meaning given to that term by Section 2(10) of the Securities Act of 1933, including a preliminary PROSPECTUS; provided, however, that such term as used herein shall also include an offering circular as described in Rule 256 of the General Rules and Regulations under the Securities Act of 1933, or, in the case of an intrastate offering, any document by whatever name known, utilized for the purpose of offering and selling securities to the public.
28. *PURCHASE PRICE OF EQUIPMENT*: the price paid upon the purchase or sale of a particular item of equipment, including the amount of ACQUISITION FEES and all liens and mortgages on the equipment, but excluding points and prepaid interest.
29. *ROLL UP*: a transaction involving the acquisition, merger, conversion, or consolidation either directly or indirectly of the PROGRAM and the issuance of securities of a ROLL-UP ENTITY. Such term does not include:
- (a) a transaction involving securities of a PROGRAM that have been for at least 12 months listed on a national securities exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or
 - (b) a transaction involving the conversion to corporate, trust or association form of only the PROGRAM if, as a consequence of the transaction, there will be no significant adverse change in any of the following:
 - (i) PARTICIPANT'S voting rights;
 - (ii) the term of existence of the PROGRAM;
 - (iii) SPONSOR compensation; or
 - (iv) the PROGRAM'S investment objectives.
30. *ROLL-UP ENTITY*: the partnership, corporation, trust, or other entity that would be created or would survive after the successful completion of a proposed ROLL-UP transaction.
31. *SPECIFIED EQUIPMENT PROGRAM*: a PROGRAM where, at the time a securities registration is ordered effective, at least 75% of the net proceeds from the sale of PROGRAM INTERESTS are allocable to the purchase or renovation of identified equipment or one specified type of identified equipment. Reserves shall not be included in the 75%.

2. Financial Information Required. The SPONSOR shall provide as an exhibit to the application the following financial information in support of its NET WORTH:

- a. Corporate SPONSORS shall submit a balance sheet as of the end of their most recent fiscal year, prepared in accordance with generally accepted accounting principles and examined and reported upon by an independent certified public accountant in accordance with generally accepted auditing standards. A balance sheet for the prior fiscal year which meets the above qualifications shall be used if the most recent fiscal year has ended not more than ninety days prior to the date of filing, and an unaudited balance sheet as of a date not more than one hundred thirty-five days prior to the date of filing should also be prepared. Such statements shall be included in the PROSPECTUS.
- b. Where the NET WORTH requirement of this section cannot be met by corporate SPONSORS, a balance sheet for each non-corporate SPONSOR (including individual partners or individual joint ventures of a SPONSOR) as of a date not more than one hundred thirty-five days prior to the date of filing an application shall be submitted. Such balance sheet shall be prepared in accordance with generally accepted accounting principles and reviewed and reported upon by an independent certified public accountant under the review standards set forth by the American Institute of Certified Public Accountants. In such case, a representation of the amount of such NET WORTH must be included in the PROSPECTUS, or in the alternative, a representation that such SPONSOR meets the NET WORTH requirements of this section.

C. Tax Ruling or Opinion. The SPONSOR must have a tax ruling from the U.S. Internal Revenue Service or an opinion of qualified tax counsel concerning the flow-through of tax benefits and other tax consequences to the PARTICIPANT. An opinion of counsel shall be in form and substance satisfactory to the ADMINISTRATOR and shall be unqualified except to the extent permitted by the ADMINISTRATOR.

COMMENT: An opinion meeting the requirements of ABA Formal Opinion 346 (Revised) of the American Bar Association Standing Committee on Ethics and Professional Responsibility and any applicable law shall be deemed satisfactory.

D. Reports to ADMINISTRATOR. The SPONSOR shall submit to the ADMINISTRATOR any other information which the ADMINISTRATOR requires, including, but not limited to, reports and statements required to be distributed to PARTICIPANTS.

E. Liability and Indemnification.

1. The PROGRAM shall not provide for indemnification of the SPONSOR for any liability or loss suffered by the SPONSOR, nor shall it provide that the

2. The SPONSOR shall propose minimum income and net worth standards which are reasonable given the type of PROGRAM and the risks associated with the purchase of PROGRAM INTERESTS. PROGRAMS with greater investor risk shall have minimum standards with a substantial NET WORTH requirement. The ADMINISTRATOR shall evaluate the standards proposed by the SPONSOR when the PROGRAM'S application for registration is reviewed. In evaluating the proposed standards, the ADMINISTRATOR may consider the following:

- a. the PROGRAM'S use of leverage;
- b. tax implications;
- c. mandatory deferred payments;
- d. assessments;
- e. balloon payment financing;
- f. potential variances in cash distributions;
- g. potential PARTICIPANTS;
- h. relationship between potential PARTICIPANTS and the SPONSOR;
- i. liquidity of PROGRAM INTERESTS;
- j. performance of the SPONSOR'S prior programs;
- k. financial condition of the SPONSOR;
- l. potential transactions between the PROGRAM and the SPONSOR; and
- m. any other relevant factors.

B. Income and Net Worth Standards.

1. Unless the ADMINISTRATOR determines that the risks associated with the PROGRAM would require lower or higher standards, each PARTICIPANT shall have:
 - a. a minimum annual gross income of \$70,000 and a minimum NET WORTH of \$70,000; or
 - b. a minimum NET WORTH of \$250,000.
2. NET WORTH shall be determined exclusive of home, home furnishings, and automobiles.
3. In the case of sales to fiduciary accounts, these minimum standards shall be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the PROGRAM INTERESTS if the donor or grantor is the fiduciary.
4. The SPONSOR shall set forth in the final PROSPECTUS:
 - a. the investment objectives of the PROGRAM;
 - b. a description of the type of PERSON who might benefit from an investment in the PROGRAM; and

5. The SPONSOR shall disclose in the final PROSPECTUS the responsibility of the SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM to make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT, based on information provided by the PARTICIPANT regarding the PARTICIPANT'S financial situation and investment objectives.

D. Subscription Agreements.

1. The ADMINISTRATOR may require that each PARTICIPANT complete and sign a written subscription agreement.
2. The SPONSOR may require that each PARTICIPANT make certain factual representations in the subscription agreement, including the following:
 - a. The PARTICIPANT meets the minimum income and net worth standards established for the PROGRAM.
 - b. The PARTICIPANT is purchasing the PROGRAM INTERESTS for his or her own account.
 - c. The PARTICIPANT has received a copy of the PROSPECTUS.
 - d. The PARTICIPANT acknowledges that the investment is not liquid.
3. The PARTICIPANT must separately sign or initial each representation made in the subscription agreement. Except in the case of fiduciary accounts, the PARTICIPANT may not grant any PERSON a power of attorney to make such representations on his or her behalf.
4. The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall not require a PARTICIPANT to make representations in the subscription agreement which are subjective or unreasonable and which:
 - a. might cause the PARTICIPANT to believe that he or she has surrendered rights to which he or she is entitled under federal or state law; or
 - b. would have the effect of shifting the duties regarding suitability, imposed by law on broker-dealers, to the PARTICIPANT.
5. Prohibited representations include, but are not limited to the following:
 - a. The PARTICIPANT understands or comprehends the risks associated with an investment in the PROGRAM.
 - b. The investment is a suitable one for the PARTICIPANT.
 - c. The PARTICIPANT has read the PROSPECTUS.

2. The SPONSOR shall commit a percentage of CAPITAL CONTRIBUTIONS to INVESTMENT IN EQUIPMENT which is equal to the greater of:
 - a. 80% of the CAPITAL CONTRIBUTIONS reduced by .0625% for each 1% of indebtedness encumbering PROGRAM equipment; or
 - b. 75% of CAPITAL CONTRIBUTIONS.

3. If the SPONSOR enters into an INVESTMENT IN EQUIPMENT commitment in excess of that specified in paragraph 2. above, the following mutually exclusive forms of compensation are viewed as reasonable alternatives to FRONT-END FEES:
 - a. For each 1% of CAPITAL CONTRIBUTIONS committed to INVESTMENT IN EQUIPMENT in excess of the minimum amount required the SPONSOR may take an additional promotional interest equal to 1% of all distributions from CASH AVAILABLE FOR DISTRIBUTION and NET DISPOSITION PROCEEDS remaining after PARTICIPANTS have received a cash return of 100% of their CAPITAL CONTRIBUTIONS; or
 - b. The SPONSOR may take a fully participating CARRIED INTEREST equal to 1% for the first 2.5% of additional INVESTMENT IN EQUIPMENT, 1% for the next 2% of additional INVESTMENT IN EQUIPMENT, and 1% for each 1% of additional INVESTMENT IN EQUIPMENT thereafter.

4. Except as permitted by paragraph 3. above, no CARRIED INTEREST in the PROGRAM shall be allowed.

COMMENT: The purpose of this section is to require the SPONSOR to invest a specified percentage of CAPITAL CONTRIBUTIONS in the acquisition of equipment and use the balance for FRONT-END FEES or defer a portion of the FRONT-END FEES for an additional promotional interest or CARRIED INTEREST.

This will avoid the necessity of having to attempt to establish the reasonableness of the various FRONT-END FEES on an individual basis. However, the formula continues the tradition of other NASAA guidelines by allowing the SPONSOR's fee to increase as leverage is employed to acquire equipment. The PROSPECTUS should include an example demonstrating the mechanics of the formula.

To calculate the percent of indebtedness encumbering PROGRAM EQUIPMENT in paragraph 2., divide the amount of indebtedness by the PURCHASE PRICE OF EQUIPMENT, excluding FRONT-END FEES. The Quotient is multiplied by .0625% to determine the percentage to be deducted from 80%.

The following are examples of application of the formula:

- (1) No indebtedness--80% to be committed to INVESTMENT IN EQUIPMENT.
- (2) 50% indebtedness-- $50\% \times .0625\% = 3.125\%$
 $80\% - 3.125\% = 76.875\%$ to be committed to INVESTMENT IN EQUIPMENT.
- (3) 80% indebtedness-- $80\% \times .0625\% = 5\%$
 $80\% - 5\% = 75\%$ to be committed to INVESTMENT IN EQUIPMENT.

D. *Equipment Management Fee.* If the SPONSOR performs the services as described below, the fees paid to the SPONSOR shall be the lesser of the maximum fees set forth below in paragraphs 1. through 4., whichever is applicable, or the fees which are competitive for similar services for similar equipment. Except for the fee provided in paragraph 3. below, included in these fees shall be fees paid by the PROGRAM to PERSONS who are not AFFILIATES.

1. The SPONSOR may charge the PROGRAM an annual fee for EQUIPMENT MANAGEMENT, not exceed 5% of gross rental payments for OPERATING LEASES; or
2. The SPONSOR may charge the PROGRAM an annual fee for EQUIPMENT MANAGEMENT not to exceed 2% of gross rental payments in the case of FULL PAYOUT LEASES which contain NET LEASE PROVISIONS; or
3. The SPONSOR may receive a fee of 1% of gross rental payments if it arranges for and actively supervises the performance of the services in paragraph 1. above by non-AFFILIATES; or
4. If the SPONSOR provides both EQUIPMENT MANAGEMENT and additional services relating to the continued and active operation of PROGRAM equipment, such as on-going marketing and re-leasing of equipment, hiring or arranging for hiring of crews or operating personnel for PROGRAM equipment and similar services, it may charge the PROGRAM a fee not to exceed 7% of gross rental payments from equipment operated by the PROGRAM.

COMMENT (1): This subparagraph 4 is not intended to limit the costs or PROGRAM personnel hired to operate equipment so long as such costs do not include salaries, fringe benefits, travel expenses, and other administrative items incurred or allocated to any controlling persons (as defined in Section V.G.1.b. of these Guidelines) of the SPONSOR. Further, the terms "executive management" used in Section V.G.1.b. do not include those individuals who provide EQUIPMENT MANAGEMENT services to the PROGRAM and who are not involved in executive policy making decisions, regardless of title.

If maintenance and repair of the equipment is required, that cost should be borne by the lessee, or the service may be provided by the SPONSOR as permitted by Section V.G.2. of these Guidelines.

COMMENT (2): The distinction between the first three limitations on fees and the fourth limitation concerns the level of services provided by the SPONSOR who operates the equipment on behalf of the PROGRAM. The 7% fee should only be allowed where the PROGRAM equipment is actually being operated on behalf of the PROGRAM by PROGRAM personnel, and not when its simply leased out under OPERATING LEASES or FULL PAYOUT LEASES. It should be noted that a syndicator who has the necessary facilities to provide maintenance, repair and storage services to PROGRAM equipment and provides extensive marketing efforts in order to reemploy PROGRAM equipment may be considered to be operating equipment on behalf of

V. CONFLICTS OF INTEREST AND INVESTMENT RESTRICTIONS.

A. *Sales and Leases to or from PROGRAM.*

1. Notwithstanding the provisions of paragraph 2. the SPONSOR may purchase equipment in its own name (and assume loans in connection therewith) and hold title thereto on a temporary or interim basis (generally not in excess of six months) for the purpose of facilitating the acquisition of such equipment or the borrowing of money or obtaining of financing for the PROGRAM, or any other purpose related to the business of the PROGRAM, provided: (a) it is in the best interest of the PROGRAM; (b) such equipment is purchased by the PROGRAM for a price no greater than the cost of such equipment to the SPONSOR, except compensation in accordance with Section IV. of these Guidelines; (c) there is no difference in interest terms of the loans secured by the equipment at the time acquired by the SPONSOR and the time acquired by the PROGRAM; and (d) no other benefit arises out of such transaction to the SPONSOR apart from compensation otherwise permitted by these Guidelines.

COMMENT: "Cost" is interpreted to mean the reasonable, necessary and actual expenses incurred by the SPONSOR or its AFFILIATES, as determined in accordance with generally accepted accounting principles, in holding title to equipment on a temporary or interim basis.

2. The PROGRAM shall not purchase or lease equipment from nor sell or lease equipment to, the SPONSOR, including equipment in which the SPONSOR has an interest, except that the PROGRAM may lease equipment to the SPONSOR under a lease arrangement made at the outset and on terms no more favorable to the SPONSOR than those offered other PERSONS and fully described in the PROSPECTUS. Notwithstanding the foregoing, the PROGRAM may purchase new equipment from the SPONSOR if such PERSON is in the business of manufacturing and selling such equipment to PERSONS not affiliated with the PROGRAM, the transaction occurs at the formation of a SPECIFIED EQUIPMENT PROGRAM and the terms thereof are fully described in the PROSPECTUS, the equipment is sold at the lower of manufacturer's cost without mark-up or fair market value, and the equipment is subject to a prearranged lease. Such equipment may not be leased to the SPONSOR.

COMMENT: The term "manufacturer's cost without mark-up", is used to insure that profits, if any, to be earned by the manufacturer should come from the promotional interest of the manufacturer/SPONSOR/

The prohibition in the last sentence of this section is based on the significant conflict of interest which exists where a SPONSOR manufacturers equipment, sells it to a limited partnership of which it is the general partner, and then leases it to an operating AFFILIATE.

3. If the PROGRAM has been formed for the primary purpose of financing equipment to be ultimately used by the SPONSOR in its business, the SPONSOR shall have the right to purchase the equipment at the time of sale at fair market value as determined in a commercially reasonable manner. Such purchase price shall be not less than that

- a. All expenses of the PROGRAM shall be billed directly to and paid by the PROGRAM. The SPONSOR may be reimbursed for the actual cost of goods and materials used for or by the PROGRAM and obtained from entities unaffiliated with the SPONSOR. The SPONSOR may be reimbursed for the administrative services necessary to the prudent operation of the PROGRAM provided that the reimbursement shall be at the lower of the SPONSOR'S actual cost or the amount the PROGRAM would be required to pay to independent parties for comparable administrative services in the same geographic location. No reimbursement shall be permitted for services for which the SPONSOR is entitled to compensation by way of a separate fee. Excluded from the allowable reimbursement (except as permitted under Section IV.C) shall be:
 - (1) rent or depreciation, utilities, capital equipment, other administrative items; and
 - (2) salaries, fringe benefits, travel expenses, and other administrative items incurred or allocated to any controlling person of the SPONSOR.

- b. Controlling PERSON, for purposes of this subsection, includes but is not limited to, all PERSONS, whatever their titles, who perform functions for the SPONSOR similar to those of:
 - (1) Chairman or member of the Board of Directors;
 - (2) Executive Management, such as the
 - (a) President,
 - (b) Vice-President or Senior Vice-President,
 - (c) Corporate Secretary,
 - (d) Treasurer;
 - (3) Senior Management, such as the Vice-President of an operating division who reports directly to Executive Management; or
 - (4) Those holding 5% or more equity interest in the SPONSOR or a PERSON having the power to direct or cause the direction of the SPONSOR, whether through the ownership of voting securities, by contract, or otherwise.

- c. The annual PROGRAM report must contain a breakdown of the costs reimbursed to the SPONSOR. Within the scope of the annual audit of the SPONSOR's financial statements, the independent certified public accountants must issue a special report on the allocation of such costs to the PROGRAM in accordance with the PROGRAM agreement. The special report shall at minimum provide:
 - (1) A review of the time records of individual employees, the costs of whose services were reimbursed;
 - (2) A review of the specific nature of the work performed by each such employee.

3. Contracts for Goods and Services. All services or goods for which the SPONSOR is to receive compensation shall be embodied in a written contract which precisely describes the services to be rendered and all compensation to be paid. The contract may only be modified by vote of a majority of the then outstanding PROGRAM INTERESTS. The contract shall contain a clause allowing termination without penalty on 60 days notice.

H. *Rebates, Kickbacks and Reciprocal Arrangements.*

1. No rebates or give-ups may be received by the SPONSOR nor may the SPONSOR participate in any reciprocal business arrangements which would circumvent these guidelines. Furthermore, the PROSPECTUS and PROGRAM charter documents shall contain language prohibiting the above as well as language prohibiting reciprocal business arrangements which would circumvent the restrictions against dealing with AFFILIATES.
2. No SPONSOR shall directly or indirectly pay or award any commissions or other compensation to any PERSON engaged by a potential investor for investment advice as an inducement to such advisor to advise the purchaser of interests in a particular PROGRAM; provided, however, that this clause shall not prohibit the normal sales commissions payable to a registered broker-dealer or other properly licensed PERSON for selling PROGRAM INTERESTS.

I. *Commingling of Funds.* The funds of a PROGRAM shall not be commingled with the funds of any other PERSON. Nothing contained in this Section shall prohibit a SPONSOR from establishing a master fiduciary account pursuant to which separate subtrust accounts are established for the benefit of affiliated limited partnerships, provided, that PROGRAM funds are protected from claims of such other partnerships and/or creditors. The prohibition of this Section shall not apply to investments meeting the requirements of Section V.J.

J. *Investments in Other PROGRAMS.*

1. Investments in limited partnership interests of another PROGRAM shall be prohibited; however, nothing herein shall preclude the investment in general partnerships or ventures which own and operate specific equipment provided the PROGRAM acquires a controlling interest in such other ventures or general partnerships and the non-controlling interest is owned by a non-AFFILIATE. In such event, duplicate fees shall not be permitted.
2. Notwithstanding the foregoing, the PROGRAM shall be permitted to invest in joint venture arrangements with other PROGRAMS formed by the SPONSOR, if such action is in the best interest of all PROGRAMS and if all of the following conditions are met:
 - a. The PROGRAMS have substantially identical investment objectives;

different investment objectives or are SPECIFIED EQUIPMENT PROGRAMS. The method for allocating investment opportunities among PROGRAMS of the SPONSOR seeking to acquire similar types of equipment shall be reasonable. The method shall be described in the PROSPECTUS.

COMMENT: This section should not be read so as to prohibit the serial offering of PROGRAMS pursuant to a single SEC Registration Statement.

O. Period of Offering and Expenditure of Proceeds. The offering period of PROGRAM interests in a PROGRAM may not exceed one year from the date of effectiveness unless permitted by the ADMINISTRATOR. While the proceeds of an offering are awaiting investment in equipment, the proceeds may be temporarily placed into short-term, highly liquid investments which afford appropriate safety of principal, such as U.S. Treasury Bonds or Bills. Any proceeds of the offering of PROGRAM INTERESTS not committed for investment within two (2) years from the date of effectiveness (except for necessary operating capital) shall be distributed pro rata to the PARTICIPANTS as a return of capital.

COMMENT: For purposes of this section the date of effectiveness is generally considered the date of SEC effectiveness for the initial partnership in a series PROGRAM. For subsequent partnerships in the series, the date of effectiveness will be when the partnership commences its offering.

P. Assessments, Installment Payments, Warrants, Options, or Other Staged or Deferred Payments. Plans calling for assessments, installment payments, warrants, options, or other staged or deferred payments shall not be allowed in other than SPECIFIED EQUIPMENT PROGRAMS.

Q. Distributions in Kind. Distributions in kind shall not be permitted except upon dissolution and liquidation, and then only to a liquidating trust which has been established for the purpose of the liquidation of the assets of the PROGRAM, and the distribution of cash in accordance with the terms of the PROGRAM agreement.

R. Appraisal and Compensation.

1. In connection with a proposed ROLL-UP, an appraisal of all PROGRAM assets shall be obtained from a competent, INDEPENDENT EXPERT. If the appraisal will be included in a PROSPECTUS used to offer the securities of a ROLL-UP ENTITY, the appraisal shall be filed with the SEC and the states as an Exhibit to the Registration Statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under state laws for any material misrepresentations or material omissions in the appraisal. PROGRAM assets shall be appraised on a consistent basis. The appraisal shall be based on an evaluation of all relevant information, and shall indicate the value of the PROGRAM'S assets as of a date immediately prior to the

VI. RIGHTS AND OBLIGATIONS OF PARTICIPANTS.

- A. *Meetings.* Meetings of the PROGRAM may be called by the SPONSOR or the PARTICIPANTS holding more than 10% of the then outstanding PROGRAM INTERESTS, for any matters for which the PARTICIPANTS may vote as set forth in the PROGRAM agreement. Upon receipt of a written request, either in person or by registered mail, stating the purpose(s) of the meeting, the SPONSOR shall provide all PARTICIPANTS within ten days after receipt of said request, written notice (either in person or by certified mail) of a meeting and the purpose of such meeting to be held on a date not less than fifteen nor more than sixty days after distribution of such notice, at the time and place specified in the request, or if none, at a time and place convenient to PARTICIPANTS.
- B. *Voting Rights of PARTICIPANTS.* The limited partnership agreement must provide that a majority of the then outstanding PROGRAM INTERESTS may, without the necessity of concurrence by the SPONSOR, vote to (1) amend the limited partnership agreement, (2) dissolve the PROGRAM, (3) remove the SPONSOR and elect a new SPONSOR, (4) approve or disapprove the sale of all or substantially all of the assets of the PROGRAM except pursuant to a plan disclosed in the final PROSPECTUS. The agreement should provide for a successor SPONSOR where the only SPONSOR of the PROGRAM is an individual. With respect to any PROGRAM INTERESTS owned by the SPONSOR, the SPONSOR may not vote or consent on matters submitted to the PARTICIPANTS regarding the removal of the SPONSOR or regarding any transaction between the PROGRAM and the SPONSOR. In determining the requisite percentage in interest of PROGRAM INTERESTS necessary to approve a matter on which the sponsor may not vote or consent, any PROGRAM INTERESTS owned by the SPONSOR shall not be included.

COMMENT: The exercise of voting rights by PARTICIPANTS shall not be restricted or subject to satisfaction of conditions prior to the exercise of the rights.

- C. *Reports.* The PROGRAM agreement shall provide that the SPONSOR shall prepare and distribute to PARTICIPANTS the following reports:
1. For other than SPECIFIED EQUIPMENT PROGRAMS, a report of equipment acquisitions made during each quarter shall be sent to all PARTICIPANTS within sixty days following the end of each quarter, until the proceeds of the offering are fully invested or returned to the PARTICIPANTS, as set out in Section V.O. of these Guidelines. Such reports shall include, by way of illustration and not limitation, a statement of the actual PURCHASE PRICE OF EQUIPMENT, including terms of the purchase, a statement of the total amount of cash expended by the PROGRAM to acquire such items of equipment (including and itemizing all commissions, fees, expenses and the name of each payee), and a statement of the amount of proceeds in the PROGRAM which remain unexpended or uncommitted.

lease, lease, retire, or sell), and (v) such other information relevant to the value or utilization of the equipment as the SPONSOR deems appropriate. The status report shall describe the method used or basis for valuation.

6. If ASSESSMENTS have been made during any period covered by any report required by paragraphs 2., 3., and 5. hereof, then such report shall contain a detailed statement of such ASSESSMENTS and the application of the proceeds derived from such ASSESSMENTS.
7. If any SPONSOR receives fees for services, it shall, within sixty days of the end of each quarter wherein such fees were received, send to each PARTICIPANT a detailed statement setting forth the services rendered, or to be rendered, by such SPONSOR and the amount of the fees received. This requirement may not be circumvented by lump-sum payments to management companies or other entities who then disburse the funds.
8. The SPONSOR shall undertake to make any of the reports required by paragraphs 1. through 7. available to the ADMINISTRATOR upon request.

D. Access to Records. Any PARTICIPANT and any designated representative thereof shall be permitted access to all records of the PROGRAM at all reasonable times, and may inspect and copy any of them. The limited partnership agreement, by-laws, or other PROGRAM agreement shall include the following provisions regarding access to the list of PARTICIPANTS:

1. An alphabetical list of the names, addresses, and business telephone numbers of the PARTICIPANTS of the PROGRAM along with the number of PROGRAM INTERESTS held by each of them (the "PARTICIPANT List") shall be maintained as a part of the books and records of the PROGRAM and shall be available for inspection by any PARTICIPANT or its designated agent at the home office of the Program upon the request of the PARTICIPANT;
2. The PARTICIPANT List shall be updated at least quarterly to reflect changes in the information contained therein;
3. A copy of the PARTICIPANT List shall be mailed to any PARTICIPANT requesting the PARTICIPANT List within ten days of the request. The copy of the PARTICIPANT List shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the PROGRAM;
4. The purposes for which a PARTICIPANT may request a copy of the PARTICIPANT List include, without limitation, matters relating to PARTICIPANTS' voting rights under the PROGRAM agreement, and the exercise of PARTICIPANTS' rights under federal proxy laws; and

1. Admission of Original PARTICIPANTS. Upon the original sale of PROGRAM INTERESTS, the purchasers should be admitted as PARTICIPANTS not later than 15 days after the release from impound of the purchaser's funds to the PROGRAM. Thereafter, purchasers should be admitted into the PROGRAM not later than the last day of the calendar month following the date their subscription was accepted by the PROGRAM. Subsequent subscriptions shall be accepted or rejected by the PROGRAM within 30 days of their receipt; if rejected, all subscription monies should be returned to the subscriber immediately.

2. Admission of Substituted PARTICIPANTS and Recognition of Assignees. The PROGRAM shall amend the PROGRAM agreement at least once each calendar quarter to effect the substitution of substituted PARTICIPANTS, although the SPONSOR may elect to do so more frequently.
In the case of assignments where the assignee does not become a substituted PARTICIPANT, the PROGRAM shall recognize the assignment not later than the last day of the calendar month following receipt of notice of assignment and required documentation..

3. Except where deemed inappropriate by the ADMINISTRATOR, PERSONS holding PROGRAM INTERESTS by assignment from entities holding limited partnership interests in a PROGRAM for the purpose of assigning all or a portion of such interests to PERSONS investing in such PROGRAM (hereinafter the "Assignor") shall be expressly granted the same rights as if they were limited partners except as prohibited by applicable law, including but not limited to, the rights enumerated under Article VI of this Statement of Policy.
The assignment agreement and PROSPECTUS shall provide that the Assignor's management shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the assignees, whether or not in the Assignor management's possession or control, and that the management of the Assignor shall not employ, or permit another to employ such funds or assets in any manner except for the exclusive benefit of the assignees. In addition, the agreement shall not permit the assignees to contract away the fiduciary duty owed to the assignees by the Assignor's management under the common law of agency.

G. *Redemption of PROGRAM INTERESTS.* Ordinarily, the PROGRAM and the SPONSOR are not obligated to redeem or repurchase any of the PROGRAM INTERESTS. However, the PROGRAM and the SPONSOR are not precluded from voluntarily repurchasing or redeeming the PROGRAM INTERESTS if such repurchase or redemption does not impair the capital or operations of the PROGRAM. A PROGRAM may provide for mandatory redemption rights under the following circumstances:

1. death or legal incapacity of the owner; or,

2. a substantial reduction in the owner's NET WORTH or income provided that (i) the PROGRAM has sufficient cash to make the purchase, (ii) the purchase will not be in

B. PROSPECTUS and Its Contents.

1. *Prospectus.* A PROSPECTUS which is not part of a Registration Statement declared effective by the Securities and Exchange Commission pursuant to the Securities Act of 1933 shall generally conform to the disclosure requirements which would apply if the offering were so registered. The format and information requirements of Guide 5 promulgated by the Securities and Exchange Commission shall be followed, with appropriate adjustments made for the different business of the PROGRAM.

2. *Forecasts.* a. Use of Forecasts. The presentation of predicted future results of operations of equipment PROGRAMS shall be permitted but not required for SPECIFIED EQUIPMENT PROGRAMS and shall be prohibited for all other PROGRAMS. The covers of the PROSPECTUS must contain in bold face language one of the following statements:
 - (1) for SPECIFIED EQUIPMENT PROGRAMS: "FORECASTS ARE CONTAINED IN THIS PROSPECTUS (OFFERING CIRCULAR). ANY PREDICTIONS AND REPRESENTATIONS, WRITTEN OR ORAL, WHICH DO NOT CONFORM TO THOSE CONTAINED IN THE PROSPECTUS (OFFERING CIRCULAR) SHALL NOT BE PERMITTED."

 - (2) for all other PROGRAMS: "THE USE OF FORECASTS IN THIS OFFERING IS PROHIBITED. ANY REPRESENTATIONS TO THE CONTRARY AND ANY PREDICTIONS, WRITTEN OR ORAL, AS TO THE AMOUNT OR CERTAINTY OF ANY PRESENT OR FUTURE CASH BENEFIT OR TAX CONSEQUENCE WHICH MAY FLOW FROM AN INVESTMENT IN THIS PROGRAM IS NOT PERMITTED."

- b. Content of Forecasts. Forecasts for SPECIFIED EQUIPMENT PROGRAMS shall be included in the PROSPECTUS, offering circular or sales material of the PROGRAM only if they comply with the following requirements:
 - (1) General. Forecasts shall be realistic in their predictions and shall clearly identify the assumptions made with respect to all material features of the presentation. Forecasts should be examined by an independent certified public accountant in accordance with the Guide for Prospective Financial Statements and the Statement on Standards for Accountant's Services on Prospective Financial Information as promulgated by the American Institute of Certified Public Accountants. The report of the independent certified public accountant must be included in the PROSPECTUS. No forecasts shall be permitted in any sales literature which do not appear in the PROSPECTUS or offering circular. If any forecasts are included in the sales literature, all forecasts must be presented.

return sufficient cash to meet resulting tax liabilities of the PARTICIPANTS).

- (4) In computing the return to investors, no appreciation, so called "equity buildup", or any other benefits from unrealized gains or value shall be shown or included.
- (5) Forecasts of a resale occurrence shall be permitted.

VIII. MISCELLANEOUS PROVISIONS.

A. *Fiduciary Duty.* The PROGRAM agreement shall provide that the SPONSOR shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the PROGRAM, whether or not in its immediate possession or control. The SPONSOR shall not employ, or permit another to employ such funds or assets in any manner except for the exclusive benefit of the PROGRAM.

In addition, the PROGRAM shall not permit the PARTICIPANT to contract away the fiduciary duty owed to the PARTICIPANT by the SPONSOR under the common law.

B. *Deferred Payments.* Arrangements for deferred payments on account of the purchase price of PROGRAM INTERESTS may be allowed when warranted by the investment objectives of the PROGRAM. Such arrangements shall be subject to the following conditions:

1. The period of deferred payments shall coincide with the anticipated cash needs of the PROGRAM;
2. Selling commissions paid upon deferred payments are collectible when payment is made on the note;
3. Deferred payments shall be evidenced by a promissory note of the investor. Such notes shall be with recourse and shall not be negotiable and shall be assignable only subject to defenses of the maker. Such notes shall not contain a provision authorizing a confession of judgment;
4. The PROGRAM shall not sell or assign the deferred obligation notes at a discount to meet financing needs of the PROGRAM;
5. In the event of a default in the payment of deferred payments by PARTICIPANTS, their interests may be subjected to a reasonable penalty, as set forth in Section VI.E.2. of these Guidelines.

C. *Reserves.* Provisions should be made for adequate reserves in the future by retention of a reasonable percentage of proceeds from the offering and regular receipts for normal repairs, replacements and contingencies. Normally, not less than 1% of the offering proceeds will be considered adequate.

EQUIPMENT PROGRAMS GUIDELINES CROSS REFERENCE SHEET

Name of Applicant _____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
I.B. Definitions			
1. Acquisition Expenses	_____	_____	_____
2. Acquisition Fee	_____	_____	_____
3. Administrator	_____	_____	_____
4. Affiliate	_____	_____	_____
5. Assessments	_____	_____	_____
6. Capital Contributions	_____	_____	_____
7. Carried Interest	_____	_____	_____
8. Cash Available for Distribution	_____	_____	_____
9. Cash Flow	_____	_____	_____
10. Competitive Equipment Sale Commission	_____	_____	_____
11. Cross Reference Sheet	_____	_____	_____
12. Equipment Management	_____	_____	_____
13. Front-End Fees	_____	_____	_____
14. Full Payout Leases	_____	_____	_____
15. Independent Expert	_____	_____	_____
16. Investment in Equipment	_____	_____	_____
17. Leasing Fee	_____	_____	_____
18. Net Disposition Proceeds	_____	_____	_____
19. Net Lease Provisions	_____	_____	_____
20. Net Worth	_____	_____	_____
21. Operating Leases	_____	_____	_____
22. Organizational and Offering Expenses	_____	_____	_____
23. Participant	_____	_____	_____
24. Person	_____	_____	_____
25. Program	_____	_____	_____
26. Program Interest	_____	_____	_____
27. Prospectus	_____	_____	_____
28. Purchase Price of	_____	_____	_____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
Expenses			
C. Investment in Equipment			
2. Greater of: (a) 80% less .0625 of 1% indebtedness, or (b) 75% of Capital Contributions			
3. (a) Additional Investment- promotional interest 1% for 1% after 100% Return			
(b) Carried Interest-1% for the first 2.5% additional, 1% for 2% and 1% for 1%			
D. Promotional Interest			
1. (a) 5% of cash available for distributions and 1% of disposition proceeds until return of 100% plus 8% cumulative return, then 15%			
(b) 20% of cash available for distribution after a 100% plus 8% cumulative return			
E. Equipment Management Fee			
1. 5% of gross for Operating Leases			
2. 2% of gross for Full Payout Leases			
3. 1% supervision fee of non-Affiliates			
4. Equipment Management and additional services- 7% gross			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
reimbursement			
b. Controlling Persons			
c. Annual Program			
Report-special report of time records and nature of work			
d. Tabular estimate of next year's expenses and breakdown of last five public programs by Sponsor			
2. Other Services by Sponsor			
a. Comparable and competitive cost			
b. Fully disclosed			
c. Sponsor independently engaged in business of such services			
3. Written Contract			
H. Rebates, Kickbacks and Reciprocal Arrangements			
I. Commingling of Funds			
J. Investments in Other Programs			
1. Prohibited unless controlling interest and with non-affiliate; Duplicate fees prohibited			
2. Affiliate Joint Ventures if:			
a. substantially identical investment objectives;			
b. no duplicate fees			
c. Sponsor compensation identical in each Program			
d. Program has right of			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
C. Forecasts	_____	_____	_____
VIII. Miscellaneous Provisions			
A. Fiduciary Duty	_____	_____	_____
B. Deferred Payments	_____	_____	_____
C. Reserves	_____	_____	_____
D. Reinvestment of Cash Available for Distributions	_____	_____	_____
E. Reinvestment of Proceeds On Disposition of Equipment	_____	_____	_____
F. Payments to Terminated Sponsors	_____	_____	_____

Additional Supplemental Cross References:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Name: _____
Title: _____
Signature _____

OMNIBUS GUIDELINES

Adopted by the NASAA membership on March 29, 1992, Amended May 7, 2007

I. INTRODUCTION

A. *Application.*

1. These Omnibus Guidelines (the "Guidelines") apply to the registration and qualification of PROGRAMS for which statements of policy have not been adopted by the North American Securities Administrators Association.
2. While applications not conforming to the standards contained herein shall be looked upon with disfavor, where good cause is shown, certain Guidelines may be modified or waived by the ADMINISTRATOR.

B. *Definitions.*

1. ACQUISITION EXPENSES--Expenses, including but not limited to legal fees and expenses, travel and communication expenses, costs of appraisals, non-refundable option payments on assets not acquired, accounting fees and expenses, and miscellaneous expenses relating to the purchase or acquisition of assets, whether or not acquired.
2. ACQUISITION FEES--The total of all fees and commissions paid by any party in connection with the initial purchase or acquisition of assets by the PROGRAM. Included in the computation of such fees or commissions shall be any commission, selection fee, supervision fee, financing fee, non-recurring management fee or any fee of a similar nature, however designated.
3. ADMINISTRATOR--The official or agency administering the securities laws of a state, province, or commonwealth.
4. AFFILIATE--An AFFILIATE of another PERSON includes any of the following:
 - (a) Any PERSON directly or indirectly owning, controlling, or holding with power to vote ten percent or more of the outstanding voting securities of such other PERSON.
 - (b) Any PERSON ten percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held, with power to vote, by such other PERSON.
 - (c) Any PERSON directly or indirectly controlling, controlled by, or under common control with such other PERSON.

(d) Any executive officer, director, trustee or partner of such other PERSON.

(e) Any legal entity on which such PERSON acts as an executive officer, director, trustee, or partner.

5. ASSESSMENTS--Additional amounts of capital which may be mandatorily required of, or paid voluntarily by, a PARTICIPANT beyond his or her subscription commitment excluding deferred payments.
6. CAPITAL CONTRIBUTIONS--The total investment, including the original investment and amounts reinvested pursuant to distribution reinvestment plan in a PROGRAM by a PARTICIPANT or by all PARTICIPANTS, as the case may be. Unless otherwise specified, CAPITAL CONTRIBUTIONS shall be deemed to include principal amounts to be received on account of deferred payments.
7. CASH AVAILABLE FOR DISTRIBUTION--CASH FLOW plus cash funds available for distribution from PROGRAM reserves less amounts set aside for restoration or creation of reserves.
8. CASH FLOW--PROGRAM cash funds provided from operations, without deduction for depreciation, but after deducting cash funds used to pay all other expenses, debt payments, capital improvements and replacements. Cash withdrawn from reserves is not CASH FLOW.
9. CONTROLLING PERSON--Includes, but is not limited to, all PERSONS, whatever their titles, who perform functions for the SPONSOR similar to those of: (a) chairman or member of the board of directors; (b) executive officers; and (c) those holding ten percent or more equity interest in the SPONSOR or a PERSON having the power to direct or cause the direction of the SPONSOR, whether through the ownership of voting securities, by contract, or otherwise.
10. CROSS REFERENCE SHEET--A compilation of the Guideline sections, referenced to the page of the PROSPECTUS and PROGRAM agreement, or other exhibits, and justification for any deviation from the Guidelines. Such compilation shall comply with the provisions set forth on the CROSS REFERENCE SHEET.
11. FRONT END FEES--Fees and expenses paid by any party for any services rendered to organize the PROGRAM and to acquire assets for the PROGRAM, including ORGANIZATION AND OFFERING EXPENSES, ACQUISITION FEES, ACQUISITION EXPENSES, and any other similar fees, however designated by the SPONSOR.
12. INDEPENDENT EXPERT--A PERSON with no material current or prior business or personal relationship with the SPONSOR who is engaged to a substantial extent in the business of rendering opinions

regarding the value of assets of the type held by the PROGRAM, and who is qualified to perform such work.

13. INVESTMENT IN PROGRAM ASSETS--The amount of capital contributions actually paid or allocated to the purchase or development of assets acquired by the PROGRAM (including working capital reserves allocable thereto, except that working capital reserves in excess of three percent shall not be included) and other cash payments such as interest and taxes, but excluding FRONT-END FEES.
14. NET ASSET FEE--An annual fee equal to a percentage of the PROGRAM'S annual ending net assets (assets less liabilities) determined in accordance with generally accepted accounting principles.
15. NET WORTH--The excess of total assets over total liabilities as determined by generally accepted accounting principles.
16. ORGANIZATIONAL AND OFFERING EXPENSES--All expenses incurred by and to be paid from the assets of the PROGRAM in connection with and in preparing a PROGRAM for registration and subsequently offering and distributing it to the public, including, but not limited to, total underwriting and brokerage discounts and commissions (including fees of the underwriter's attorneys), expenses for printing, engraving, mailing, salaries of employees while engaged in sales activity, charges of transfer agents, registrars, trustees, escrow holders, depositories, experts, expenses of qualification of the sale of its securities under Federal and State laws, including taxes and fees, accountants' and attorneys' fees.
17. PARTICIPANT--The holder of a PROGRAM INTEREST.
18. PAYOUT--The point in time when all PARTICIPANTS have received cash distributions from the PROGRAM in an amount equal to their total CAPITAL CONTRIBUTIONS.
19. PERSON--Any natural PERSON, partnership, corporation, association, trust or other legal entity.
20. PROGRAM--A limited or general partnership, joint venture, unincorporated association or similar organization other than a corporation formed and operated for the primary purpose of investment in and the operation of or gain from and interest in the assets to be acquired by such entity.
21. PROGRAM INTEREST--The limited partnership unit or other indicia of ownership in a PROGRAM.

22. **PROMOTIONAL INTEREST**--A percentage interest of the SPONSOR in all PROGRAM revenues, costs and expenses, other than FRONT END FEES, for which the SPONSOR is not obligated to make a CAPITAL CONTRIBUTION in the form of cash or tangible property.
23. **PROSPECTUS**--Shall have the meaning given to that term by section 2(10) of the Securities Act of 1933, including a preliminary PROSPECTUS; provided, however, that such term as used herein shall also include an offering circular as described in Rule 256 of the General Rules and Regulations under the Securities Act of 1933 or, in the case of an intrastate offering, any document by whatever name known, utilized for the purpose of offering and selling securities to the public.
24. **ROLL-UP**--A transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of the PROGRAM and the issuance of securities of a ROLL-UP ENTITY. Such term does not include:
- (a) a transaction involving securities of the PROGRAM that have been for at least 12 months listed on a national exchange or that are traded through the National Association of Securities Dealers Automated Quotation--National Market System; or
 - (b) a transaction involving the reorganization to corporate, trust or association form of only the PROGRAM if, as a consequence of the proposed reorganization, there will be no significant adverse change in any of the following:
 - (i) PARTICIPANT'S voting rights;
 - (ii) the term of existence of the PROGRAM;
 - (iii) SPONSOR compensation; or
 - (iv) the PROGRAM'S investment objectives.
25. **ROLL-UP ENTITY**--A partnership, trust, corporation or other entity that would be created or survive after the successful completion of a proposed ROLL-UP transaction.
26. **SPECIFIED ASSET PROGRAM**--A PROGRAM where, at the time a securities registration is ordered effective, at least 75% of the net proceeds from the sale of PROGRAM INTERESTS are allocable to the purchase, construction, renovation, or improvement of individually identified assets or assets that provide a reasonably objective basis in conformity with the Guidelines of the American Institute of Certified Public Accountants to allow the issuance of prospective financial statements. Reserves shall not be included in the 75%.

27. SPONSOR--Any PERSON directly or indirectly instrumental in organizing, wholly or in part, a PROGRAM or any PERSON who will control, manage or participate in the management of a PROGRAM, and any AFFILIATE of such PERSON. Not included is any PERSON whose only relation with the PROGRAM is that of an independent manager of a portion of PROGRAM assets, and whose only compensation is as such. "SPONSOR" does not include wholly independent third parties such as attorneys, accountants, and underwriters whose only compensation is for professional services rendered in connection with the offering of PROGRAM INTERESTS. A PERSON may also be deemed a SPONSOR of the PROGRAM by:

- (a) taking the initiative, directly or indirectly, in founding or organizing the business or enterprise of the PROGRAM, either alone or in conjunction with one or more other PERSONS;
- (b) receiving a material participation in the PROGRAM in connection with the founding or organizing of the business of the PROGRAM, in consideration of services or property, or both services and property;
- (c) having a substantial number of relationships and contacts with the PROGRAM;
- (d) possessing significant rights to control PROGRAM properties;
- (e) receiving fees for providing services to the PROGRAM which are paid on a basis that is not customary in the industry; or
- (f) providing goods or services to the PROGRAM on a basis which was not negotiated at arm's length with the PROGRAM.

II. REQUIREMENTS OF SPONSOR

- A. *Experience.* The SPONSOR, the general partner, or their chief operating officers shall have at least three years relevant experience demonstrating the knowledge and experience to acquire and manage the type of assets being acquired, and any of the foregoing, or any AFFILIATE providing services to the PROGRAM, shall have had not less than four years relevant experience in the kind of service being rendered or otherwise must demonstrate sufficient knowledge and experience to perform the services proposed.

COMMENT: "Relevant experience" should be interpreted to include actual direct experience by the chief executive officer, or other PERSONS at the management level, either as a principal or agent in performing the services to be provided to the PROGRAM. This would include acquiring and managing assets

for one's own account or acting as an agent in acquiring and managing assets comparable to that which the PROGRAM will acquire.

- B. *Financial Condition.* The financial condition of the SPONSOR liable for the debts of the PROGRAM must be commensurate with any financial obligations assumed in connection with the offering and the operation of the PROGRAM. As a minimum, such SPONSOR shall have an aggregate financial NET WORTH, exclusive of home, automobiles, and home furnishings, of the greater of either \$100,000, or 5.0% of the first \$20 million of both the gross amount of securities currently being offered and the gross amount of any originally issued direct participation PROGRAM securities sold by the SPONSOR within the prior 12 months, plus 1.0% of all amounts in excess of the first \$20 million. In determining NET WORTH for this purpose, evaluation will be made of contingent liabilities and the use of promissory notes, to determine the appropriateness of their inclusion in the computation of NET WORTH. Promissory notes may be included in NET WORTH if the maker can demonstrate the ability to pay upon demand and the terms of the notes are satisfactory to the ADMINISTRATOR. The gross amount of an offering includes the principal amounts to be received on account of deferred payments.
- C. *Reports.* Each application for registration shall contain a commitment, executed by the SPONSOR, to submit to the ADMINISTRATOR, upon request, reports and statements required to be distributed to PARTICIPANTS pursuant to section VI. C.

COMMENT: The SPONSOR need not file with the ADMINISTRATOR all reports that will be distributed to PARTICIPANTS, but should retain copies of such reports of information and make them available to the ADMINISTRATOR as required.

- D. *Fiduciary Duty of SPONSOR.* The PROGRAM agreement shall provide that the SPONSOR shall have a fiduciary responsibility for the safekeeping and use of all funds and assets of the PROGRAM, whether or not in the SPONSOR's immediate possession or control, and that the SPONSOR shall not employ, or permit another to employ, such funds or assets in any manner except for the exclusive benefit of the PROGRAM. In addition, the PROGRAM shall not permit the PARTICIPANT to contract away the fiduciary obligation owed to the PARTICIPANT by the SPONSOR under common law.
- E. *Termination of SPONSOR.*
1. The SPONSOR may not voluntarily withdraw from the PROGRAM without 120 days prior written notice to the PARTICIPANTS. If the PARTICIPANTS or any remaining SPONSOR elect to continue the PROGRAM, the withdrawing SPONSOR shall pay all expenses incurred as a result of its withdrawal.

2. Upon termination of the SPONSOR, the PROGRAM may be required to pay to the terminated SPONSOR all amounts then accrued and owing to the terminated SPONSOR. Additionally, the PROGRAM may terminate the SPONSOR's interest in PROGRAM revenues, expenses, income, losses, distributions, and capital by payment of an amount equal to the then present fair market value of the terminated SPONSOR's interest, determined by agreement of the terminated SPONSOR and the PROGRAM, or, if they cannot agree, by arbitration in accordance with the then current rules of the American Arbitration Association. The expense of arbitration shall be borne equally by the terminated SPONSOR and the PROGRAM.
3. The method of payment to the terminated SPONSOR must be fair and must protect the solvency and liquidity of the PROGRAM. When the termination is voluntary, the method of payment will be presumed to be fair if it provides for a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the terminated SPONSOR otherwise would have received under the program agreement had the SPONSOR not been terminated. When the termination is involuntary, the method of payment will be presumed to be fair if it provides for an interest bearing promissory note maturing in not less than five years with equal installments each year.
4. The agreement should also provide for a successor SPONSOR where the only SPONSOR of the PROGRAM is an individual.

F. *Tax Ruling or Opinion.* The SPONSOR shall, if the ADMINISTRATOR deems it appropriate, have a tax ruling from the U.S. Internal Revenue Service or an opinion of qualified independent tax counsel concerning the flow-through of tax benefits and other tax consequences to the PARTICIPANT. An opinion of counsel shall be in a form and substance satisfactory to the ADMINISTRATOR and shall be unqualified except to the extent permitted by the ADMINISTRATOR. Also included shall be, an opinion of independent counsel to the effect that the securities being offered are duly authorized and validly issued INTERESTS in the issuer, and that the liability of the public investors will be limited to their respective total agreed upon investment in the issuer.

COMMENT: An opinion meeting the requirements of ABA Formal Opinion 346 (Revised) of the American Bar Association Standing Committee on Ethics and Professional Responsibility and any applicable law shall be deemed satisfactory.

G. *Liability and Indemnification.*

1. The PROGRAM shall not provide for indemnification of the SPONSOR for any liability or loss suffered by the SPONSOR, nor shall it provide that the SPONSOR be held harmless for any loss or liability

suffered by the PROGRAM, unless all of the following conditions are met:

(a) The SPONSOR has determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the PROGRAM.

(b) The SPONSOR was acting on behalf of or performing services for the PROGRAM.

(c) Such liability or loss was not the result of negligence or misconduct by the SPONSOR.

(d) Such indemnification or agreement to hold harmless is recoverable only out of PROGRAM net assets and not from PARTICIPANTS.

2. Notwithstanding anything to the contrary contained in Section II.G.1., the SPONSOR and any person acting as broker-dealer shall not be indemnified for any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws unless one or more of the following conditions are met:

(a) There has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee.

(b) Such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee.

(c) A court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and related costs should be made, and the court of law considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and the published position of any state securities regulatory authority in which securities of the PROGRAM were offered or sold as to indemnification for violations of securities laws.

3. The PROGRAM may not incur the cost of that portion of liability insurance which insures the SPONSOR for any liability as to which the SPONSOR is prohibited from being indemnified under this section.

4. The advancement of PROGRAM funds to a SPONSOR or its AFFILIATES for legal expenses and other costs incurred as a result of any legal action for which indemnification is being sought is permissible only if all of the following conditions are satisfied:

(a) The legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the PROGRAM.

(b) The legal action is initiated by a third party who is not a PARTICIPANT, or the legal action is initiated by a PARTICIPANT and a court of competent jurisdiction specifically approves such advancement.

(c) The SPONSOR or its AFFILIATES undertake to repay the advanced funds to the PROGRAM, together with the applicable legal rate of interest thereon, in cases in which such PERSON is found not to be entitled to indemnification.

H. *Arbitration Provisions.* The PROGRAM agreement may contain provisions relating to the use of arbitration as a means of dispute resolution; provided however, it may not require arbitration for allegations involving breach of contract, negligence, violations of state or federal securities laws, breach of fiduciary duty or other misconduct by the SPONSOR, nor shall it provide for mandatory venue. PROGRAM agreements which contain arbitration provisions shall prominently disclose such fact on the cover page of the PROGRAM agreement. Allocation of the cost of arbitration may be made a matter for determination in the proceedings. This Section II.H is not intended to prohibit arbitration agreements entered into as a condition for opening or maintaining an account with a broker-dealer, who may also be a SPONSOR. In addition, this section II.H should not be interpreted to prohibit separate arbitration agreements between SPONSORS and PARTICIPANTS if the agreements are not a condition of making an investment in the PROGRAM.

III. SUITABILITY OF PARTICIPANTS

A. General Policy.

1. The SPONSOR shall establish minimum income and net worth standards for PERSONS who purchase PROGRAM INTERESTS.
2. The SPONSOR shall propose minimum income and net worth standards which are reasonable given the type of PROGRAM and the risks associated with the purchase of PROGRAM INTERESTS. PROGRAMS with greater investor risk shall have minimum standards with a substantial NET WORTH requirement. The ADMINISTRATOR shall evaluate the standards proposed by the SPONSOR when the PROGRAM'S application for registration is reviewed. In evaluating the proposed standards, the ADMINISTRATOR may consider the following:

- (a) the PROGRAM'S use of leverage;

- (b) tax implications;
- (c) mandatory deferred payments;
- (d) assessments;
- (e) balloon payment financing;
- (f) potential variances in cash distributions;
- (g) potential PARTICIPANTS;
- (h) relationship between potential PARTICIPANTS and the SPONSOR;
- (i) liquidity of PROGRAM INTERESTS;
- (j) performance of SPONSOR'S prior programs;
- (k) financial condition of the SPONSOR;
- (l) potential transactions between the PROGRAM and the SPONSOR; and
- (m) any other relevant factors.

B. Income and Net Worth Standards.

1. Unless the ADMINISTRATOR determines that the risks associated with the PROGRAM would require lower or higher standards, each PARTICIPANT shall have:
 - (a) a minimum annual gross income of \$70,000 and a minimum NET WORTH of \$70,000; or
 - (b) a minimum NET WORTH of \$250,000.
2. NET WORTH shall be determined exclusive of home, home furnishings, and automobiles.
3. In the case of sales to fiduciary accounts, these minimum standards shall be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the PROGRAM INTERESTS if the donor or grantor is the fiduciary.
4. The SPONSOR shall set forth in the final PROSPECTUS:
 - (a) the investment objectives of the PROGRAM;
 - (b) a description of the type of PERSON who might benefit from an investment in the PROGRAM; and

(c) the minimum standards imposed on each PARTICIPANT in the PROGRAM.

C. Determination that Sale to PARTICIPANT is Suitable and Appropriate.

1. The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT.
2. In making this determination, the SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall ascertain that the prospective PARTICIPANT:
 - (a) meets the minimum income and net worth standards established for the PROGRAM;
 - (b) can reasonably benefit from the PROGRAM based on the prospective PARTICIPANT'S overall investment objectives and portfolio structure;
 - (c) is able to bear the economic risk of the investment based on the prospective PARTICIPANT'S overall financial situation; and
 - (d) has apparent understanding of:
 - (i) the fundamental risks of the investment;
 - (ii) the risk that the PARTICIPANT may lose the entire investment;
 - (iii) the lack of liquidity of PROGRAM INTERESTS;
 - (iv) the restrictions on transferability of PROGRAM INTERESTS;
 - (v) the background and qualifications of the SPONSOR or the PERSONS responsible for directing and managing the PROGRAM; and
 - (vi) the tax consequences of the investment.
3. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM will make this determination on the basis of information it has obtained from a prospective PARTICIPANT. Relevant information for this purpose will include at least the age, investment objectives, investment experience, income, NET WORTH, financial situation, and other investments of the prospective PARTICIPANT, as well as any other pertinent factors.

4. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain records of the information used to determine that an investment in PROGRAM INTERESTS is suitable and appropriate for each PARTICIPANT. The SPONSOR or each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall maintain these records for at least six years.
5. The SPONSOR shall disclose in the final PROSPECTUS the responsibility of the SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM to make every reasonable effort to determine that the purchase of PROGRAM INTERESTS is a suitable and appropriate investment for each PARTICIPANT, based on information provided by the PARTICIPANT regarding the PARTICIPANT'S financial situation and investment objectives.

D. Subscription Agreements.

1. The ADMINISTRATOR may require that each PARTICIPANT complete and sign a written subscription agreement.
2. The SPONSOR may require that each PARTICIPANT make certain factual representations in the subscription agreement, including the following:
 - (a) The PARTICIPANT meets the minimum income and net worth standards established for the PROGRAM.
 - (b) The PARTICIPANT is purchasing the PROGRAM INTERESTS for his or her own account.
 - (c) The PARTICIPANT has received a copy of the PROSPECTUS.
 - (d) The PARTICIPANT acknowledges that the investment is not liquid.
3. The PARTICIPANT must separately sign or initial each representation made in the subscription agreement. Except in the case of fiduciary accounts, the PARTICIPANT may not grant any PERSON a power of attorney to make such representations on his or her behalf.
4. The SPONSOR and each PERSON selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM shall not require a PARTICIPANT to make representations in the subscription agreement which are subjective or unreasonable and which:

(a) might cause the PARTICIPANT to believe that he or she has surrendered rights to which he or she is entitled under federal or state law; or

(b) would have the effect of shifting the duties regarding suitability, imposed by law on broker-dealers, to the PARTICIPANT.

5. Prohibited representations include, but are not limited to the following:

(a) The PARTICIPANT understands or comprehends the risks associated with an investment in the PROGRAM.

(b) The investment is a suitable one for the PARTICIPANT.

(c) The PARTICIPANT has read the PROSPECTUS.

(d) In deciding to invest in the PROGRAM, the PARTICIPANT has relied solely on the PROSPECTUS, and not on any other information or representations from other PERSONS or sources.

6. The SPONSOR may place the content of the prohibited representations in the subscription agreement in the form of disclosures to the PARTICIPANT. The SPONSOR may not place these disclosures in the PARTICIPANT representation section of the subscription agreement.

E. Completion of Sale.

1. The SPONSOR or any person selling PROGRAM INTERESTS on behalf of the SPONSOR or PROGRAM may not complete a sale of PROGRAM INTERESTS to a PARTICIPANT until at least five business days after the date the PARTICIPANT receives a final prospectus.

2. The SPONSOR or the PERSON designated by the SPONSOR shall send each PARTICIPANT a confirmation of his or her purchase.

F. Minimum Investment.

The ADMINISTRATOR may require a minimum initial and subsequent cash investment amount.

IV. FEES, COMPENSATION, AND EXPENSES

A. Introduction.

1. The total amount of consideration of all kinds which may be paid directly or indirectly to all parties shall be reasonable.

2. The PROSPECTUS must fully disclose and itemize all consideration which may be received in connection with the PROGRAM directly or

indirectly by the SPONSOR and underwriters, what the consideration is for and how and when it will be paid. This shall be set forth in one location in tabular form.

3. This Section of these Guidelines will ordinarily not be applied to PROGRAMS being registered by a SPONSOR which has qualified repetitive PROGRAMS with a permitted structure of fees, compensation and expenses prior to the effective date of these Guidelines. This Section of these Guidelines should be applied in a flexible manner to all other PROGRAMS to take into consideration competition against PROGRAMS with ongoing variance from the provisions of this Section and characteristics of the particular plan of business of each PROGRAM including whether it requires intensive continuing management activities by the SPONSOR.

B. FRONT END FEES.

1. All FRONT END FEES shall be reasonable and generally will not be allowed to exceed 18% of the gross proceeds of the offering, regardless of the source of payment. Any reimbursement to the SPONSOR for deferred ORGANIZATIONAL AND OFFERING EXPENSES, including any interest thereon, if any, will be included within the 18% limitation.
2. All items of compensation to underwriters or dealers, including, but not limited to, selling commissions, expenses, rights of first refusal, consulting fees, finders' fees and all other items of compensation of any kind or description paid by the PROGRAM, directly or indirectly, shall be taken into consideration in computing the amount of allowable selling commissions.

C. INVESTMENT IN PROGRAM ASSETS.

1. The SPONSOR shall commit a substantial percentage of the CAPITAL CONTRIBUTIONS toward INVESTMENT IN PROGRAM ASSETS. The remaining CAPITAL CONTRIBUTIONS may be used to pay FRONT END FEES.
2. The percentage of CAPITAL CONTRIBUTIONS committed to INVESTMENT IN PROGRAM ASSETS will generally be required to be at least 82 percent.

D. COMPENSATION FOR PROGRAM MANAGEMENT.

1. Any management compensation taken by the SPONSOR shall be reasonable, taking into account all relevant factors.
2. Management compensation will be considered presumptively reasonable if it complies with the following limitations:

- (a) For Business Development Companies, it is limited to the participation in net gains allowed by the Investment Company Act of 1940.
 - (b) For other PROGRAMS, it is limited to either:
 - (i) a 5.0% PROMOTIONAL INTEREST prior to PAYOUT and a 15.0% PROMOTIONAL INTEREST after PAYOUT; or
 - (ii) A NET ASSET FEE of not more than 0.75%.
3. SPONSORS that elect to receive a NET ASSET FEE will not be entitled to any payment upon termination for NET ASSET FEES attributable to future periods.
4. SPONSORS that elect to receive a NET ASSET FEE may be allocated up to 1% of the PROGRAM'S profits and losses if such allocation is necessary to preserve the PROGRAM'S status for tax purposes.
- E. *Other Goods or Services.* The SPONSOR may provide other goods or services to the PROGRAM in connection with the operation of PROGRAM assets as long as the SPONSOR, as a fiduciary, determines such self-dealing arrangement is in the best interest of the PROGRAM. The terms pursuant to which all goods or services are provided to the PROGRAM by the SPONSOR shall be embodied in a written contract, the material terms of which must be fully disclosed to the PARTICIPANTS. The contract may only be modified by vote of a majority of the then outstanding PROGRAM INTERESTS. The contract shall contain a clause allowing termination without penalty on 60 days notice.
1. At a minimum, arrangements must meet all of the following criteria:
- (a) The SPONSOR must be independently engaged in the business of providing such goods or services to PERSONS other than AFFILIATES and at least 33% of the SPONSOR'S associated gross revenues must come from PERSONS other than AFFILIATES.
 - (b) The compensation, price or fee charged for providing such goods or services must be comparable and competitive with the compensation, price or fee charged by PERSONS other than AFFILIATES in the same geographic location who provide comparable goods or services which could reasonably be made available to the PROGRAM.
 - (c) Except in extraordinary circumstances, the compensation and other material terms of the arrangement must be fully disclosed in the PROSPECTUS. Extraordinary circumstances are limited to instances when immediate action is required and the goods or

services are not immediately available from PERSONS other than AFFILIATES.

2. If the SPONSOR is not engaged in the business to the extent required by Section IV.E.1.(a). above, the SPONSOR may provide other goods and services if all of the following additional conditions are met:
 - (a) It can demonstrate the capacity and capability to provide such goods or services on a competitive basis.
 - (b) The goods or services are provided at the lesser of cost or the competitive rate charged by PERSONS other than AFFILIATES in the same geographic location who are in the business of providing comparable goods or services.
 - (c) The cost is limited to the reasonable necessary and actual expenses incurred by the SPONSOR on behalf of the PROGRAM in providing such goods or services, exclusive of expenses of the type which may not be reimbursed under Section IV.F.1.
 - (d) Expenses are allocated in accordance with generally accepted accounting principles and are made subject to the special audit required by Section IV.F.2.

F. Expenses of the PROGRAM.

1. All expenses of the PROGRAM shall be billed to and paid by the PROGRAM. The SPONSOR may be reimbursed for the actual cost of goods and services used for or by the PROGRAM and obtained from PERSONS other than AFFILIATES. The SPONSOR may be reimbursed for the administrative services necessary to the prudent operation of the PROGRAM; provided, the reimbursement shall be the lower of the SPONSOR'S actual cost or the amount the PROGRAM would be required to pay PERSONS other than AFFILIATES for comparable administrative services in the same geographic location; and provided, further, that such costs are reasonably allocated to the PROGRAM on the basis of assets, revenues, time records or other method conforming with generally accepted accounting principles. No reimbursement shall be permitted for services for which the SPONSOR is entitled to compensation by way of a separate fee. Excluded from the allowable reimbursement shall be:
 - (a) rent or depreciation, utilities, capital equipment, other administrative items of the SPONSOR; and
 - (b) salaries, fringe benefits, travel expenses and other administrative items incurred or allocated to any CONTROLLING PERSON of the SPONSOR.

2. The annual PROGRAM report must contain a breakdown of the costs reimbursed to the SPONSOR. Within the scope of the annual audit of the SPONSOR'S financial statements, the independent certified public accountants must issue a special report on the allocation of such costs to the PROGRAM in accordance with the PROGRAM agreement. The special report shall be in accordance with the American Institute of Certified Public Accountants United States Auditing Standards relating to special reports. The additional costs of such special report will be itemized by said accountants on a PROGRAM by PROGRAM basis and may be reimbursed to the SPONSOR by the PROGRAM in accordance with this subparagraph only to the extent that such reimbursement, when added to the cost for administrative services rendered, does not exceed the competitive rate for such services as determined above. The special report shall at minimum provide:

- (a) a review of the time records of individual employees, the costs of whose services were reimbursed; and
- (b) a review of the specific nature of the work performed by each such employee.

COMMENT: The following is an illustration of a report prepared by ABC Accountants expressing an opinion on reimbursed costs of XYZ PROGRAM.

We have audited the accompanying schedule of cost reimbursed as defined in the PROGRAM agreement dated _____ of XYZ PROGRAM as of December 31, 19XX. This schedule is the responsibility of the PROGRAMS management. Our responsibility is to express an opinion of this schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cost reimbursed is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts of and disclosures in the schedule of cost reimbursed. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of cost reimbursed referred to above presents fairly, in all material respects, the cost reimbursed of XYZ PROGRAM as of December 31, 19XX as defined in the PROGRAM agreement referred to in the first paragraph.

3. The PROSPECTUS shall disclose in tabular form an itemized estimate of such proposed expenses for the next fiscal year together with a

breakdown by year of such expenses reimbursed in each of the last five public PROGRAMS formed by the SPONSOR.

V. CONFLICTS OF INTEREST AND INVESTMENT RESTRICTIONS

A. Sales and Leases to PROGRAM.

1. A PROGRAM shall not purchase or lease assets in which a SPONSOR has an interest unless all of the following conditions are met:
 - (a) The transaction occurs at the formation of the PROGRAM and is fully disclosed in its PROSPECTUS.
 - (b) The assets are sold upon terms fair to the PROGRAM and at a price not to exceed the lesser of cost or fair market value as determined by an INDEPENDENT EXPERT.
2. Notwithstanding provisions of Subsection 1 above, the SPONSOR may purchase assets in its own name (and assume loans in connection therewith) and temporarily hold title thereto, for the purposes of facilitating the acquisition of the assets, the borrowing of money, obtaining financing for the PROGRAM, or completion of construction of the assets, provided that all of the following conditions are met:
 - (a) The assets are purchased by the PROGRAM for a price no greater than the cost of the assets to the SPONSOR.
 - (b) All income generated by, and expenses associated with, the assets so acquired shall be treated as belonging to the PROGRAM.
 - (c) There are no other benefits arising out of such transaction to the SPONSOR apart from compensation otherwise permitted by these Guidelines.

B. Sales and Leases to SPONSOR.

1. A SPONSOR shall not acquire assets from the PROGRAM unless approved by the PARTICIPANTS in accordance with subsection VI.B.1(d).
2. A PROGRAM may lease assets to the SPONSOR only if both of the following are met:
 - (a) The transaction occurs at the formation of the PROGRAM, and is fully disclosed in the PROSPECTUS.
 - (b) The terms of the lease are fair to the PROGRAM.

C. Loans. No loans may be made by the PROGRAM to the SPONSOR.

- D. *Exchange of PROGRAM INTERESTS.* The PROGRAM may not acquire assets in exchange for PROGRAM INTERESTS.
- E. *Exclusive agreement.* The PROGRAM shall not give the SPONSOR an exclusive right to sell or exclusive employment to sell assets for the PROGRAM.
- F. *Commissions on financing, refinancing or reinvestment.* A PROGRAM shall not pay, directly or indirectly, a commission or fee to a SPONSOR (except as permitted under Section IV.B.1) in connection with the reinvestment of CASH AVAILABLE FOR DISTRIBUTION or of the proceeds of the resale, exchange, or refinancing of PROGRAM assets.
- G. *Rebates, Kickbacks, and Reciprocal Arrangements.*
1. No rebates or give-ups may be received by the SPONSOR nor may the SPONSOR participate in any reciprocal business arrangements which would circumvent these Guidelines. Furthermore, the PROSPECTUS and PROGRAM agreement shall contain language prohibiting the above, as well as language prohibiting reciprocal business arrangements which would circumvent the restrictions against dealing with AFFILIATES or promoters.
 2. No SPONSOR shall directly or indirectly pay or award any commissions or other compensation to any PERSON engaged to sell PROGRAM INTERESTS or give investment advice to a potential PARTICIPANT; provided, however, that this clause shall not prohibit the payment to a registered broker-dealer or other properly licensed PERSON of normal sales commissions for selling PROGRAM INTERESTS.
- H. *Commingling.* The funds of a PROGRAM shall not be commingled with the funds of any other PERSON. Nothing contained in this section shall prohibit the SPONSOR from establishing a master fiduciary account pursuant to which separate sub-trust accounts are established for the benefit of AFFILIATED PROGRAMS, provided that PROGRAM funds are protected from the claims of such other PROGRAMS and creditors of the PROGRAMS. The prohibition of this Section shall not apply to investments meeting the requirements of Section V.I.
- I. *Investment in Other PROGRAMS.*
1. The PROGRAM shall be permitted to invest in general partnerships or joint ventures with non-AFFILIATES that own and operate specific assets, if the PROGRAM, alone or together with any publicly registered AFFILIATE of the PROGRAM meeting the requirements of Subsection (b) below, acquires a controlling interest in such a general partnership or joint venture, but in no event shall duplicate fees be permitted. For purposes of this section, "controlling interest" means an equity interest

possessing the power to direct or cause the direction of the management and policies of the general partnership or joint venture, including the authority to:

- (a) review all contracts entered into by the general partnership or joint venture that will have a material effect on its business or assets;
- (b) cause a sale or refinancing of the assets or its interest therein subject, in certain cases where required by the partnership or joint venture agreement, to limits as to time, minimum amounts and/or a right of first refusal by the joint venture partner or consent of the joint venture partner;
- (c) approve budgets and major capital expenditures, subject to a stated minimum amount;
- (d) veto any sale or refinancing of the assets, or alternatively, to receive a specified preference on sale or refinancing proceeds; and
- (e) exercise a right of first refusal on any desired sale or refinancing by the joint venture partner of its interest in the assets, except for transfer to an AFFILIATE of the joint venture partner.

2. The PROGRAM shall be permitted to invest in general partnerships or joint ventures with other publicly registered AFFILIATES of the PROGRAM if all of the following conditions are met:

- (a) The PROGRAMS have substantially identical investment objectives.
- (b) There are no duplicate fees.
- (c) The compensation payable by the general partnership or joint venture to the SPONSORS in each PROGRAM that invests in such partnership or joint venture is substantially identical.
- (d) Each PROGRAM has a right of first refusal to buy if the other PROGRAM wishes to sell assets held in the joint venture.
- (e) The investment of each PROGRAM is on substantially the same terms and conditions.
- (f) The PROSPECTUS discloses the potential risk of impasse on joint venture decisions since no PROGRAM controls, and the potential risk that while a PROGRAM may have the right to buy the assets from the partnership or joint venture, it may not have the resources to do so.

3. The PROGRAM shall be permitted to invest in general partnerships or joint ventures with AFFILIATES other than publicly registered AFFILIATES of the PROGRAM only if all of the following conditions are met:
 - (a) The investment is necessary to relieve the SPONSOR from any commitment to purchase the assets entered into in compliance with Section V.A.2. prior to the closing of the offering period of the PROGRAM.
 - (b) There are no duplicate fees.
 - (c) The investment of each entity is on substantially the same terms and conditions.
 - (d) The PROGRAM has a right of first refusal to buy if the SPONSOR wishes to sell assets held in the joint venture.
 - (e) The PROSPECTUS discloses the potential risk of impasse on joint venture decisions.
4. PROGRAMS structured to conduct operations through separate single-purpose entities managed by the SPONSOR (multi-tier arrangements) shall be permitted provided that the terms of any such arrangements do not result in the circumvention of any of the requirements or prohibitions contained in these Guidelines. In particular, all such PROGRAM agreements shall accompany the PROSPECTUS, if available, and shall contain provisions which assure that all of the following restrictions will be present:
 - (a) There will be no duplication or increase in ORGANIZATION AND OFFERING EXPENSES, SPONSOR's compensation, program expenses or other fees and costs.
 - (b) There will be no substantive alteration in the fiduciary and contractual relationship between the SPONSOR and the PARTICIPANTS.
 - (c) There will be no diminishment in the voting rights of PARTICIPANTS.
5. Other than as specifically permitted in Subsections (2), (3) and (4) above, the PROGRAM shall not be permitted to invest in general partnerships or joint ventures with AFFILIATES.
6. A PROGRAM shall be permitted to invest in general partnership interests of limited partnerships only if the PROGRAM, alone or together with any publicly registered AFFILIATE of the PROGRAM meeting the requirements of Subsection (2) above, acquires a "controlling interest"

as defined in Subsection (1), no duplicate fees are permitted, no additional compensation beyond that permitted by the ADMINISTRATOR is paid to the SPONSOR, and the PROGRAM agreement complies with Section V.

COMMENT: Nothing contained in Section V.I. may be used to circumvent or abrogate the restrictions and requirements of these Guidelines, including, but not limited to, Section V.A.

J. *Lending Practices.* On financing made available to the PROGRAM by the SPONSOR, the SPONSOR may not receive interest in excess of the lesser of the SPONSOR's cost of funds or the amounts which would be charged by unrelated lending institutions on comparable loans for the same purpose. The SPONSOR shall not impose a prepayment charge or penalty in connection with such financing and the SPONSOR shall not receive points or other financing charges. The SPONSOR shall be prohibited from providing permanent financing for the PROGRAM. For purposes of this Section, "permanent financing" shall mean any financing with a term in excess of 12 months.

K. *Minimum Capitalization.* The minimum amount of funds to activate a PROGRAM shall be sufficient to accomplish the objectives of the PROGRAM, including "spreading the risk". Where it appears unlikely that the stated objectives of the PROGRAM can be achieved with the minimum subscriptions, the ADMINISTRATOR may require a greater amount or a lesser amount based on the stated objectives of the PROGRAM. All funds received prior to activation of the PROGRAM must be deposited in an interest bearing account with an independent custodian, trustee, or escrow agent whose name and address shall be disclosed in the PROSPECTUS. Provision must be made for the return to public investors of 100% of paid subscriptions, including interest earned, in the event that the established minimum to activate the PROGRAM is not reached.

L. *Statement of Objectives.* The PROSPECTUS must state specific investment objectives of the PROGRAM. It should indicate whether the primary objective is to obtain current income, tax benefits, or capital appreciation for its PARTICIPANTS.

M. *Multiple PROGRAMS.* The method for the allocation of the acquisition of properties by two or more PROGRAMS of the same SPONSOR seeking to acquire similar types of assets shall be reasonable. The method also shall be described in the PROSPECTUS.

N. *Period of Offering and Expenditure of Proceeds.* The offering period of PROGRAM INTERESTS in a PROGRAM may not exceed one year from the date of effectiveness unless permitted by the ADMINISTRATOR. While the proceeds of an offering are awaiting INVESTMENT IN PROGRAM ASSETS, the proceeds may be temporarily placed into short-

term, highly liquid investments which afford appropriate safety of principal, such as U.S. Treasury Bonds or Bills. Any proceeds of the offering of PROGRAM INTERESTS not committed for investment within the later of two years from the date of effectiveness or one year from termination of the offering, unless a longer period is permitted by the ADMINISTRATOR, shall be distributed pro rata to the PARTICIPANTS as a return of capital without deduction of FRONT END FEES.

O. **ASSESSMENTS.** Mandatory ASSESSMENTS of any kind shall be prohibited.

P. *Appraisal and Compensation.*

1. In connection with a proposed ROLL-UP, an appraisal of all PROGRAM assets shall be obtained from a competent INDEPENDENT EXPERT. If the appraisal will be included in a PROSPECTUS used to offer the securities of a ROLL-UP ENTITY, the appraisal shall be filed with the Securities and Exchange Commission and the ADMINISTRATOR as an Exhibit to the Registration Statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under State law for any material misrepresentations or material omissions in the appraisal. PROGRAM assets shall be appraised on a consistent basis. The appraisal shall be based on all relevant information and shall indicate the value of the PROGRAM's assets as of a date immediately prior to the announcement of the proposed ROLL-UP. The appraisal shall assume an orderly liquidation over a 12 month period. The terms of the engagement of the INDEPENDENT EXPERT shall clearly state that the engagement is the benefit of the PROGRAM and its PARTICIPANTS. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to the PARTICIPANTS in connection with a proposed ROLL-UP.
2. In connection with a proposed ROLL-UP, the PERSON sponsoring the ROLL-UP shall offer to PARTICIPANTS who vote "no" on the proposal the choice of:
 - (a) accepting the securities of the ROLL-UP ENTITY offered in the proposed ROLL-UP; or
 - (b) one of the following:
 - (i) remaining as PARTICIPANTS in the PROGRAM and preserving their INTERESTS therein on the same terms and conditions as existed previously; or

(ii) receiving cash in an amount equal to the PARTICIPANTS' pro rata share of the appraised value of the net assets of the PROGRAM.

COMMENT: With respect to the options specified in Subsection V.P.2.(b), the PERSON sponsoring the ROLL-UP needs only offer one of these alternatives to dissenting investors who do not wish to accept the security of the ROLL-UP ENTITY.

3. The PROGRAM shall not participate in any proposed ROLL-UP which, if approved, would result in PARTICIPANTS having democracy rights in the ROLL-UP ENTITY which are less than those provided for under Sections VI. A. and VI. B. of these Guidelines. If the ROLL-UP ENTITY is a corporation, the democracy rights of PARTICIPANTS shall correspond to the democracy rights provided for in these Guidelines to greatest extent possible.
4. The PROGRAM shall not participate in any proposed ROLL-UP which includes provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the ROLL-UP ENTITY (except to the minimum extent necessary to preserve the tax status of the ROLL-UP ENTITY). The PROGRAM shall not participate in any proposed ROLL-UP which would limit the ability of a PARTICIPANT to exercise the voting rights of its securities of the ROLL-UP ENTITY on the basis of the number of PROGRAM INTERESTS held by that PARTICIPANT.
5. The PROGRAM shall not participate in any proposed ROLL-UP in which PARTICIPANTS' rights of access to the records of the ROLL-UP ENTITY will be less than those provided for under Section VI. D. of these Guidelines.
6. The PROGRAM shall not participate in any proposed ROLL-UP in which any of the costs of the transaction would be borne by the PROGRAM if the ROLL-UP is not approved by the PARTICIPANTS.

VI. Rights and Obligations of PARTICIPANTS

- A. *Meetings.* Meetings of the PROGRAM may be called by the SPONSOR or the PARTICIPANTS holding ten percent or more of the then outstanding PROGRAM INTERESTS, for any matters for which the PARTICIPANTS may vote as set forth in the PROGRAM agreement. Upon receipt of a written request, either in PERSON or by certified mail, stating the purpose(s) of the meeting, the SPONSOR shall provide all PARTICIPANTS within ten days after receipt of said request, written notice, either in PERSON or by mail, of a meeting and the purpose of such meeting to be held on a date not less than fifteen nor more than sixty days

after distribution of such notice, at a time and place specified in the request, or if none is specified, at a time and place convenient to PARTICIPANTS.

B. *Voting Rights of PARTICIPANTS*

1. The PROGRAM agreement must provide that a majority of the then outstanding PROGRAM INTERESTS may, without the necessity for concurrence by the SPONSOR, vote to:
 - (a) amend the PROGRAM agreement;
 - (b) dissolve the PROGRAM;
 - (c) remove the SPONSOR and elect a new SPONSOR; and
 - (d) approve or disapprove the sale of all or substantially all of the assets of the PROGRAM, when such sale is to be made other than in the ordinary course of the PROGRAM's business.

2. Without concurrence of a majority of the outstanding PROGRAM INTERESTS, the SPONSOR may not:
 - (a) amend the PROGRAM agreement except for amendments which do not adversely affect the rights of PARTICIPANTS;
 - (b) voluntarily withdraw as a SPONSOR unless such withdrawal would not affect the tax status of the PROGRAM and would not materially adversely affect the PARTICIPANT;
 - (c) appoint a new SPONSOR;
 - (d) sell all or substantially all of the PROGRAM's assets other than in the ordinary course of the PROGRAM's business; or
 - (e) cause the merger or other reorganization of the PROGRAM.

3. With respect to any PROGRAM INTERESTS owned by the SPONSOR, the SPONSOR may not vote or consent on matters submitted to the PARTICIPANTS regarding the removal of the SPONSOR or regarding any transaction between the PROGRAM and the SPONSOR. In determining the existence of the requisite percentage in interest of PROGRAM INTERESTS necessary to approve a matter on which the SPONSOR may not vote or consent, any PROGRAM INTERESTS owned by the SPONSOR shall not be included.

C. *Reports to PARTICIPANTS.* The PROGRAM agreement shall provide that the SPONSOR shall cause to be prepared and distributed to PARTICIPANTS during each year the following reports:

1. In the case of PROGRAM registered under Section 12(g) of the Securities Exchange Act of 1934, within sixty days after the end of each quarter of the PROGRAM, a report containing the same financial information contained in the PROGRAM's Quarterly Report on Form 10-Q filed by the PROGRAM under the Securities Exchange Act of 1934.
2. In the case of all other PROGRAMS, within sixty days of the end of the first six months of each fiscal year, a report, prepared on the same accounting basis to be utilized in the annual reports, containing:
 - (a) a balance sheet, which may be unaudited;
 - (b) a statement of income for the period then ended, which may be unaudited;
 - (c) a statement of PARTICIPANTS' equity for the period then ended, which may be unaudited;
 - (d) a statement of CASH FLOW for the period then ended, which may be unaudited; and
 - (e) other pertinent material regarding the PROGRAM and its activities during the period covered by the report.
3. In the case of all PROGRAMS, within 120 days after the end of each PROGRAM'S fiscal year, an annual report containing:
 - (a) a balance sheet as of the end of each fiscal year and statements of income, PARTICIPANTS' equity, and CASH FLOW, for the year then ended, all of which shall be prepared in accordance with generally accepted accounting principles and accompanied by an auditor's report containing an opinion of an independent certified public accountant;
 - (b) a report of the activities of the PROGRAM during the period covered by the report;
 - (c) where forecasts have been provided to the PARTICIPANTS, a table comparing the forecasts previously provided with the actual results during the period covered by the report; and
 - (d) a report setting forth distributions to PARTICIPANTS for the period covered thereby and separately identifying distributions from:
 - (i) CASH FLOW from operations during the period,
 - (ii) CASH FLOW from operations during a prior period which have been held as reserves,

(iii) proceeds from disposition of PROGRAM assets, and

(iv) reserves from the gross proceeds of the offering originally obtained from the PARTICIPANTS.

4. In the case of all PROGRAMS, within 75 days after the end of each PROGRAM'S fiscal year, all information necessary for the preparation of the PARTICIPANTS' federal income tax returns.
5. Where PROGRAM INTERESTS have been purchased on a deferred payment basis, on which there remains an unpaid balance during any period covered by any report required by Subsections 1, 2, and 3, hereof; then such report shall contain a detailed statement of the status of all deferred payments, actions taken by the PROGRAM in response to any defaults, and a discussion and analysis of the impact on capital requirements of the PROGRAM.

D. Access to PROGRAM Records.

Every PARTICIPANT shall at all times have access to the records of the PROGRAM and may inspect and copy any of them. However, the ADMINISTRATOR may consider the appropriateness of including a clause in the PROGRAM agreement to restrict access to trade secrets relating to PROGRAM investments. The limited partnership agreement, by-laws or other PROGRAM agreement shall include the following provisions regarding access to the list of PARTICIPANTS:

1. An alphabetical list of the names, addresses and business telephone numbers of the PARTICIPANTS of the PROGRAM along with the number of PROGRAM INTERESTS held by each of them (the "PARTICIPANT list") shall be maintained as a part of the books and records of the PROGRAM and shall be available for inspection by any PARTICIPANT or its designated agent at the home office of the PROGRAM upon the request of the PARTICIPANT.
2. The PARTICIPANT list shall be updated at least quarterly to reflect changes in the information contained therein.
3. A copy of the PARTICIPANT list shall be mailed to any PARTICIPANT requesting the PARTICIPANT list within ten days of the request. The copy of the PARTICIPANT list shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). A reasonable charge for copy work may be charged by the PROGRAM.
4. The purposes for which a PARTICIPANT may request a copy of the PARTICIPANT list include, without limitation, matters relating to PARTICIPANTS' voting rights under the PROGRAM agreement and the exercise of PARTICIPANTS' rights under federal proxy laws.

5. If the SPONSOR of the PROGRAM neglects or refuses to exhibit, produce, or mail a copy of the PARTICIPANT list as requested, the SPONSOR shall be liable to any PARTICIPANT requesting the list for the costs, including attorneys' fees, incurred by that PARTICIPANT for compelling the production of the PARTICIPANT list, and for actual damages suffered by any PARTICIPANT by reason of such refusal or neglect. It shall be a defense that the actual purpose and reason for the requests for inspection or for a copy of the PARTICIPANT list is to secure such list of PARTICIPANTS or other information for the purpose of selling such list or copies thereof, or of using the same for a commercial purpose other than in the interest of the applicant as a PARTICIPANT relative to the affairs of the PROGRAM. The SPONSOR may require the PARTICIPANT requesting the PARTICIPANT list to represent that the list is not requested for a commercial purpose unrelated to the PARTICIPANT'S interest in the PROGRAM. The remedies provided hereunder to PARTICIPANTS requesting copies of the PARTICIPANT list are in addition to, and shall not in any way limit, other remedies available to PARTICIPANTS under federal law, or the laws of any state.

E. *Admission of PARTICIPANTS.* Admission of PARTICIPANTS to the PROGRAM shall be subject to the following:

1. Admission of Original PARTICIPANTS. Upon the original sale of PROGRAM INTERESTS, the purchasers should be admitted as PARTICIPANTS not later than the last day of the calendar month following the date their subscription was accepted by the PROGRAM. Subsequent subscriptions shall be accepted or rejected by the program within 30 days of their receipt; if rejected, all subscription monies should be returned to the subscriber within 10 business days.
2. Admission of Substituted PARTICIPANTS and Recognition of Assignees. The PROGRAM shall amend its records at least once each calendar quarter to effect the substitution of substituted PARTICIPANTS, although the SPONSOR may elect to do so more frequently. In the case of assignments, where the assignee does not become a substituted PARTICIPANT, the PROGRAM shall recognize the assignment not later than the last day of the calendar month following receipt of notice assignment and required documentation.
3. Except where deemed inappropriate by the ADMINISTRATOR, PERSONS holding PROGRAM INTERESTS for the purpose of assigning all or a portion of such interests (hereinafter "Assignor") shall be expressly granted the same rights as if they were PARTICIPANTS except as prohibited by applicable law, including but not limited to, the rights enumerated under Article VI of these Guidelines. The assignment agreement and PROSPECTUS shall provide that the Assignor's management shall have fiduciary responsibility for the safekeeping and

use of all funds and assets of the Assignees, whether or not in the Assignor management's possession or control, and that the management of the Assignor shall not employ, or permit another to employ, such funds or assets in any manner except for the exclusive benefit of the Assignees. In addition, the agreement shall not permit the Assignees to contract away the fiduciary duty owed to the Assignees by the Assignor's management under the common law of agency.

F. *Redemption of PROGRAM INTERESTS.* Ordinarily, the PROGRAM and the SPONSOR are not obligated to redeem or repurchase any of the PROGRAM INTERESTS. However, the PROGRAM and the SPONSOR are not precluded from voluntarily repurchasing or redeeming the PROGRAM INTERESTS if such repurchase or redemption does not impair the capital or operations of the PROGRAM. A PROGRAM may provide for mandatory redemption rights under the following circumstances:

1. death or legal incapacity of the PARTICIPANT, or
2. a substantial reduction in the PARTICIPANT'S NET WORTH or income provided that all of the following are met:
 - (a) the PROGRAM has sufficient cash to make the purchase.
 - (b) the purchase will not be in violation of applicable legal requirements.
 - (c) not more than 15% of the outstanding units are purchased in any year.

A penalty may be assessed on the redemption of the PROGRAM INTEREST if the penalty accrues to the benefit of the PROGRAM. The SPONSOR is prohibited from receiving a fee on the redemption of PROGRAM INTERESTS by the PROGRAM. Where the purchase price is not mutually agreed upon, the matter may be submitted to arbitration.

G. *Transferability of PROGRAM INTEREST.* Restrictions on assignment of PROGRAM INTERESTS or a substitution of limited partners are generally disfavored and such restrictions will be allowed only to the extent necessary to preserve the tax status of the partnership or the characterization or treatment of income or loss. Any restriction must be affirmatively supported by an opinion of counsel. A charge may be imposed by the PROGRAM to cover its actual, necessary and reasonable administrative and filing expenses incurred in connection with a transfer. Such a charge shall be disclosed in the PROSPECTUS.

H. *Distribution Reinvestment Plans.* A PROGRAM may offer PARTICIPANTS the opportunity to elect to have cash distributions

reinvested in the PROGRAM or subsequent PROGRAMS if all of the following conditions are met:

1. The PROGRAM and subsequent PROGRAMS in which the PARTICIPANTS reinvest are registered or exempted under applicable state securities laws.
 2. No sales commissions or fees shall be deducted directly or indirectly from the reinvested funds by the SPONSOR.
 3. The subsequent PROGRAM has substantially identical investment objectives as the original PROGRAM.
 4. The PARTICIPANTS are free to elect or revoke reinvestment within a reasonable time and such right is fully disclosed in the offering documents.
 5. The PARTICIPANTS shall have received a PROSPECTUS for the PROGRAM in which the PARTICIPANTS are reinvesting, which is current as of the date of each such reinvestment.
 6. The broker-dealer or the issuer assumes responsibility for blue sky compliance and performance of due diligence responsibilities and has contacted the PARTICIPANTS to ascertain whether the PARTICIPANTS continue to meet the applicable states' suitability standard for participation in each reinvestment.
- I. *Reinvestment of CASH AVAILABLE FOR DISTRIBUTION.* Reinvestment of CASH AVAILABLE FOR DISTRIBUTION will be allowed if the PROGRAM'S structure requires that CASH AVAILABLE FOR DISTRIBUTION be reinvested for all PARTICIPANTS upon the same terms and does not create differing classes of PROGRAM INTERESTS resulting from inequitable allocations of tax or economic benefits. CASH AVAILABLE FOR DISTRIBUTION reinvested pursuant to this subsection are not considered to be "investments" in the PROGRAM for purposes of calculating CAPITAL CONTRIBUTIONS.
- J. *Reinvestment of Proceeds.* Reinvestment of proceeds resulting from the sale or refinancing of PROGRAM assets may take place if sufficient cash will be distributed to pay state and federal income tax, if any, (assuming investors are in a specified tax bracket) created by the sale or refinancing of such assets. Proceeds reinvested pursuant to this subsection are not considered to be "investments" in the PROGRAM for purposes of calculating CAPITAL CONTRIBUTIONS.
- K. *Quarterly Distribution.* From time to time and not less than quarterly, the SPONSOR must review the PROGRAM'S accounts to determine whether cash distributions are appropriate. The PROGRAM shall distribute pro rata to the PARTICIPANTS funds received by the PROGRAM and allocated to

their accounts which the SPONSOR deems unnecessary to retain in the PROGRAM. In no event, however, shall funds be advanced or borrowed for purpose of distributions, if the amount of such distributions would exceed the partnership's accrued and received revenues for the previous four quarters, less paid and accrued operating costs with respect to such revenues and costs shall be made in accordance with generally accepted accounting principles, consistently applied. Cash distributions from the PROGRAM to the SPONSOR shall only be made in conjunction with distributions to PARTICIPANTS and only out of funds properly allocated to the SPONSOR'S account.

L. *Distributions in Kind.* Distributions in kind shall not be permitted, except for:

1. distributions of readily marketable securities;
2. distributions of cash from a liquidating trust established for the dissolution of the PROGRAM and the liquidation of its assets in accordance with the terms of the PROGRAM agreement; or
3. distributions of in-kind property which meet all of the following conditions:
 - (a) The SPONSOR advises each PARTICIPANT of the risks associated with direct ownership of the property;
 - (b) The SPONSOR offers each PARTICIPANT the election of receiving in-kind property distributions; and
 - (c) The SPONSOR distributes in-kind property only to those PARTICIPANTS who accept the SPONSOR'S offer.

VII. DISCLOSURE AND MARKETING

A. *Sales Material.* Sales material, including without limitations, books, pamphlets, movies, slides, article reprints, television and radio commercials, materials prepared for broker/dealer use only, sales presentations (including prepared presentations to prospective PARTICIPANTS at group meetings) and all other advertising used in the offer or sale of units shall conform in all applicable respects to filing, disclosure, and adequacy requirements under any applicable state regulations. Statements made in sales material communicated directly or indirectly to the public may not conflict with, or modify, risk factors or other statements made in the PROSPECTUS.

B. *PROSPECTUS and Its Contents.*

1. *PROSPECTUS.* A PROSPECTUS which is not part of a Registration Statement declared effective by the Securities and Exchange Commission pursuant to the Securities Act of 1933 shall generally conform to the disclosure requirements which would apply if the offering were so registered. The format and information requirements of applicable Guide(s) promulgated by the Securities and Exchange Commission shall be followed, with appropriate adjustments made for the different business of the PROGRAM.
2. *Prohibited Representations.*
 - (a) In connection with the offering and sale of INTERESTS in a PROGRAM, neither the SPONSOR(S) nor the underwriter(s) may, in writing or otherwise, directly or indirectly, represent or imply that an administrator has approved the merits of the investment or any aspects thereof.
 - (b) Any reference to the PROGRAM'S compliance with these Guidelines or any provisions herein which connotes or implies compliance shall not be allowed.
3. *Forecasts and Projections.*
 - (a) Neither the PROSPECTUS nor any sales material communicated directly or indirectly to the public shall contain a quantitative estimate of a PROGRAM'S anticipated economic performance or anticipated return to PARTICIPANTS, in the form of investment objectives, cash distributions, tax benefits or otherwise, except as permitted by this Section of these Guidelines.
 - (b) The presentation of predicted future results of operations of PROGRAMS shall be permitted but not required for SPECIFIED ASSET PROGRAMS and shall be prohibited for all other PROGRAMS. The cover of the PROSPECTUS must contain in bold face language one of the following statements:
 - (i) for SPECIFIED ASSET PROGRAMS with forecasts: **"Forecasts are contained in this prospectus. Any representations to the contrary and any predictions, written or oral, which do not conform to that contained in the prospectus shall not be permitted";** or
 - (ii) for all other PROGRAMS: **"The use of forecasts in this offering is prohibited. Any representations to the contrary and any predictions, written or oral, as to the amount or certainty of any present or future cash benefit or tax consequence which may flow from an investment in this program is not permitted".**

(b) Content of Forecasts. Forecasts for SPECIFIED ASSET PROGRAMS may be included in the PROSPECTUS, and sales material of the PROGRAM only if they comply with the following requirements:

(i) Generally, forecasts shall be realistic in their predictions and shall clearly identify the assumptions made with respect to all material features of the presentation. Forecasts should be examined by an independent certified public accountant in accordance with the Guide for Prospective Financial Statements and the Statement on Standards for Accountant's Services on Prospective Financial Information as promulgated by the American Institute of Certified Public Accountants. The report of the independent certified public accountant must be included in the PROSPECTUS.

(ii) If any part of the forecast appears in the sales material, the entire forecast must be presented.

(iii) Forecasts shall generally be for a period equivalent to the anticipated holding period for PROGRAM assets. Forecasts which do not extend through the expected term of the PROGRAM'S life must show the effects of a hypothetical liquidation of PROGRAM assets under good and bad conditions. Yield information may not be presented for Forecasts which do not extend through the expected term of the PROGRAM'S life.

(iv) Forecasts shall disclose possible undesirable tax consequences of an early sale of program assets, such as depreciation recapture, the loss of prior year tax credits or the possible failure to generate sufficient cash from the disposition to pay the associated tax liabilities.

(v) In computing any rate of return or yield to investors, only realized gains in value may be included.

VIII. MISCELLANEOUS

A. *Deferred Payments.* Arrangements for deferred payments on account of the purchase price of PROGRAM INTERESTS may be allowed when warranted by the investment objectives of the PROGRAM. Such arrangements shall be subject to all of the following conditions:

1. The period of deferred payments coincides with the anticipated cash needs of the PROGRAM;

2. Deferred payments shall be evidenced by a promissory note of the investor. Such notes shall be with recourse and shall not be negotiable and shall be assignable only subject to defenses of the maker. Such notes shall not contain a provision authorizing a confession of judgment;
 3. Selling commissions and FRONT END FEES paid upon deferred payments are collectible when payment is made on the note;
 4. The PROGRAM shall not sell or assign the deferred obligation notes at a discount to meet financing needs of the PROGRAM;
 5. In the event of a default in the payment of deferred payments by PARTICIPANTS, their interests may be subjected to a reasonable penalty.
- B. *Reserves.* Provisions should be made for adequate reserves in the future by retention of a reasonable percentage of proceeds from the offering and revenues for normal repairs, replacements and contingencies but not for payment of the sponsor fees. Normally, not less than 1% of the offering proceeds will be considered adequate.
- C. *Financial Information of SPONSOR and PROGRAM.* The SPONSOR or the PROGRAM shall provide as an exhibit to the application, or where indicated below, shall provide as part of the prospectus all of the following financial information and financial statements:
1. Balance Sheet of the PROGRAM. A Balance sheet of the PROGRAM as of the end of its most recent fiscal year, prepared in accordance with generally accepted accounting principles and accompanied by an independent auditor's report containing no material qualification or explanatory paragraph relating to material uncertainties or going concern issues, and an unaudited balance sheet as of a date not more than 135 days prior to the date of filing. Such balance sheets shall be included in the PROSPECTUS.
 2. Balance sheet of the SPONSOR.
 - (a) Corporate and/or Partnership SPONSOR. A balance sheet of any corporate and/or partnership SPONSOR as of the end of its most recent fiscal year, prepared in accordance with generally accepted accounting principles and accompanied by an independent auditor's report containing no material qualification or explanatory paragraph relating to material uncertainties or going concern issues, and an unaudited balance sheet as of a date not more than 135 days prior to the date of filing. Such balance sheets shall be included in the PROSPECTUS.
 - (b) Individual SPONSOR. A statement of financial condition as of a time not more than 135 days prior to the date of filing an

application. Such statement of financial condition shall be prepared in accordance with generally accepted accounting principles and reviewed and reported upon by an independent certified public accountant or independent public accountant under the review standards as set forth by the American Institute of Certified Public Accountants. A representation of the amount of such NET WORTH must be included in the PROSPECTUS.

3. Filing of Other Statements. The ADMINISTRATOR may, where consistent with the protection of investors, request additional financial statements of the SPONSOR, ADVISOR, PROGRAM BROKER or any AFFILIATE thereof, or permit the omission of one or more of the statements required under this Section and the filing, and substitution thereof, of appropriate statements verifying financial information having comparable relevance to an investor in determining whether he or she should invest in the PROGRAM.

D. Provisions of the PROGRAM Agreement. The requirements and/or provisions of appropriate portions of the following sections shall be included in the PROGRAM agreement: I.B; II.B.; II.D; II.E; II.G.; III.B.; III.C.; III.F.; IV.B.; IV.C.; IV.D.; IV.E.; IV.F.; V.A.; V.B.; V.C.; V.D.; V.E.; V.F.; V.G.; V.H.; V.I.; V.J.; V.N.; V.O.; V.P.; VI.A.; VI.B.; VI.C.; VI.D.; VI.E.; VI.F.; VI.G.; VI.H.; VI.I.; VI.J.; VI.K.; VI.L, VIII.A.; VIII.B.;

E. *Amendments and Supplements.* A marked copy of all amendments and supplements to an application shall be filed with the ADMINISTRATOR as soon as the amendment or supplement is available.

F. CROSS REFERENCE SHEET Requirement. The attached CROSS REFERENCE SHEET shall be included with the application for registration.

OMNIBUS GUIDELINES CROSS REFERENCE SHEET

General Instructions

1. This CROSS REFERENCE SHEET should be completed and submitted with the Application for Registration.
2. Sections which are not applicable should be noted as such.
3. Provisions of the PROGRAM which vary from the Guidelines must be explained by endnote; for example, if the PROGRAM uses a defined term which is different from the Guidelines' definition, the variance must be explained. Endnotes should be numbered sequentially in the column designated "Endnotes" and should be presented on a rider identified as "Endnotes" with each endnote on the rider numerically corresponding to the endnote identified on the CROSS REFERENCE SHEET.

OMNIBUS GUIDELINES CROSS REFERENCE SHEET

Name of Applicant: _____

GUIDELINE SECTION	SECTION NUMBER PROGRAM AGREEMENT	PAGE NUMBER PROSPECTUS	ENDNOTE: SEE INSTRUCTION 3
I. B. Definitions			
1. Acquisition expenses	_____	_____	_____
2. Acquisition fee	_____	_____	_____
4. Affiliate	_____	_____	_____
5. Assessments	_____	_____	_____
6. Capital contribution	_____	_____	_____
7. Cash available for distribution	_____	_____	_____
8. Cash flow	_____	_____	_____
9. Controlling person	_____	_____	_____
11. Front-end fees	_____	_____	_____
12. Independent expert	_____	_____	_____
13. Investment program assets	_____	_____	_____
16. Organization and offering expenses	_____	_____	_____
21. Program interest	_____	_____	_____
24. Roll-up	_____	_____	_____
25. Roll-up entity	_____	_____	_____
26. Specified assist program	_____	_____	_____

27. Sponsor	_____	_____	_____
II. Requirements of Sponsors			
A. Experience	_____	_____	_____
B. Financial condition	_____	_____	_____
C. Reports	_____	_____	_____
D. Fiduciary duty	_____	_____	_____
E. Termination of sponsor	_____	_____	_____
F. Tax ruling or opinion	_____	_____	_____
G. Liability and indemnification	_____	_____	_____
H. Arbitration	_____	_____	_____
III. Suitability of the Participant			
B. Standards	_____	_____	_____
D. Subscription agreements and prospectus delivery	_____	_____	_____
F. Minimum investment	_____	_____	_____
IV. Fees-Compensation-Expenses			
B. Front-end fees	_____	_____	_____
C. Investment in program assets	_____	_____	_____
D. Compensation for program management	_____	_____	_____
E. Other goods or services	_____	_____	_____
F. Expenses	_____	_____	_____
V. Conflicts of Interest and Investment Restrictions			
A. Sales and leases to program	_____	_____	_____
B. Sales and leases to sponsor	_____	_____	_____
C. Loans	_____	_____	_____
D. Exchange of interests program	_____	_____	_____
E. Exclusive agreement	_____	_____	_____
F. Commissions on financing, refinancing, reinvestment or distribution	_____	_____	_____
G. Rebates, kickbacks and reciprocal arrangements	_____	_____	_____
H. Commingling	_____	_____	_____
I. Investments in other programs	_____	_____	_____
J. Lending practices	_____	_____	_____
K. Minimum capitalization	_____	_____	_____
L. Statement of objectives	_____	_____	_____
M. Multiple programs	_____	_____	_____

N. Offering period and expenditure of proceeds	_____	_____	_____
O. Assessments	_____	_____	_____
P. Appraisal and compensation	_____	_____	_____
VI. Rights and Obligations of Participants			
A. Meetings	_____	_____	_____
B. Voting rights	_____	_____	_____
C. Reports	_____	_____	_____
1. 12(g) programs, quarterly reports	_____	_____	_____
2. Semi-annual report	_____	_____	_____
3. Annual report	_____	_____	_____
4. Participants tax information	_____	_____	_____
5. Mandatory deferred payment reports	_____	_____	_____
D. Access to records	_____	_____	_____
E. Admission of participants	_____	_____	_____
1. Original participants	_____	_____	_____
2. Substitute participants	_____	_____	_____
3. Assignor	_____	_____	_____
F. Redemption of program interests	_____	_____	_____
G. Transferability of program interests	_____	_____	_____
H. Distribution reinvestment plan	_____	_____	_____
I. Reinvestment of cash available for distribution	_____	_____	_____
J. Reinvestment of sale or refinancing proceeds	_____	_____	_____
K. Quarterly distribution	_____	_____	_____
L. Distribution in kind	_____	_____	_____
VII. Disclosure			
B. Prospectus and its contents	_____	_____	_____
3. Forecasts	_____	_____	_____
VIII. Miscellaneous Provisions			
A. Deferred payments	_____	_____	_____
B. Reserves	_____	_____	_____
C. Financial information	_____	_____	_____
1. Balance sheet of program	_____	_____	_____
2. Balance sheet of sponsor	_____	_____	_____

