Van Shock & Company, Inc.
187 17th Street
Denver, Colorado 80203

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Dear Emily:

As you know, Van Shock & Company, Inc. (Van Shock) has owned the DeNevar Building (the Building) in downtown Denver for a number of years. The Building has been recently designated a certified historic structure. The Building is in very poor condition at this point in time. In view of the growth of Denver and the demand for office space, however, Van Shock believes that with substantial rehabilitation the Building might become a very valuable rental property. Our original cost for the building was 20 million dollars. We paid 4 million dollars in cash and gave a purchase money mortgage for 16 million dollars. The purchase money mortgage was nonrecourse. The seller agreed to look solely to the Building and not to Van Shock personally for repayment of the loan. We have used the fastest rate of depreciation permitted and our present adjusted basis in the building is 8 million dollars. The present balance of the purchase money mortgage is 12 million dollars. Van Shock has caused the Building to be appraised, and its present fair market value has been determined to be 16 million dollars. Our best estimate indicates that the cost of the necessary rehabilitation will be in the neighborhood of 8 million dollars. We do not want to borrow the cost of rehabilitation, even if we could, since we feel that interest rates are too high. On the other hand, we do not want to commit 8 million dollars of our own money to one project. As a result, our financial committee has developed the following proposal.

Van Shock will contribute the Building, subject to the purchase money mortgage, to a limited liability company (the company). It will receive a capital account of 4 million dollars and be the sole managing member. It will then privately place an offering of 200 membership units at an offering price of $40,000 each, a total of 8 million dollars if the offering is fully subscribed. In order to make the purchase of the membership units attractive to investors (investor members), the following has been proposed.

All members will receive a preferred return which will be the equivalent of interest at the prime rate on the amount of their respective capital account balances existing from time to time. The first losses up to 10 million dollars will be allocated one-fifth to the managing member and four-fifths to the investor members. Any losses in excess of that amount will be allocated one-half to the managing member and one-half to the investor members. Profits will be allocated first to make up losses previously allocated. Any excess will be allocated one-third to the managing member and two-thirds to the investor members until the allocations to each member equal the amount of the member's preferred return. Finally, the remainder of any profits will be allocated one-half to the managing member and one-half to the investor members. The cash flow of the company (all the receipts of the company less cash expenses, payments of principal and interest on liabilities and appropriate reserves) will be distributed first to the managing member and investor members in the amount of the preferred return to which each is entitled. Second, any excess cash flow up to 12 million dollars will be distributed one-third to the managing member and two-thirds to the investor members. Lastly, any excess cash flow over 12 million dollars will be distributed one-half to the managing member and one-half to the investor members.

Since Van Shock has a great deal of "shelter" at the present time and therefore pays very little, if any, income tax, any tax credits to which the company is entitled because of the rehabilitation will be allocated 100% to the investor members. We plan to use the fastest depreciation rate available for the rehabilitated portion of the building and, as a result, expect the company, during the early years of the operation, to incur substantial losses for income tax purposes while having a fairly substantial positive cash flow. Van Shock plans on charging the company the following fees. For services in organizing the company and conveying the Building to it we will receive 3% of the net fair market value of the Building. For our services in supervising the rehabilitation of the building we will receive a special allocation of the first $80,000 of gross income earned by the company and the distribution of the first $80,000 of the company's cash flow. For our services in managing the operation of the company and the Building we will be paid 2% of the gross rental income received by the company. Lastly, our wholly owned subsidiary, Van Shock Securities, Inc., a registered broker-dealer, will charge the company 2% of the proceeds received from the offering of investor member interests for its services as the company's agent for the sale of the interests.

Please let me know if you have any concerns with the foregoing proposal or any advice with respect to its implementation. We would like you to begin immediately the drafting of the various documents required to