Appendix to PCFRC October 30, 2008 Letter

Typical Private Company Arrangements

**A**. Joe is the sole shareholder of ABC manufacturing company. The company grows out of its existing plant. Joe forms Joe LLC which buys land and a building. He contributes enough cash to fund a 20% downpayment and obtains a mortgage for the remaining 80% of the purchase price. Joe LLC leases the land and building to ABC manufacturing company for a fair market rent. The rent is sufficient to make mortgage payments.

**B**. Same as above except Joe does not form an LLC. He buys the property as an individual.

**C**. Same as A above. The manufacturing company is very successful. Joe personally buys a ranch in Colorado. Joe puts 20% down and obtains a mortgage for the balance of the purchase. To obtain a more favorable interest rate, ABC Manufacturing Company is also a guarantor on the mortgage. The ranch operates at a slight loss each year

**D**. Joe and his son Bob are each 50% shareholders of XYZ Construction Company. Joe is the 100% member of Joe's Heavy Equipment Company LLC. The LLC owns bulldozers and other heavy construction equipment. The LLC leases these machines to XYZ Construction Company on a daily or as needed basis. The rental fees are at a fair market price. The LLC is capitalized with 40% equity and 60% equipment loans. The rental income is sufficient to pay the loans and maintain the equipment. The LLC occasionally rents the equipment to other contractors.