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.