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3 Los Angeles, California 90067-2904
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6 Receiver

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8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**
10 **WESTERN DIVISION**

11 SECURITIES AND EXCHANGE
12 COMMISSION,

13 Plaintiff,

14 vs.

15 DIVERSIFIED LENDING GROUP,
16 INC.; APPLIED EQUITIES, INC.; and
17 BRUCE FRIEDMAN,

18 Defendants,

19 and

20 TINA M. PLACOURAKIS,

Relief Defendant.

) Case No. CV 09-01533-R (SSx)

) **RECEIVER'S EX PARTE**
) **APPLICATION FOR**
) **ADDITIONAL AUTHORITY TO**
) **EXCHANGE CERTAIN ASSETS**
) **FOR MEMBERSHIP INTEREST**
) **IN A LIMITED LIABILITY**
) **COMPANY TO FACILITATE THE**
) **SALE OF REAL PROPERTY IN**
) **LINVILLE, NORTH CAROLINA;**
) **DECLARATIONS OF DAVID A.**
) **GILL AND PATRICIA W.**
) **MORRIS**

) [No hearing requested]

21 **PLEASE TAKE NOTICE THAT** David A. Gill, the Permanent Receiver
22 ("Receiver") of Diversified Lending Group, Inc. ("Diversified"), and Applied
23 Equities, Inc., and their subsidiaries and affiliates, including but not limited to
24 MMHIM, Inc., DLG International, a Panamanian company, and SunWest Bottlers,
25 LLC, in the above-captioned case, will and hereby applies to the Court for an order
26 granting *Receiver's Ex Parte Application for Additional Authority to Exchange*
27 *Certain Assets for Membership Interest in a Limited Liability Company to Facilitate*
28 *the Sale of Real Property in Linville, North Carolina* ("Application").

1 **Summary of Proposed Transaction**

2 As Receiver I previously obtained permission from the Court to contribute
3 certain real property and related rights held by the estate in Linville, North Carolina
4 to RDLG, LLC, a new Limited Liability Company (“RDLG LLC”) formed by me as
5 Receiver and ReProp Financial Mortgage Investors, LLC (“RFMI”) so that property
6 in North Carolina of the estate which is owned jointly by me , or otherwise tied in
7 with property owned by RFMI, could be marketed as a unit. I now desire to transfer
8 the balance of property owned by me in that development to the same limited
9 liability company, on the same terms. Under the Operating Agreement for RDLG
10 LLC, I retain veto rights on all significant transactions by RDLG LLC. My
11 membership interest in RDLG LLC was and will remain a 36.11% interest and
12 RFMI’s interest was and will remain 63.89%. Our respective contributions are in the
13 amount of our relative interests and hence they will increase the asset value of RDLG
14 LLC, and the value of our respective percentage interests, while the relative
15 percentages thereof remain constant.

16 **Summary of Facts**

17 As Receiver of Diversified, I became the record owner of a 36.11% interest in
18 a resort-style residential development known as the Linville Falls Mountain Club and
19 Preserve (“Linville Development”) together with RFMI, which holds the remaining
20 interest of 63.89%. I and RFMI acquired said interests by foreclosing on a debt
21 owed to Diversified and RFMI. As Receiver, I hold the minority interest in the
22 Linville Development and by reason thereof I have worked with, but where prudent
23 have deferred to, RFMI in the management and operation of the components of the
24 Linville Development.

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1 The Linville Development includes lots which have been improved with roads,
2 utilities and other site improvements ("Finished Lots"). By authority of this Court,¹ I
3 have executed an Operating Agreement ("the Operating Agreement") and exchanged
4 all of my ownership interest in the Finished Lots for a corresponding membership
5 interest in RDLG, LLC. The Linville Development also includes a golf course,
6 driving range and related structures ("Golf Course") approximately 146 acres of 146
7 subdivided but unimproved lots ("Unfinished Lots"), and a 7.46 acre unimproved
8 parcel ("Raw Land"). My remaining interest in the Linville Development viz.: the
9 Golf Course, Unfinished Lots and Raw Land will hereinafter be referred to as
10 "Subject Property." It is held as tenancy in common with RFMI in the percentages
11 above-stated.

12 The operation of RDLG LLC in attempting to develop and market the Subject
13 Property in this difficult market has been satisfactory and has limited the costs and
14 expenses to the estate. In my judgment, based upon experience in this and other
15 similar cases, I have determined that it is now prudent and appropriate to contribute
16 the Subject Property to RDLG LLC in exchange for additional corresponding
17 membership interest in RDLG LLC. Attached as Exhibit "1" to my declaration is a
18 true and correct copy of the Proposed Order approving this Application. I believe
19 and allege that the contribution of the Subject Property to RDLG LLC is necessary,
20 among other things, to facilitate the marketing and sale of the remaining real
21 property at the Linville Developments, limit estate liability to purchasers, minimize
22 costs of administration herein and avoid the need to continually return to this Court
23 for sales and pricing approvals.

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¹ See, *Order Approving Receiver's Ex Parte Application for Authority to Exchange Certain Assets for Membership Interests in a Limited Liability Company to Facilitate the Sale of Finished Lots in Linville, North Carolina*, entered June 29, 2010, ECF Doc. No. 222.

1 **Relief Requested**

2 The Application requests an order:

3 1. authorizing me as the Receiver to execute a First Amendment to
4 Operating Agreement substantially in the form set forth in Exhibit "2" to my
5 Declaration filed herewith and, pursuant thereto, to contribute RDLG LLC
6 Diversified's ownership interest in the Subject Property conditioned upon a
7 conveyance by RFMI of all its interests in the Linville Development, each interest to
8 be held under the Operating Agreement heretofore approved by this court;

9 2. authorizing me as the Receiver to execute all documents and otherwise
10 take all actions that I deem necessary and appropriate to effectuate the transfer of the
11 Subject Property to RDLG LLC; and

12 3. confirming that the form and manner of notice of the Application
13 provided by me is appropriate.

14 4. A copy of the proposed order is attached as Exhibit "1" to my
15 declaration. An order is necessary to perfect the transfer of my property interests.

16 **Grounds for Motion**

17 The Application is made on the grounds that as Receiver I have determined in
18 my business judgment that the contribution of the Subject Property by the estate and
19 by RFMI of its interests in the Linville Development to RDLG LLC is necessary to
20 facilitate sales, limit estate liability to purchasers and other third parties, and to avoid
21 the need to continually return to this Court for sales and pricing approvals.

22 The Application is based upon this Notice, the Application, the Memorandum
23 of Points and Authorities, the Declarations of David A. Gill and Patricia Morris, and
24 upon such other evidentiary matters as may be considered by the Court.

25 **PLEASE TAKE FURTHER NOTICE** that pursuant to the prior order of this
26 Court entered May 4, 2009, the proposed notice and Application were served upon
27 the approved Limited Service List on November 4, 2010, and the Notice was posted
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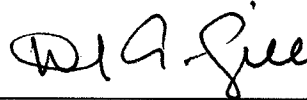
1 on the website www.diversifiedreceivership.com, as reflected in the Declaration of
2 Patricia Morris. No opposition has been received.

3 **PLEASE TAKE FURTHER NOTICE** that pursuant to the Omnibus Order
4 this Notice and Application will be served upon the approved Limited Service List
5 and will be posted on the website www.diversifiedreceivership.com.

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7 Dated: November 3, 2010

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DAVID A. GILL, RECEIVER

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1 **MEMORANDUM OF POINTS AND AUTHORITIES**

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3 **I.**

4 **THIS APPLICATION MAY BE FILED AND**
5 **DETERMINED ON AN EX PARTE BASIS**

6 I am applying for authorization to execute a First Amended Operating
7 Agreement and thereby to transfer my remaining ownership interest in the Subject
8 Property in exchange for a corresponding membership interest in RDLG LLC, for the
9 ownership, marketing and eventual sale of the Linville Development on an ex parte
10 basis in order to maximize efficiency for both the Court and the receivership estate.
11 Additionally, the need to sell the Linville Development on an expedited basis is
12 necessary in order to conserve associated carrying costs. Accordingly, this
13 Application may properly be brought before the Court on an ex parte basis.

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15 **II.**

16 **IT IS APPROPRIATE FOR THE COURT TO APPROVE**
17 **THE TRANSFER OF CERTAIN ASSETS TO RDLG LLC**

18 In order to transfer title of the Subject Property to RDLG LLC, I propose to
19 contribute all of the Receivership's rights, title and interest in the Subject Property,
20 without representations or warranty, to RDLG LLP. I seek approval of the Court in
21 order to make these contributions for the purpose of monetizing the Receivership's
22 interest in the Subject Property. RFMI and I are of a view that the transfer of the
23 balance of all of our respective interests in the Linville Development to RDLG LLC
24 is necessary to effectively market and sell the Linville Development and to limit each
25 party's liability to purchasers and other third parties, and avoid the need to
26 continually return to this Court for sales and pricing approvals. Accordingly, it is
27 appropriate for me, as Receiver for Diversified, to exchange my remaining 36.11%
28 ownership interest in the Subject Property for a corresponding membership interest

1 in RDLG LLC, contingent upon RFMI doing the same as to its 63.89% interest
2 therein in the Linville Development. The subject transaction has no negative impact
3 on the value of this asset and is not adverse to the best interest of the estate.
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5 **III.**

6 **CONCLUSION**

7 Based upon the foregoing, as Receiver I respectfully request approval of this
8 Application, the authority to execute the First Amendment to Operating Agreement
9 and pursuant thereto transfer certain Receivership assets for the formation of RDLG
10 LLC, and all other appropriate relief.
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12 Dated: November 3, 2010



13 DAVID A. GILL, RECEIVER
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DECLARATION OF DAVID A. GILL

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3 I, David A. Gill, declare as follows:

4 1. I am the Permanent Receiver appointed by this Court for Diversified
5 Lending Group, Inc. ("Diversified"), and Applied Equities, Inc., pursuant to the
6 Order of Preliminary Injunction and Orders: (1) Continuing Asset Freeze, (2)
7 Appointing a Permanent Receiver, (3) Prohibiting the Destruction of Documents, (4)
8 Granting Expedited Discovery, and (5) Requiring Accountings, signed and entered
9 by this Court on March 10, 2009, in the matter *Securities & Exchange Commission v.*
10 *Diversified Lending Group, Inc.*, case number CV 09-01533-R-SS.

11 2. This declaration is made in support *Receiver's Ex Parte Application for*
12 *Additional Authority to Exchange Certain Assets for Membership Interest in a*
13 *Limited Liability Company to Facilitate the Sale of Real Property in Linville, North*
14 *Carolina* ("the Application."). I have read the Application and know its contents. I
15 hereby adopt and incorporate all facts stated in the Application. I have caused to be
16 prepared a Proposed Order in conformity with this Application which is attached
17 hereto as Exhibit "1."

18 3. Unless stated otherwise, I have personal knowledge of the facts in this
19 declaration and, if called as a witness, I could competently testify to these facts.
20 Capitalized terms used herein have the same meaning as such terms are given in the
21 Application.

22 4. In June, 2007, ReProp Financial Mortgage Investors LLC ("RFMI") and
23 Diversified loaned an aggregate of \$3.6 Million to CVG II, LLC ("CVG") so that
24 CVG could purchase and rehabilitate an operating 18-hole golf course, with driving
25 range and clubhouse, surrounded by a residential golf course community
26 development comprised of finished and unfinished lots in the resort area of the Blue
27 Ridge Mountains at Linville Falls, near Ashville, North Carolina (the development
28 project is referred to herein as the "Linville Development"). Of the funds loaned,

1 \$2.3 million was from RFMI and \$1.3 million was from Diversified. The loans went
2 into default and ultimately Diversified and RFMI initiated private sale foreclosure
3 proceedings against CVG in December 2008, prior to my appointment as Receiver in
4 March 4, 2009.

5 5. RFMI and Diversified commenced (and I concluded as Receiver of
6 Diversified) a foreclosure of the security interests held by each entity. Upon
7 completion of the foreclosure, Diversified held a minority ownership interest in the
8 Linville Development. The Linville Development and ownership interests therein
9 were, when I acquired title, as follows:

- 10 (a) a 159-acre golf course and driving range complex with associated
11 buildings ("Golf Course"), in which RFMI holds a 63.89% interest
12 and Diversified holds a 36.11% interest, each as tenants in
13 common, which percentage interests are the same as the ratio of
14 the funds lent by each;
- 15 (b) a residential housing tract of approximately 102 lots covering
16 approximately 112 acres. RDLG LLC, a North Carolina limited
17 liability company ("RDLG LLC") holds sole title to all or
18 substantially of these lots ("Finished Lots") - I may have interests
19 in other finished lots, depending on the results of surveys and
20 development activities and, if so, intend to include them in the
21 definition of "Subject Property" as that term is defined in the
22 Application;
- 23 (c) Approximately 146 acres of unimproved property that have been
24 subdivided into approximately 146 lots ("Unfinished Lots") in
25 which RFMI holds a 63.89% interest and Diversified holds a
26 36.11% interest; and
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1 (d) a parcel of unimproved property of approximately 7.46 acres
2 ("Raw Land") in which RFMI holds a 63.89% interest and
3 Diversified holds a 36.11% interest.

4 6. Prior to foreclosure, when the original loans were made, Diversified and
5 RFMI entered into an Inter-creditor Agreement describing the rights and obligations
6 of the two parties as to the loan and the collateral: it was agreed that as to the
7 collateral Diversified would hold title to 36.11% of the Finished Lots or, in other
8 words, about 37 of the total of 102 Finished Lots and hold a 36.11% interest in the
9 Golf Course, Unfinished Lots, and Raw Land and that RFMI would hold the
10 remaining 63.89% interest. All of the property was held by the two entities as
11 tenants in common except certain finished lots held by Diversified in fee, and certain
12 finished lots held by RFMI in fee. The Golf Course, Unfinished Lots and Raw Land
13 are referred to herein, and in the Application, as the "Subject Property."

14 7. Ultimately, RFMI and I as Receiver of Diversified obtained title to our
15 collateral with the interests apportioned as described in the preceding paragraph. At
16 that point as Receiver, I became entitled as described in Paragraph 5. I still own the
17 items described in Paragraph 5(a), (c) and (d).

18 8. The Finished Lots have already been transferred to RDLG. Marketing
19 and Sale of the Finished Lots and development of the Unfinished Lots was and is
20 obviously inextricably intertwined with the operations of the Golf Course. RFMI
21 and I had hoped to be able to market and sell the Golf Course and other properties in
22 bulk. Unfortunately, notwithstanding extensive marketing over more than three
23 months, no acceptable offer was received. On May 27, 2010, the Court entered an
24 order [ECF Doc. No. 205] granting my application to join in entering into a lease-
25 option relative to the Golf Course. The option so granted has *not* yet been exercised
26 and may never be. Negotiations on the purchase are ongoing.

27 9. RFMI and I attempted to market the Finished Lots and, by its order
28 dated June 29, 2010 [ECF Doc. No. 222], this court authorized me to contribute all of

1 my ownership interest in the Finished Lots to RDLG LLC, a North Carolina Limited
2 Liability Company ("RDLG LLC") formed by RFMI and me, in exchange for a
3 36.11% membership interest in RDLG LLC. (Concurrently, RFMI contributed all of
4 its ownership interest in the Finished Lots to RDLG LLC in exchange for a 63.89%
5 membership interest in RDLG LLC.) RFMI and I contributed initial capital as
6 authorized by June 29 order. This was effected through execution of an Operating
7 Agreement dated June 22, 2010 ("the Operating Agreement"), a copy of which is
8 attached as Exhibit A to the proposed First Amendment to the Operating Agreement.
9 A copy of the proposed First Amendment to the Operating Agreement is attached
10 hereto as Exhibit "2."

11 10. A major sales effort as to the Finished Lots was unsuccessful and has
12 given rise to litigation in the State Courts. Since I am not an owner of the real estate,
13 I am not a party to that litigation. In addition to the Finished Lots, other property
14 must be marketed and sold. As Receiver and minority interest holder I am not in a
15 position to advance any significant funds beyond the initial capital which the court
16 permitted me to advance nor to undertake management of operations of the Linville
17 Development.

18 11. During the course of this case I have come to appreciate the acumen and
19 integrity of RFMI's management, with whom I have never had any prior connection,
20 and believe that it is qualified to manage RDLG in developing, marketing and selling
21 the Property.

22 12. It is my business judgment, that the concept previously approved by the
23 court of utilizing the Limited Liability Company as a buffer between the estate and
24 others has proved itself, and I believe it now appropriate to contribute the balance of
25 my interests in the Linville Development to RDLG under the existing Operating
26 Agreement.

27 13. I propose to execute a First Amendment to Operating Agreement of
28 RDLG, LLC, substantially in the form of that attached hereto as Exhibit "2." The

1 description of the property to be conveyed is included therein. The underlying
2 Operating Agreement effectively provides me with a veto over all significant
3 transactions, as 75% is required for same. The value of my separate interest in the
4 property contributed pursuant to the Court's prior order and to be contributed if the
5 Court approves the Application, will be preserved and enhanced, and the estate will
6 be insulated from the costs, expenses, responsibility and liability of this development
7 activity.

8 14. Accordingly, I recommend and request the Court grant my Application
9 and authorize me to amend the Operating Agreement to provide for and to exchange
10 all of my interests in the Linville Development and its component assets for an
11 equivalent membership interests in RDLG LLC. I believe that the value of my
12 36.11% interest in the property transferred can be no less than the value of my
13 36.11% interest in RDLG LLC, as enhanced by the transfer of such property.

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15 I declare under penalty of perjury under the laws of the United States of
16 America that the foregoing is true and correct.

17 Executed at Los Angeles, California, on November 3, 2010.

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21 DAVID A. GILL
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DECLARATION OF PATRICIA W. MORRIS

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I, Patricia W. Morris, declare as follows:

1. I am employed by the law firm of Danning, Gill, Diamond & Kollitz, LLP ("Danning-Gill"). I am over the age of 18 years and am not a party to the within action. I am a paraprofessional for David A. Gill, Permanent Receiver appointed by this Court for Diversified Lending Group, Inc., and Applied Equities, Inc., pursuant to the Order of Preliminary Injunction and Orders: (1) Continuing Asset Freeze, (2) Appointing a Permanent Receiver, (3) Prohibiting the Destruction of Documents, (4) Granting Expedited Discovery, and (5) Requiring Accountings, signed and entered by this Court on March 10, 2009, in *Securities and Exchange Commission v. Diversified Lending Group, Inc., et al.*, case number CV 09-01533-R (SSx), pending in the United States District Court, Central District of California.

2. This declaration is made in support of *Receiver's Ex Parte Application for Additional Authority to Exchange Certain Assets for Membership Interest in a Limited Liability Company to Facilitate the Sale of Real Property in Linville, North Carolina* ("Application"). I have personal knowledge of the facts in this declaration and, if called as a witness, I could competently testify to these facts.

3. On November 4, 2010, the proposed Notice and Application, including all exhibits attached thereto, were provided to all parties requiring notice in the Limited Service List and the Notice was posted on the website www.diversifiedreceivership.com pursuant to the Notice Procedures as set forth in an order of this Court dated May 4, 2009. The parties requiring notice in the Limited Service List have been advised that any opposition to the Application must be filed

1 with the Court no later than twenty-four hours after receipt of the filed Application.
2 No opposition has been received.

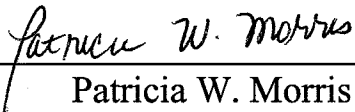
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4 I declare under penalty of perjury under the laws of the United States of
5 America that the foregoing is true and correct.

6 Executed at Los Angeles, California, on November 5, 2010.

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Patricia W. Morris

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1 David A. Gill, Receiver
2 2029 Century Park East, Third Floor
3 Los Angeles, California 90067-2904
4 Telephone: (310) 277-0077
5 Facsimile: (310) 277-5735

6 Receiver

7
8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**
10 **WESTERN DIVISION**

11
12 SECURITIES AND EXCHANGE
13 COMMISSION,

14 Plaintiff,

15 vs.

16 DIVERSIFIED LENDING GROUP,
17 INC.; APPLIED EQUITIES, INC.; AND
18 BRUCE FRIEDMAN,

19 Defendants,

20 and

21 TINA M. PLACOURAKIS,

22 Relief Defendant.

Case No. CV 09-01533-R (SSx)

**[PROPOSED] ORDER
APPROVING RECEIVER'S EX
PARTE APPLICATION FOR
ADDITIONAL AUTHORITY TO
EXCHANGE CERTAIN ASSETS
FOR MEMBERSHIP INTERESTS
IN A LIMITED LIABILITY
COMPANY TO FACILITATE THE
SALE OF REAL PROPERTY IN
LINVILLE, NORTH CAROLINA**

[No hearing requested]

23 There came before this Court, *Receiver's Ex Parte Application for Additional*
24 *Authority to Exchange Certain Assets for Membership Interest in a Limited Liability*
25 *Company to Facilitate the Sale of Real Property in Linville, North Carolina;*
26 *Declarations of David A. Gill and Patricia W. Morris* (the "Application") filed by
27 David A. Gill, the Receiver (the "Receiver") in the above-captioned case. The
28 Application having been considered by the Court and, good cause appearing,

1 **IT IS HEREBY ORDERED** that:

2 1. The Application is GRANTED in its entirety.

3 2. The Receiver is authorized to execute a First Amendment to Operating
4 Agreement substantially in the form set forth in Exhibit "2" to the Declaration of
5 David A. Gill in support of the Application.

6 3. The Receiver is authorized to contribute Diversified Lending Group,
7 Inc.'s ownership interest in the Subject Property, as that term is defined in the
8 Application, conditioned upon a like conveyance by ReProp Financial Mortgage
9 Investors, LLC, each interest to be held under the Operating Agreement approved by
10 a previous order of this Court entered June 29, 2010.

11 4. The Receiver is authorized to execute all documents and otherwise take
12 all actions the Receiver deems necessary and appropriate to effectuate the transfer of
13 the Subject Property to RDLG LLC as set forth in the First Amendment to Operating
14 Agreement.

15 5. The form and manner of notice of the Application provided by the
16 Receiver is appropriate.

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19 Dated:

MANUEL L. REAL
United States District Judge

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**FIRST AMENDMENT TO OPERATING AGREEMENT
OF
RDLG, LLC,
a North Carolina Limited Liability Company**

This Agreement is made and entered into on and effective on November 15, 2010, by and among RDLG, LLC, a North Carolina limited liability company ("RDLG"), ReProp Financial Mortgage Investors, LLC ("ReProp"), and Diversified Lending Group, inc., by its Receiver, David A. Gill ("Receiver") solely in his official capacity as Receiver in the matter of *Securities & Exchange Comm. v. Diversified Lending Group, Inc., et al.*, case number CV09-01533-R (SS) pending in the United States District Court for the Central District of California, Western Division ("Receivership Court"). ReProp and Diversified through its Receiver are herein sometimes described as "Members." This Agreement is made based upon the following Agreed Facts.

AGREED FACTS

1. Prior to June 22, 2010, the Members owned interests in certain real property, consisting generally of real property and rights appurtenant thereto in the County of McDowell State of North Carolina.
2. On June 22, 2010, the Members and RDLG executed a certain "RDLG LLC Operating Agreement" ("The Operating Agreement"). A copy of the Operating Agreement is Exhibit "A" hereto. Without limitation, each Member therein agreed to transfer certain property to RDLG, and RDLG agreed to accept such Property and to undertake certain duties and responsibilities to the Members.
3. After the Receiver obtained approval from the Receivership Court and ReProp obtained the requisite approval of its Members, The Parties consummated their contribution obligations by the payment by Members of certain moneys and transferring certain real

and personal property to RDLG, and RDLG consummated the transaction by accepting the property contributed and doing the other things required by said Operating Agreement.

4. The Members have other interests in adjacent real property, consisting generally of a golf course, unimproved real property and certain improved real property not heretofore conveyed, held by the Members as tenants in common in the same relative proportions as that previously contributed. The said property is described in Exhibit "B" hereto. The Members desire to contribute all of said property to RDLG under and pursuant to the terms and conditions of the Operating Agreement. RDLG is agreeable to accepting such contribution.
5. The Operating Agreement provides that the Members may amend the Operating Agreement with the consent of 75% of each class of Membership. The Members constitute 100% of the Membership.

Accordingly, for valuable consideration, the receipt of which is acknowledged, the Parties Agree to and do amend the Operating Agreement in the following respects only:

AGREEMENT

6. The foregoing Agreed Facts are incorporated herein.
7. ReProp shall and does hereby contribute to RDLG its tenant in common share of that property described in Exhibit "B" hereto.
8. Receiver shall and does hereby contribute to RDLG its tenant in common share of that property described in Exhibit "C" hereto.
9. RDLG accepts the contributions.

10. The Parties shall execute such other documentation as may be necessary to perfect such transfer.

11. Except as to the agreement to contribute additional property the terms and conditions of the Operating Agreement remain in full force and effect.

{Remainder of Page Intentionally Left Blank}

ADOPTED and agreed to on the dates hereinafter written.

November __, 2010: RDLG, LLC (Managed by ReProp Financial Mortgage Investors, LLC)

By: _____
Name: Glenn Goldan
Title: Manager of ReProp Financial Mortgage Investors, LLC

November __, 2010: REPROP FINANCIAL MORTGAGE INVESTORS, LLC

By: _____
Glenn, Goldan, Manager

November __, 2010: DIVERSIFIED LENDING GROUP, INC.

By: _____
David A. Gill, Receiver in the matter of *Securities & Exchange Comm. v. Diversified Lending Group, Inc., et al.*, case no. CV 09-01533-R (SSx) in the U.S. District Court for the Central District of California, Western Division

COASTAL ✓

**RDLG, LLC
OPERATING AGREEMENT**

ORIGINAL

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**OPERATING AGREEMENT
OF
RDLG, LLC
a North Carolina Limited Liability Company**

This Operating Agreement (the "Agreement") is made and entered into effective June __, 2010.

**Article I
Formation**

- 1.01 Name. The name of the limited liability company (the "LLC") is RDLG, LLC.
- 1.02 Articles of Organization. Articles of Organization were filed with the North Carolina Secretary of State on June __, 2010.
- 1.03 Duration. The duration of the LLC shall be perpetual.
- 1.04 Principal Place of Business. The principal office of the LLC shall initially be 555 H Street, Eureka, California. The Managers may relocate the principal office or establish additional offices from time to time.
- 1.05 Registered Office and Registered Agent. The LLC's initial registered office shall be at 227 West Trade Street, Suite 1200, Charlotte, NC 28202-1672, and the name of its initial registered agent at such address shall be Rayburn Cooper & Durham, P.A.

**Article II
Members, Contributions and Interests**

- 2.01 Units, Names and Addresses.
- (a) Member interests in the LLC shall be issued in the form of Membership units ("Units"). The LLC initially authorizes one class of units, namely, Class A Voting Units.
- (b) This LLC initially has two Members. The names and addresses of the initial Members, together with the value of the Members' capital contribution and the number of Units owned by the Members are shown below:

<u>Name and Address of Member</u>	<u>Initial Capital Contribution</u>	<u>Initial Class A Units</u>
ReProp Financial Mortgage Investors, LLC	See Exhibit A	6,389
David A. Gill, Receiver in the matter of <i>Securities & Exchange Comm. v. Diversified Lending Group, Inc., et al.</i> , case no. CV 09-01533-R (SSx) in the U.S. District Court for the Central District of California, Western Division ("District Court")	See Exhibit A	3,611

Each Member's ownership interest shall be identified in this Agreement or in the LLC's records but need not be represented by a certificate for the number of membership Units owned by that Member.

2.02 Issuance of Additional Units. The LLC may issue additional Units on terms approved by Members holding at least seventy five percent (75%) of the Units Eligible to Vote. The LLC will use cash capital contributions by new Members for working capital, capital expenditures, payment of, or reimbursement to, the initial Members or Managers of organizational expenses and start-up expenses incurred prior to organization, and provision for contingency reserves.

2.03 Other Business of Members. Except as may be provided in any separate agreement, it is specifically and clearly agreed that a Member may, directly or indirectly, engage in, own an interest in, or act as an officer, director, employee, member, consultant, or advisor to any other business, excepting a business that could be deemed to compete with the LLC directly or indirectly. Each Unit Holder agrees to keep any proprietary information, documents, and records received from the LLC or its Unit Holders confidential and to not disclose such information, documents, and records to third parties other than the Unit Holder's lawyer, accountant, or financial advisor in the course of providing advice to the Unit Holder.

2.04 Additional Contributions. Additional capital contributions shall be accepted from existing Unit Holders only if at least seventy five percent (75%) of the Units Eligible to Vote approves and sets the maximum total amount of the additional capital contributions. If the Managers do so, the Unit Holders shall have the opportunity (but not the obligation) to make such additional capital contributions on a pro-rata basis in accordance with their Units. If any Unit Holder elects to make less than the Unit Holder's pro-rata share of any additional capital contributions, the others may contribute the difference on a pro-rata basis in accordance with their ownership interests or on any other basis they may agree upon; in such a case, the contributing Unit Holders shall be issued additional Units in the LLC with an issue price per unit equal to the net book value of the LLC (prior to the contributions) as determined by the LLC's regularly employed certified public accountant divided by the total number of outstanding Units.

2.05 No Interest on Capital Contributions. No interest shall be paid on capital contributions.

2.06 Capital Accounts. An individual capital account shall be maintained for each Unit Holder. Each Unit Holder's capital account shall be (a) credited with all capital contributions by such Unit Holder and the Unit Holder's distributive share of all income and gain (including any income exempt from federal income tax), and (b) charged with the amount of all distributions to such Unit Holder and the Unit Holder's distributive share of losses and deductions. Capital accounts shall be maintained in accordance with federal income tax accounting principles as set forth in Treas. Reg. § 1.704-1(b)(2)(iv) or any successor provision.

Article III Member Meetings

3.01 Meetings. A meeting of the Members shall be held (a) if it is called by the Managers or (b) if Members holding at least thirty percent (30%) of the Units Eligible to Vote shall sign, date, and deliver to the LLC's principal office a written demand for the meeting, describing the purpose for which it is to be held. Meetings of Members shall be held at the principal office of the LLC or any other place specified in the notice of meeting. At those meetings the Managers will report to the Members in detail about the operations of the Company.

3.02 Notice of Meeting. Notice of the date, time, and place of each meeting of Members shall be given to each Member not earlier than sixty (60) days nor less than ten (10) days before the meeting date. The notice must include a description of the purpose or purposes for which the meeting is called.

3.03 Record Date. The persons entitled to notice of and to vote at a meeting of Members, and their respective membership interests, shall be determined as of the record date for the meeting. The record date shall be a date not earlier than seventy (70) days nor less than ten (10) days before the meeting selected by the Managers. If the Managers do not specify a record date, the record date shall be the date on which notice of the meeting was first mailed or otherwise delivered.

3.04 Quorum. The presence, in person or by proxy, of Members holding at least seventy five percent (75%) of the outstanding Units Eligible to Vote shall constitute a quorum.

3.05 Proxies. A Member may be represented at a meeting in person, by phone or by written proxy granted to another Member or to any other person who has been approved by the Managers in advance of the meeting and who has agreed to be bound by the confidentiality requirements that apply to Unit Holders.

3.06 Voting. Except as otherwise stated in the Articles of Organization, this Operating Agreement, or applicable law, a matter submitted to a vote of the Members shall be deemed approved if the Units Eligible to Vote meet or exceed the percentage, as set forth in this agreement, to carry the matter.

Article IV Management

4.01 Number and Qualifications of Managers. As provided in the Articles of Organization, the LLC shall be managed by one or more Managers. A Manager may be an individual or an entity and need not be a Member of the LLC. The initial Manager of the LLC shall be ReProp Financial Mortgage Investors, LLC., and this entity shall serve in such capacity until their respective deaths, resignation, or removal under Section 4.09. All references in this Operating Agreement to "Managers" shall be deemed to refer to the Manager so long as the LLC has only one Manager. All references in this Operating Agreement to "Manager" shall be deemed to refer to all Managers so long as the LLC has more than one Manager.

4.02 Executive Officers. The LLC may have such executive officers as are from time to time appointed by the Managers, with such titles as the Managers may designate.

4.03 Employees. Managers may be employed by the LLC to act full-time or part-time upon such terms and such compensation as may be approved by the Members. The employment arrangements, salary and terms of employment of executive officers of the LLC shall be set by the Managers, as approved by the Members. The LLC may have such other employees, serving pursuant to such terms of employment, as the Managers or their delegees determine from time to time.

4.04 Election of Managers. Successor Managers shall be elected at meetings of Members called for the purpose of electing Managers. The meeting notice must state that the purpose, or one of the purposes, of the meeting is election of one or more Managers. A successor Manager shall serve for a term ending when the Members next hold a meeting at which one or more Managers are elected or until the Manager's earlier death, resignation, or removal.

4.05 Authority. Subject to restrictions that may be imposed from time to time by the Members, each Manager shall be an agent of the LLC with authority to bind the LLC in the ordinary course of its business and shall have authority to control the LLC's day-to-day operations. Notwithstanding the forgoing, the approval of the Members holding at least seventy five percent (75%) of the Units Eligible to Vote will be required in order to approve:

- (a) the sale of substantially all of the assets of the LLC (the sale of individual lots at an average gross sales price of \$55,000 per lot does not constitute a sale of substantially all of the assets of the LLC for the purposes of this Section 4.05) ;
- (b) the hypothecation of any asset or assets of the LLC;
- (c) the borrowing of money in any amount or the incurrence of a debt or other obligation that has a liability in excess of \$50,000;
- (d) the merger of the LLC with another entity, regardless of whether the LLC will or will not be the surviving entity;
- (e) the voluntary dissolution of the LLC;

- (f) any material and adverse change in the rights, preferences or privileges of the Units;
- (g) the creation of any new class of membership units having preference over or being on a parity with the Units;
- (h) any redemption of Units other than as provided for in this Operating Agreement;
- (i) any salaries or bonus formulae for the LLC's Managers and employees and any changes thereto; or
- (j) the election or removal of a Manager.

4.06 Other Activities. A Manager may have other business interests and may engage in other activities in addition to those relating to the LLC. This section does not change a Manager's duty to act in a manner that the Manager reasonably believes to be in the best interests of the LLC.

4.07 Meetings; Notices; Quorum; Voting. If there is more than one Manager, meetings of the Managers may be called by any Manager. Meetings shall be held at the place fixed by the Manager or, if no such place has been fixed, at the principal office of the LLC. Oral or written notice of the date, time, and place of any meeting shall be given at least twenty-four (24) hours in advance. Written notice may be delivered personally, given by facsimile or other form of wire communication, or by mail or private carrier, to each Manager's home address. Written notice shall be effective at the earliest of the following: (a) when received, (b) when sent by facsimile or other form of wire communication, or (c) two (2) business days after being mailed.

4.08 Resignation. A Manager may resign at any time by delivering written notice to any other Manager or to the Members. The resignation is effective when the notice is effective under the North Carolina Limited Liability Company Act unless the notice specifies a later effective date, but notwithstanding anything to the contrary the earliest the notice will be effective is thirty days after service of notice. Once delivered, a notice of resignation is irrevocable unless revocation is permitted by the Members. The resignation of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of the Member.

4.09 Removal of Manager by Members. The Members may remove any Manager with or without cause. A Manager may be removed by the Members only at a meeting called for the purpose of removing the Manager and the meeting notice must state that the purpose, or one of the purposes, of the meeting is removal of the Manager. An affirmative vote of at least seventy five percent (75%) of the Units Eligible to Vote shall be required to remove a Manager.

4.10 Vacancy. If a Manager vacancy occurs, the Members may fill the vacancy as provided in Section 4.04. A vacancy that will occur at a specific later date may be filled before the vacancy occurs, but the new Manager may not take office until the vacancy occurs.

4.11 Salaries. The salaries and other compensation of a Manager shall be fixed from time to time by an affirmative vote of at least seventy five percent (75%) of the Units Eligible to Vote. A Manager shall not be precluded from receiving a salary and other compensation because the Manager is also a Member.

4.12 Other Agents and Professionals. The sole Manager, or a majority of Managers, if more than one, may authorize in writing any agent to enter into any lawful contract or to otherwise act under the direction of the Managers on behalf of the LLC, including as executive officer appointed pursuant to Section 4.02, whether or not such person is a Manager or Member. Such authority shall be confined to the specific instances provided in the document authorizing the agent. The manager may retain other professionals to assist the manager to carry out its day to day operations under Section 4.05.

Article V

Actions Without Notice, Without Meeting, Or By Telephone

5.01 Meeting of all Members or Managers. Notwithstanding any other provision of this Operating Agreement, if all of the Members or Managers shall hold a meeting at any time and place, such meeting shall be valid without call or notice and any lawful action taken at such meeting shall be the action of the Members or Managers, respectively.

5.02 Action Without Meeting. Any action required or permitted to be taken by the Members or the Managers at a meeting may be taken without a meeting if (1) a consent in writing describing the action taken is signed by Members or by Managers, as the case may be, holding the greater of (i) seventy five percent (75%) of the Units Eligible to Vote or (ii) the number of votes required to pass the action.

5.03 Meetings by Telephone. Meetings of the Members or Managers may be held by conference telephone or by any other means of communication by which all participants can hear each other simultaneously during the meeting, and such participation shall constitute presence in person at the meeting.

Article VI

Accounting and Records

6.01 Books of Account. The LLC's books and records shall be maintained by the Managers and shall include the information required to be maintained by North Carolina law. This information includes a register showing the names, addresses, and Units owned by the Unit Holders and the Managers, the LLC's Articles of Organization and any amendments thereto, and this Operating Agreement, together with any amendments thereto. Each Member shall have access thereto at all reasonable times. Each Unit Holder agrees to keep any documents and records received from the LLC confidential and to not disclose them to third parties (except for agents of the Unit Holder to the extent required to properly represent or assist the Unit Holder).

6.02 Fiscal Year. The fiscal year of the LLC shall be the calendar year.

6.03 Accounting Returns. Within ninety (90) days after the close of each fiscal year, the Managers shall cause each Member to receive an unaudited report of the activities of the LLC

for the preceding fiscal year, including a copy of a balance sheet of the LLC as of the end of such year and a statement of income or loss for such year.

6.04 Tax Returns. The Managers shall cause all required federal and state income tax returns for the LLC to be prepared and timely filed with the appropriate authorities. Within ninety (90) days after the end of each fiscal year, each Unit Holder shall be furnished a statement suitable for use in the preparation of the Unit Holder's income tax return, showing the amounts of any distributions, contributions, gains, losses, profits, or credit allocated to the Unit Holder during such fiscal year.

Article VII Allocations and Distributions

7.01 Allocation of Net Profit and Loss. Except as may be required by IRC § 704 and the Treasury Regulations thereunder, net profits, net losses, and other items of income, gain, loss, deduction, and credit shall be apportioned among holders of Units ("Unit Holders") in proportion to their Units (their "profits percentages").

7.02 Determination of Net Profit or Loss.

(a) Computation of Net Profit or Loss. Except as adjusted by Section 7.02(b), the LLC's net profit or net loss for any period shall be the LLC's taxable income or loss for that period, determined in accordance with IRC §703(a) (and, for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to IRC §703(a)(1) shall be included in taxable income or loss).

(b) Adjustments to Net Profit or Loss. For purposes of computing net profit or loss: (a) income and gain exempt from federal income tax and nondeductible expenses under Treas. Reg. §1.704-1(b)(2)(iv)(i) shall be included; (b) items specially allocated under Section 7.04 shall be excluded; and (c) when determining income or loss on the disposition of an item of LLC property or when determining the cost recovery, depreciation, or amortization deduction with respect to any property, the LLC shall use the property's book value determined in accordance with Treas. Reg. §1.704-1(b).

7.03 Limitation. As long as there is at least one Unit Holder with a positive capital account, the net loss allocated to each Unit Holder for any LLC fiscal year pursuant to Section 7.01 shall not exceed the maximum amount of net loss that can be so allocated without causing any Unit Holder to have a deficit capital account at the end of the fiscal year. All net losses in excess of the limitation set forth in this Section 7.03 shall be allocated to the Unit Holders who have positive capital accounts in proportion to their respective positive capital accounts until all such positive capital accounts reach zero. At any time and to the extent there is no Unit Holder with a positive capital account, all net losses shall be allocated according to the Unit Holders' profits percentages. For the purposes of this section and of Section 7.04(c), a Unit Holder's capital account will be deemed to include the value of any obligation to restore a capital account deficit, as limited by Treas. Reg. §1.704-1(c) and as expanded by Treas. Reg. § 1.704-2(g)(1).

7.04 Items Specially Allocated. The following special allocations shall be made for any fiscal year of the LLC in the following order:

(a) Member Minimum Gain Chargeback. Except as provided in Treas. Reg. 1.704-2(i)(4), if for any year there is a net decrease in member minimum gain ("partner nonrecourse debt minimum gain" as described in Treas. Reg. §1.704-2(i)(2)), any Unit Holder with a share of that member minimum gain as of the beginning of that year must be allocated items of income and gain for that year (and, if necessary, for succeeding years) equal to that Unit Holder's share of the net decrease in the member minimum gain. A Unit Holder's share of member minimum gain and of the net decrease in member minimum gain are determined in accordance with the provisions of Treas. Reg. §§1.704-2(i)(4) and 1.704-2(i)(5). The items to be allocated and their method of allocation among the Unit Holders shall be determined pursuant to Treas. Reg. §§1.704-2(i)(4) and 2(j)(2).

(b) Member Nonrecourse Deductions. Any member nonrecourse deductions ("partner nonrecourse deductions" as defined in Treas. Reg. §§1.704-2(i)(1) and (2)) shall be specially allocated among the Unit Holders according to Treas. Reg. §1.704-2(i).

(c) Gross Income Offset. If any Unit Holder would otherwise have a deficit capital account at the end of any year in which at least one other Unit Holder would otherwise have a positive capital account, items of LLC income and gain shall be specially allocated to the Unit Holders that would otherwise have deficit capital accounts (on a pro rata basis according to their deficit capital accounts) until all such deficit capital accounts are eliminated (but only to the extent such allocation does not create a deficit capital account for any Unit Holder).

7.05 Corrective Allocations. The allocations set forth in Sections 7.03 and 7.04 are intended to comply with the requirements under IRC §704(b) that allocations of LLC income, gain, loss, deduction, and credit be in accordance with the Unit Holders' interests in the LLC. The Members intend that, to the extent possible, all allocations made pursuant to Sections 7.04 and 7.05 will, over the term of the LLC, be offset either with other allocations pursuant to those sections or with allocations pursuant to this Section 7.05. Accordingly, the Managers shall make offsetting allocations of LLC income, gain, loss, or deduction under this Section 7.05 as they determine appropriate so that, after such offsetting special allocations are made, the capital accounts of the Unit Holders are, to the extent possible, equal to the capital accounts each would have if the provisions of Sections 7.03 and 7.04 were not contained in this Operating Agreement and all income, gain, loss, and deduction of the Company were instead allocated pursuant to Section 7.01.

7.06 Other Allocation Rules.

(a) Tax Allocations for Contributed and Revalued Property. Solely for income tax purposes, income, gain, loss, and deduction respecting property contributed to the capital of the LLC or revalued in accordance with Section 2.06 and Treas. Reg. §1.704-1(b)(2)(iv)(f) shall thereafter be allocated in accordance with the rules and principles of IRC §704(c) and Treas. Reg. 1.704-3. The allocation method to be applied

with respect to property, if any, subject to ceiling rule distortions (as described in Treas. Reg. §§1.704-3(b), (c), and (d)) shall, in the case of contributed property, be determined by agreement of the contributing Unit Holder and the Managers (other than the contributing Unit Holder, and if the sole Manager is the contributing Unit Holder, by agreement of the contributing Unit Holder and the other Members) and, in the case of revalued property, be determined by the Managers. Such method shall be determined prior to the time for filing the tax return for the year of contribution or revaluation (excluding extensions). If the traditional method with curative allocations is elected as to any contributed or revalued property (as defined in Treas. Reg. §1.704-3(c)(1)), the LLC may (if it so chooses) elect to offset the effect of the ceiling rule for a prior year with allocations made over any reasonable period of time, as provided in Treas. Reg. §1.704-3(c)(3)(ii), and/or may (if it so chooses) elect to use gain or loss of any character realized from the disposition of the contributed or revalued property to offset the effects of the ceiling rule as provided in Treas. Reg. §1.704-3(c)(3)(iii)(B).

(b) Allocation of Recapture Items. Solely for income tax purposes, in making any allocation among the Unit Holders of income or gain from the sale or other disposition of an LLC asset, the ordinary income portion, if any, of the income and gain resulting from the recapture of cost recovery or other deductions shall be allocated among those Unit Holders who were previously allocated (or whose predecessors-in-interest were previously allocated) the cost recovery deductions or other deductions resulting in the recapture items, in proportion to the amount of the cost recovery deductions or other deductions previously allocated to them.

(c) Unit Holders' Tax Returns. The Unit Holders are aware of the income tax consequences of the allocations made by this Article VII and hereby agree to be bound by the provisions of this Article VII in reporting their shares of LLC income and loss for federal and state income tax purposes.

7.07 Distributions to Pay Tax Liabilities. Within ninety (90) days after the end of each fiscal year, subject to a vote of seventy five percent (75%) of the Units Eligible to Vote, the LLC may make a distribution in an amount equal to at least (a) the LLC's net taxable income during the fiscal year multiplied by (b) the greater of (i) forty percent (40%) or (ii) the maximum combined federal, state, and local income tax rates of the Class A Unit Holder with the highest combined rate in effect for the fiscal year (taking into account the deductibility of state taxes for federal income tax purposes) less (c) the amount of any distributions made by the LLC during the fiscal year (other than distributions made during the fiscal year that were required to be made under the provisions of this section with respect to a prior fiscal year). For purposes of this section, the LLC's net taxable income shall be the net excess of items of recognized income and gain over the items of recognized loss and deduction reported on the LLC's federal income tax return for the taxable year with respect to which the distribution is being made (reduced by net losses for prior years that have not yet been offset by reason of this clause). The LLC's obligation to make such a distribution is subject to the restrictions governing distributions under the North Carolina Limited Liability Company Act.

7.08 Priority of Distributions.

After determining that a distribution is permissible under the North Carolina Limited Liability Company Act and following an affirmative vote of seventy five percent (75%) of the Units Eligible to Vote, the LLC may make a distribution in the following order of priority:

- (a) First, for tax distributions as described in Section 7.07 above;
- (b) Second, to pay interest on any outstanding loans (if any) made by the Members to the LLC, if the loans were approved in writing by the Managers;
- (c) Third, to pay principal on any outstanding loans (if any) made by the Members to the LLC if the loans were approved in writing by the Managers; and
- (d) Fourth, the pro-rata to the number of Units held of record by the respective Members.

Article VIII Withdrawal and Dissolution

8.01 Withdrawal. Each Member agrees not to withdraw from the LLC without the consent of all other Members. A voluntary withdrawal without such consent shall be effective one hundred sixty (160) days after written notice thereof is delivered to the Managers, but shall constitute a breach of this Operating Agreement for which the LLC and other Members shall have the remedies provided under applicable law. A Member's withdrawal shall not require the LLC to liquidate the Member's membership interest nor shall it trigger an event of dissolution.

8.02 Dissolution. Except as otherwise provided in this Operating Agreement, the LLC shall dissolve upon the approval of dissolution by a vote of the Members holding at least seventy five percent (75%) of the Units Eligible to Vote.

8.03 Expulsion. A Member may be expelled for the reasons provided for by North Carolina law either upon the unanimous vote of all other Members (regardless of class) or upon court order. An expelled Member shall be treated as having withdrawn from the LLC as of the date of the expulsion. A Member's expulsion shall not require the LLC to liquidate the Member's membership interest.

8.04 Effect of Withdrawal or Other Event. Upon the withdrawal, death, or expulsion of a Member or upon the death of a Unit Holder, the remaining Members may within one hundred twenty (120) days, without waiving any remedies in the case of voluntary withdrawal, elect to have the LLC purchase the ownership interest of the affected Unit Holder pursuant to the provisions of Sections 8.06 and 8.07 hereof.

8.05 Liquidation Upon Dissolution and Winding Up. Upon the dissolution of the LLC, the Managers shall wind up the affairs of the LLC. A full account of the assets and liabilities of the LLC shall be taken. The assets shall be promptly liquidated and the proceeds thereof applied as required by the North Carolina Limited Liability Company Act. With approval by vote of the Members, the LLC may, in the process of winding up the LLC, elect to distribute certain property in kind.

8.06 Valuation of Unit Holder's Interest. Upon an election by the LLC to purchase the interest of a Unit Holder pursuant to Section 8.04, the value of the affected Unit Holder's interest shall be the amount that the Unit Holder would receive if the LLC were sold for its fair market value. The fair market value of the LLC shall be determined by agreement between the remaining Members (acting by vote) and the affected Unit Holder or the affected Unit Holder's personal representative. In the event agreement as to such value cannot be obtained, the LLC shall be valued by a third-party appraiser who is knowledgeable regarding the valuation of similar businesses and who is reasonably acceptable to both a majority in interest of the remaining Members and the affected Unit Holder or the affected Unit Holder's personal representative. The costs of such an appraisal shall be divided equally between the LLC and the transferring Unit Holder. In the event the remaining Members and the affected Unit Holder are unable to agree on an appraiser, the Managers may choose to select a third-party appraiser and have the LLC pay the cost of the appraisal.

8.07 Payment for Unit Holder's Interest. The purchase price for a Unit Holder's interest purchased pursuant to Section 8.04 shall be paid as follows: one hundred percent (100%) within the later of (1) ninety (90) days of the triggering event or (2) thirty (30) days after determination of the value of the interest purchased. Interest shall accrue at 2% over the mid-term applicable federal rate for the month in which the triggering event occurred, as published by the Internal Revenue Service. In the event the LLC is the beneficiary of insurance on the life of a Unit Holder, and that Unit Holder dies, that LLC shall use the proceeds of such insurance to prepay the purchase price for that Unit Holder's interest when those proceeds are received.

8.08 Effect of Purchase of Member's Interest. A Member shall cease to be a Member upon the LLC's election to purchase the Member's ownership interest pursuant to Section 8.04 or upon the Member's earlier expulsion or withdrawal. During the period in which the LLC is making payments to the former Member, the former Member shall have no rights as a Member in the LLC.

Article IX Indemnification

9.01 Indemnification. The LLC shall indemnify each of its Managers to the fullest extent permissible under North Carolina law, as the same exists or may hereafter be amended, against all liability, loss and costs (including, without limitation, attorneys' fees) incurred or suffered by such person by reason of or arising from the fact that such person is or was a Manager of the. The LLC may, by written action of the Members or Managers, provide indemnification to any employee or agent of the LLC who is not a Manager. The indemnification provided in this section shall not be exclusive of any other rights to which any person may be entitled under any statute, bylaw, agreement, resolution of Members or Managers, contract, or otherwise.

9.02 Limitation of Liability. Any Manager of the LLC shall not be liable to the LLC or its Members for monetary damages for conduct as Manager except to the extent that the North Carolina Limited Liability Company Act, as it now exists or may hereafter be amended, prohibits elimination or limitation of Manager liability. No repeal or amendment of this section or of the North Carolina Limited Liability Company Act shall adversely affect any right or protection of a Manager for actions or omissions prior to the repeal or amendment.

Article X
Transfers of Interests

10.01 Restriction on Transfers. Except as otherwise permitted by this Operating Agreement, no Unit Holder or assignee shall transfer all or any portion of such person's ownership interest in the LLC. In the event that any Unit Holder or assignee pledges or otherwise encumbers any of such person's ownership interest in the LLC as security for the payment of a debt, any such pledge or hypothecation shall not constitute a transfer.

10.015 Permitted Transfers. Subject to the conditions and restrictions set forth in Sections 10.02 and 10.05 hereof, a Unit Holder or assignee may at any time transfer all or any portion of such person's ownership interest in the LLC to:

- (a) Any Member;
- (b) The Unit Holder's spouse, descendants, or a trust for the benefit of the Unit Holder, the Unit Holder's spouse, and the Unit Holder's descendants;
- (c) Such entity permitted by an order of the District Court;
- (d) The transferor's executor, administrator, trustee, or personal representative to whom such interests are transferred at death or involuntarily by operation of law (however, the restrictions of Article X will apply on transfer by such person); or
- (e) Any purchaser in accordance with Section 10.03 hereof.

10.02 Conditions to Permitted Transfers. A transfer shall not be treated as a permitted transfer under Section 0 hereof unless and until the following conditions are satisfied:

(a) Except in the case of a transfer of a person's ownership interest in the LLC at death or involuntarily by operation of law, the transferor and transferee shall execute and deliver to the LLC such documents and instruments of conveyance as may be necessary or appropriate in the opinion of counsel to the LLC to effect such transfer and to confirm the agreement of the transferee to be bound by the provisions of this Agreement. In the case of a transfer of a person's ownership interest in the LLC at death or involuntarily by operation of law, the transfer shall be confirmed by presentation to the LLC of legal evidence of such transfer, in form and substance satisfactory to counsel to the LLC. In all cases, the LLC shall be reimbursed by the transferor and/or transferee for all costs and expenses that it reasonably incurs in connection with such transfer.

(b) The transferor and transferee shall furnish the LLC with the transferee's taxpayer identification number, sufficient information to determine the transferee's initial tax basis in the person's ownership interest in the LLC transferred, and any other information reasonably necessary to permit the LLC to file all required federal and state tax returns and other legally required information statements or returns. Without limiting the generality of the foregoing, the LLC shall not be required to make any distribution