

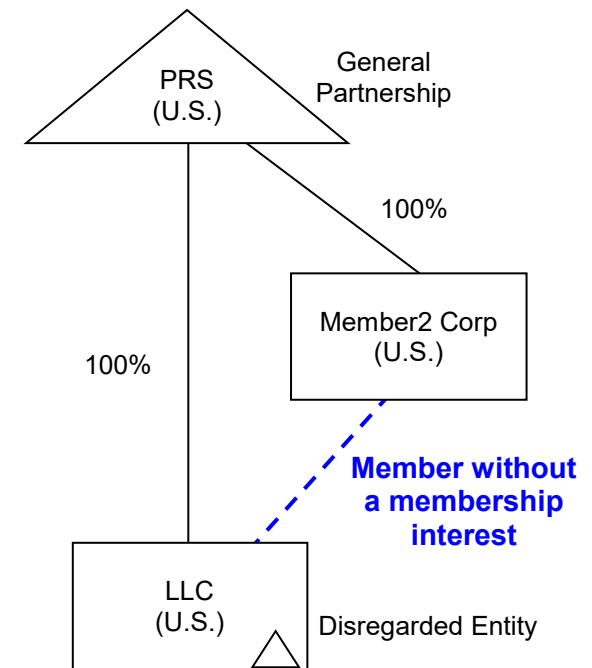
**LLC With 2 Members Treated As A Disregarded Entity**

PRS is a general partnership. PRS formed LLC and contributed property to LLC in exchange for a 100% interest in LLC. PRS also owns 100% of the voting stock of MEMBER2. MEMBER2 is a corporation.

MEMBER2 became a member of LLC pursuant to an agreement with PRS. The agreement states that PRS requested that MEMBER2 become a member of LLC without holding a membership interest. Under the LLC agreement, MEMBER2 is not entitled to receive any distributions, income, gain, profit, loss, deduction, credit, or other sum from LLC.

LLC is not a partnership for federal tax purposes because PRS and MEMBER2 did not enter into the agreement to operate a business and share profits and losses. MEMBER2 has no interest in LLC's profits or losses and only has limited management rights. Thus, for federal tax purposes PRS and MEMBER2 will not be treated as partners in LLC.

Instead, PRS will be treated as LLC's sole owner. Because PRS is the sole owner of LLC and PRS will not elect to treat it as a separate entity for federal tax purposes, LLC will be disregarded as an entity separate from PRS.



△ Means "flow-thru" for U.S. tax purposes