

USDC SCAN INDEX SHEET



CAG 11/15/05 10:07

3:04-CV-02295 SEC V. EMVEST MORTGAGE FUND

179

DECL.

1 MICHAEL A. PIAZZA, Cal. Bar No. 235881
2 MOLLY M. WHITE, Cal. Bar No. 171448
3 SUSAN F. HANNAN, Cal. Bar No. 97604

4 Attorneys for Plaintiff
5 Securities and Exchange Commission
6 Randall R. Lee, Regional Director
7 Briane Nelson Mitchell, Associate Regional Director
8 5670 Wilshire Boulevard, 11th Floor
9 Los Angeles, California 90036
10 Telephone: (323) 965-3998
11 Facsimile: (323) 965-3908

FILED
NOV 14 2005
U.S. DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA
BY [Signature] DEPUTY

12 **UNITED STATES DISTRICT COURT**
13 **SOUTHERN DISTRICT OF CALIFORNIA**

14 **SECURITIES AND EXCHANGE**
15 **COMMISSION,**

16 Plaintiff,

17 v.

18 **EMVEST MORTGAGE FUND, LLC,**
19 **EMVEST, INC., and MILON LYLE BROCK,**

20 Defendants.

Case No. 04 CV 2295 DMS (LSP)

**DECLARATION OF ALAN SKLAR
IN SUPPORT OF SECURITIES AND
EXCHANGE COMMISSION'S
OPPOSITION TO DEFENDANTS'
MOTION FOR SUMMARY JUDGMENT**

Date: December 2, 2005
Time: 1:30 p.m.
Courtroom: 10 (Hon. Dana M. Sabraw)

21
22
23
24
25
26
27
28
[Handwritten signature]

PROOF OF SERVICE

I am over the age of 18 years and not a party to this action. My business address is:

U.S. SECURITIES AND EXCHANGE COMMISSION, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036-3648

Telephone No. (323) 965-3998; Facsimile No. (323) 965-3908.

On November 14, 2005, I served the document entitled **DECLARATION OF ALAN SKLAR IN SUPPORT OF SECURITIES AND EXCHANGE COMMISSION'S OPPOSITION TO DEFENDANTS' MOTION FOR SUMMARY JUDGMENT** upon the parties to this action addressed as stated on the attached service list:

OFFICE MAIL: By placing in sealed envelope(s), which I placed for collection and mailing today following ordinary business practices. I am readily familiar with this agency's practice for collection and processing of correspondence for mailing; such correspondence would be deposited with the U.S. Postal Service on the same day in the ordinary course of business.

PERSONAL DEPOSIT IN MAIL: By placing in sealed envelope(s), which I personally deposited with the U.S. Postal Service. Each such envelope was deposited with the U.S. Postal Service at Los Angeles, California, with first class postage thereon fully prepaid.

EXPRESS U.S. MAIL: Each such envelope was deposited in a facility regularly maintained at the U.S. Postal Service for receipt of Express Mail at Los Angeles, California, with Express Mail postage paid.

HAND DELIVERY: I caused to be hand delivered each such envelope to the office of the addressee as stated on the attached service list.

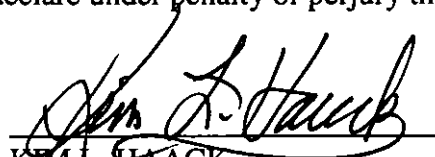
FEDERAL EXPRESS: By placing in sealed envelope(s) designated by Federal Express with delivery fees paid or provided for, which I deposited in a facility regularly maintained by Federal Express or delivered to a Federal Express courier, at Los Angeles, California.

ELECTRONIC MAIL: By transmitting the document by electronic mail to the electronic mail address as stated on the attached service list.

FAX: By transmitting the document by facsimile transmission. The transmission was reported as complete and without error.

(Federal) I declare that I am employed in the office of a member of the bar of this Court, at whose direction the service was made. I declare under penalty of perjury that the foregoing is true and correct.

Date: November 14, 2005


KIM L. HAACK



PROSPECTUS

\$50,000,000

LA JOLLA REAL ESTATE LOAN FUND LLC

50,000 9¾% Participating Preferred Shares of Limited Liability Company Interest

All of the 9¾% Participating Preferred Shares of Limited Liability Company Interest (the "Preferred Shares") offered hereby are being sold by La Jolla Real Estate Loan Fund LLC (the "Company"). Prior to this offering (this "Offering") there has been no public market for the Company's securities and the Company does not anticipate that any significant public market for the Preferred Shares will develop after consummation of this Offering because the Company's Preferred Shares will continue to be subject to significant restrictions on transferability. (See "Description of Securities.") For information relating to the factors considered in determining the price per Preferred Share offered hereby, see "Terms of the Offering -- Offering Price."

FOR CALIFORNIA RESIDENTS ONLY

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. (SEE "RISK FACTORS.")

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") IN RELIANCE UPON THE EXEMPTIONS THEREFROM PROVIDED BY SECTION 3(a)(11) OF THE SECURITIES ACT AND RULE 147 PROMULGATED THEREUNDER. THE SECURITIES AND EXCHANGE COMMISSION HAS NOT PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREBY NOR HAS IT PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS PROSPECTUS OR ANY OTHER DOCUMENTS FURNISHED IN CONNECTION HEREWITH. FURTHERMORE, THE SECURITIES OFFERED HEREBY MAY ONLY BE SUBSCRIBED FOR BY BONA FIDE RESIDENTS OF THE STATE OF CALIFORNIA WHO MEET CERTAIN FINANCIAL QUALIFICATIONS AND, FOR A PERIOD OF NINE MONTHS FOLLOWING THE DATE OF THE LAST SALE OF ANY SECURITIES THAT ARE A PART OF THIS OFFERING, REALES OF THESE SECURITIES MAY ONLY BE MADE TO BONA FIDE CALIFORNIA RESIDENTS. INVESTORS MUST EITHER: (i) HAVE A MINIMUM NET WORTH OF AT LEAST \$250,000, HAVE HAD MINIMUM GROSS INCOME OF \$65,000 DURING THE LAST TAX YEAR, AND WILL HAVE (BASED ON A GOOD FAITH ESTIMATE) MINIMUM GROSS INCOME OF \$65,000 DURING THE CURRENT TAX YEAR; OR (ii) HAVE A MINIMUM NET WORTH OF \$500,000. FOR THESE PURPOSES, "NET WORTH" EXCLUDES HOMES, HOME FURNISHINGS, AND AUTOMOBILES AND IS BASED ON ASSETS VALUED AT FAIR MARKET VALUE.

	Price to Investor	Brokerage Commissions	Proceeds to Company ⁽¹⁾
Per Preferred Share	\$1,000	\$15	\$985
Minimum	\$500,000	\$7,500	\$492,500
Maximum	\$50,000,000	\$750,000	\$49,250,000

(1) Before deducting expenses of this Offering payable by the Company estimated at \$58,000.

DM FINANCIAL SERVICES, INC.

The date of this Prospectus is May 10, 2000.

PROSPECTUS SUMMARY

The following summary of certain information contained in this Prospectus is not complete. This summary is qualified in its entirety by the more detailed information appearing elsewhere in the Prospectus. Prospective investors must read the entire Prospectus and should carefully consider the matters discussed in the "Risk Factors" section.

The Company

La Jolla Real Estate Loan Fund LLC (the "*Company*") has been organized by its Manager, La Jolla Real Estate Loan Fund Management LLC (the "*Manager*") to engage in the organization, funding, purchase, and sale of loans secured by real property (see "*Loan Portfolio*"). The sole member of the Manager is Donovan J. Jacobs, Esq. (see "*Management*").

The Offering

- Issuer La Jolla Real Estate Loan Fund LLC, a California limited liability company.
- Securities Offered 9 $\frac{3}{4}$ % Participating Preferred Shares of Limited Liability Company Interest ("*Preferred Shares*") at a price of \$1,000 per Preferred Share. (See "*Operating Agreement -- Capitalization; Balance Sheet*" and "*Distribution of the Securities -- The Offering.*")
- Offering A maximum of up to 50,000 Preferred Shares for an aggregate of \$50,000,000. Common Shares of Limited Liability Company Interest ("*Common Shares*") in number equal to the Preferred Shares outstanding will be issued to the Manager and/or its assignees. (See "*Distribution of Securities -- The Offering.*")
- Use of Proceeds Acquisition of the Company's "*Loan Portfolio*," to be comprised (in proportions determined by the Manager) of loans secured by real property. (See "*Use of Proceeds.*") In addition, the Company may also fund Loan Portfolio acquisition with debt financing.
- Loan Underwriting Underwriting of loans will be subject to a variety of criteria with respect to loan-to-value ratios and/or the creditworthiness of the borrower. (See "*Loan Portfolio.*") The Company's loans will not exceed the following loan-to-value ratios at the time of the Company's investment:

<u>Loan Type</u>	<u>LTV</u>
Owner-occupied residential units:	80%
1-4 non owner-occupied residential units:	75%
Commercial, industrial, and other residential income-producing properties:	75%
Construction and/or development:	75%
Undeveloped land and other real properties:	60%

Regulation Foreclosure and other procedural aspects of promissory notes secured by deeds of trust are regulated by California law. (See respectively, "Regulation.")

9¾% Per Annum

Priority Return Preferred Shareholders are entitled on a cumulative but non-compounding basis to a 9¾% per annum priority return on their unreturned original invested capital (the "Preferred Operating Distributions"), which distributions are to be made on a monthly basis, in arrears. No distributions may be made to Common Shareholders except to the extent that all accrued (with partial years *pro rated*) Preferred Operating Distributions have been paid and except for Tax Recognition Distributions (as discussed below). Once all Preferred Operating Distributions have been made, distributions from operations may generally be made to the Company's Shareholders 40% to the Preferred Shareholders and 60% to the Common Shareholders (assuming the issuance of all 50,000 Preferred Shares offered hereunder). (See "Description of the Securities -- Distributions.")

Tax Recognition

Distributions Prior to its dissolution, the Company will use its reasonable efforts to pay to the Shareholders annually the amount of federal income tax that they will be required to pay in respect of their Shares on operating income of the Company (the "Tax Recognition Distributions"), assuming for such purposes that they are in the highest marginal federal tax bracket. (See "Description of the Securities -- Distributions.")

Liquidation Priority to

Preferred Shareholders Upon dissolution of the Company, all distributions will be made first to the Preferred Shareholders until they have received aggregate distributions (crediting all previously made Preferred Operating Distributions and Tax Recognition Distributions) equal to the sum of all Preferred Operating Distributions due and their investments in the Company (the "Preferred Liquidation Distributions"). Once all Preferred Liquidation Distributions have been made, distributions upon liquidation will be made 40% to the Preferred Shareholders and 60% to the Common Shareholders (assuming the issuance of all 50,000 Preferred Shares offered hereunder). (See "Description of the Securities -- Distributions.")

Distribution Summary

Common
Shareholders Preferred
Shareholders

Distributions From Operations:

Prior to Payment of All Accrued Preferred Operating Distributions*:	0%	100%
After Payment of All Accrued Preferred Operating Distributions**:	60%	40%

*Distributions Upon Liquidation***:*

Prior to Payment of All Preferred Liquidation Distributions:	0%	100%
After Payment of All Preferred Liquidation Distributions**:	60%	40%

* Excluding annual Tax Recognition Distributions.

** Assuming the issuance of all 50,000 Preferred Shares offered hereby, with the percentage allocable to the holders of the Common Shares to increase accordingly to the extent that less than all of the Preferred Shares offered hereby are subscribed for as discussed in "Description of the Securities -- Distributions -- Other Distributions from Operations" and "-- Other Distributions Upon Liquidation."

*** Under the Company's Operating Agreement, unless waived by the Manager in its discretion, the Company will be dissolved and its assets liquidated five (5) years after completion of this Offering.

(See "Description of the Securities -- Distributions.")

Compensation to the Manager

The Manager will be paid annually on January 15th of each year a Management Fee equal to one-quarter of 1% of the book value of the Company's assets on the last day of the prior year. (See "Management -- Compensation to the Manager.") In addition, the Manager, for so long as it is the owner of Common Shares, is entitled to distributions from operations, to the extent that payment of all accrued Preferred Operating Distributions has been made, and distributions upon liquidation, to the extent that payment of all Preferred Liquidation Distributions has been made. (See "Description of the Securities -- Distributions.")

Risk Factors

The securities offered hereby involve a high degree of risk. (See "Risk Factors.")

Distribution of Securities ...

Unless extended, the Preferred Shares will be offered directly by the Company until April 24, 2001. Subscriptions will only be accepted from *bona fide* California residents who meet certain financial qualifications. (See "Distribution of Securities -- Investor Suitability" and the "Subscription Agreement.")

THE COMPANY

La Jolla Real Estate Loan Fund LLC, a California limited liability company (the "*Company*") was recently organized (see "*Risk Factors -- New Entity: No History of Profitability*") by its Manager, La Jolla Real Estate Loan Fund Management LLC, a California limited liability company (the "*Manager*") to engage in the purchase, ownership, and/or sale of a loan portfolio (the "*Loan Portfolio*") to be comprised of loans secured by real property ("*Loans*"). The principal executive offices of the Company are located at 1200 Prospect Street, Suite 150, La Jolla, California 92037; the telephone number of the Company is (858) 459-4175.

LOAN PORTFOLIO

Selection

The Company's Loan Portfolio will be selected at the sole discretion of the Manager. Furthermore, the quantity of any type of Loan (e.g., construction, residential, commercial, land, etc.) to be held in the Loan Portfolio, and indeed whether or not any amount at all of any type of Loan will be acquired for the Loan Portfolio, will be at the sole discretion of the Manager (see "*Management*," "*Risk Factors -- Sufficiency of Loan Portfolio*," "*Risk Factors -- Economic Uncertainties*," and "*Risk Factors -- "Blind Pool" Offering; Broad Discretion of Management*"). To the extent required in order to comply with the requirements governing intra-state offerings set forth in Rule 147 promulgated under Section 3(a)(11) of the Securities Act of 1933, as amended (the "*Securities Act*"), the Company plans to utilize at least eighty percent (80%) of the proceeds of this offering (this "*Offering*") for investments in Loans secured by property located in California. (See "*Risk Factors -- Values of California Real Property*.")

Loan Types

The Company in certain instances may acquire (or dispose of) existing Loans and in other instances may originate new Loans. The Company anticipates that some of its Loans may have terms of up to ten years and that most of its Loans will provide for interest-only or partially or negatively amortizing payments, requiring the payment of all principal upon maturity (i.e., "*Balloon Loans*"), and be collateralized by first or junior priority deeds of trust or security instruments (see "*Risk Factors -- Loans Secured by Junior Deeds of Trust and Balloon Loans*"); some of the Loans may also be in default (see "*Risk Factors -- Risks of Loans Already In Default*") and/or some of the borrowers may be in bankruptcy (i.e., "*debtor in possession financing*") at the time of, and/or giving effect to, the Company's investment (see "*Risk Factors -- Bankruptcy of the Borrower*"). Loans will be subject to an underwriting process to assess the prospective borrower's (and any guarantors') credit history and/or the value of the real property securing the Loan. In certain instances, Loans may be made or acquired by the Company based solely upon the value of the property securing the Loan, and not upon the credit of the borrower. On Loans made or arranged by the Company or affiliates of the Company, loan origination fees, profits, and discounts will be paid by borrowers and retained by affiliates of the Manager. (See "*Certain Transactions*" and "*Risk Factors -- Conflicts of Interest*.") The Company's investment in each Loan, plus the balance due on any senior priority liens upon the property securing such Loan, will not exceed the following ratios (the "*Loan-to-Value Ratios*"):

<u>Loan Type</u>	<u>Loan-to-Value of Collateral</u>
1. Owner-occupied residential units:	Up to 80%
2. 1-4 non owner-occupied residential units:	Up to 75%
3. Commercial, industrial, and other residential income-producing properties:	Up to 75%
4. Construction and/or development:	Up to 70%
5. Undeveloped land and other real properties:	Up to 60%

The Company anticipates that the real property securing the Loans will principally be located in California. The Company will not acquire existing Loans or make new Loans in which the borrower is any of its shareholders, affiliates, or related entities, except where such Loans meet the Loan-to-Value criteria set forth above based on the appraisal of an independent appraiser.

Underwriting

Generally. The Company's Loans are subject to an underwriting process intended to assess both the (prospective) borrower's credit history and ability to repay the Loan, and the value of the security for the Loan requested. The entire Loan file, including any appraisal or opinion of value and other documents described above, will be assembled and made available for evaluation by the Manager (see "*Management -- Manager*"). The Company will decide whether to make a Loan or acquire an existing Loan on the basis of its evaluation of the security therefor and the prospective borrower's credit history. The following general underwriting policies may be varied in instances deemed appropriate by the Manager.

Collateral Value. The success of the Company's Loans will be highly reliant upon the value of the real estate collateral. However, the Company will frequently not obtain any appraisal upon a subject property, relying entirely upon the judgment of management with respect to the value thereof. (See "*Risk Factors -- Lack of Appraisals.*") Moreover, the Company may frequently make Loans predicated entirely upon the perceived value of the real estate collateral, and without regard to the borrower's credit history. (See "*Risk Factors -- No Appraisals.*")

Prospective Borrower. When acquiring existing Loans, the Company will review such information as is available to it with respect to the borrower. When originating Loans, the Company will generally undertake the following investigation: the prospective borrower will be required to submit information of his, her, or its income, credit history, employment history, source of repayment of the Loan, and other personal information. In addition, a credit report on each applicant will be obtained from an independent credit reporting company. This report typically contains information relating to credit history with local merchants and lenders, installment debt payments, defaults, and legal proceedings. All prospective borrowers will be required to disclose information concerning employment and annual income, and other relevant financial information. (See "*Risk Factors -- The Ability of Borrowers to Make Payments on Notes; Effects of Recession.*") Notwithstanding the fact that prospective borrowers' credit histories will be considered in the underwriting process, certain Loans may be made or acquired based solely on the borrower's equity in the property which secures or will secure the Loan, irrespective of an adverse credit history of the prospective borrower.

Insurance. The real property collateralizing each Loan will be the subject of a title insurance policy in favor of the Company issued by a title insurance company licensed to do business in the jurisdiction that the subject property is located in. In addition, the Company will generally require each borrower to maintain a California standard form of fire insurance policy with respect to each parcel of improved real property collateralizing a Loan, in a reasonable amount, taking into consideration the face amount of the Loan, plus the amount of any senior liens and the value of the improvements which are collateral for the Loan. Any such policy will be required to name the Company as an "*additional insured*" or "*loss payee.*" The borrower will be required to give to the Company, or its agents, evidence that such a fire insurance policy has been obtained. (See "*Risk Factors -- Uninsured Losses; Costs of Insurance.*")

Loan Performance

Servicing of Loans. The Company anticipates that initially one or more duly licensed parties will make collections and otherwise administer the Loans which comprise the Loan Portfolio (in such capacity, the "*Servicing Agent*"). The Company has the right, from time to time, to change the Servicing Agent(s), and may act as Servicing Agent itself, appoint an affiliated entity, or appoint a third party; provided, however, that any party acting as Servicing Agent must be licensed to so act under applicable California law. The Servicing Agent will receive compensation typically set as a percentage of all sums collected by it together with all late, collection, and extension fees collected and all interest in respect of the default rate of interest (i.e., in excess of regular interest) collected. The Company may at any time in its sole discretion agree to increase or decrease such compensation except that for so long as the Company or any affiliate of its acts as Servicing Agent, such Servicing Agent will receive as compensation not more than 1% of all sums collected together with all late, collection, and extension fees collected and all interest in respect of the default rate of interest collected.

Advances by the Company. If the collateral securing a Loan is subject to a senior lien in default, and if the senior lienholder forecloses the senior lien, then the Company would receive nothing in repayment of the Loan unless the amount paid for the property at sale exceeds the amount of the senior lien. In such situations, the Company's security interest would not be "*foreclosed out*" if the Company elects to make payments on the senior lien. With respect to the

election of the Company to make payments on the senior lien, the Company may determine that its interests can be protected adequately by taking over all obligations of the property owner with respect to the defaulting senior liens, by purchasing the senior liens, or by making payment thereon while foreclosure proceedings are being commenced. (See "Regulation.") In these instances the Company will evaluate the then current value of the property, the balance of all senior encumbrances, and the probability that the borrower will reinstate the foreclosure; based upon its evaluation, the Company may, in its sole discretion, decide whether to advance funds to the senior encumbrances. *The Company is not obligated to advance payments on senior liens.* However, in no event will Shareholders be assessed amounts necessary to make payments on senior delinquent liens. If the Servicing Agent or the Company elects in each of their sole discretions to make advances on defaulting senior liens, then in such event such advancing party will be entitled thereafter to disbursements from proceeds of payments upon or in respect of the Loan in the amounts of such advances, plus interest thereon at the Loan interest rate (in the case of the Servicing Agent, irrespective of whether or not it is an affiliate of the Company).

REGULATION

The Loans (which may include undivided fractional interests in Loans) which will comprise the Loan Portfolio will be secured by deeds of trust. A deed of trust is the most commonly used real property security device in California (although some of the Loans may be secured by properties located outside of the State of California). The deed of trust has three parties: the debtor, called the trustor, the third party grantee, called the trustee, and the lender-creditor, called the beneficiary. To secure the payment of the obligation, the trustor grants the property "*in trust, with power of sale*" to the trustee, and the grant is irrevocable until the debt is paid. The trustee's authority is governed by law, the express provisions of the deed of trust, and the directions of the beneficiary. Trustee's fees and costs are prescribed by California law.

Foreclosure. Foreclosure of a deed of trust is accomplished in most cases by a non-judicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and send a copy to the trustor, to any person who has recorded a request for a copy of a notice of default and notice of sale, to the beneficiary of any junior priority deed of trust, and to certain other parties entitled to notice by statute. The trustor or any person having a junior lien or encumbrance of record may, prior to the scheduled trustee's sales, cure the default by paying: (i) the entire defaulted-upon amount then due (which excludes principal due only because of acceleration upon default); (ii) costs and expenses actually incurred in enforcing the obligation; and (iii) certain attorney and/or trustee's fees. Three (3) months after recording a notice of default, and at least twenty-one (21) days before the trustee's sale, the notice of sale must be posted in a public place and published once a week over such period. At least twenty-one (21) days before the sale, a copy of the notice of sale must be posted on the property and sent to each person who is entitled to receive a notice of default. Following a non-judicial sale, neither the trustor nor a junior lienholder has any right of redemption, and the beneficiary may not obtain a judgment against the trustor for any shortfall between the loan balance and the sale price of the property.

Judicial Foreclosure. A judicial foreclosure (in which the beneficiary's purpose may be to obtain a deficiency judgment when not otherwise available) is subject to most of the delays and expenses of other lawsuits. It may require several years to complete. Following a judicial foreclosure sale, the trustor or his successors in interest may redeem the subject property for a period of one (1) year (or for a period of only three (3) months if the entire amount of the debt is bid at the foreclosure sale); and until the trustor (i.e., the borrower) redeems the subject property, foreclosed junior lienholders may redeem the subject property during successive redemption periods of sixty (60) days following the previous redemption, but in no event later than one (1) year after the judicial foreclosure sale. In most instances, the Company will not pursue a judicial foreclosure to obtain a deficiency judgment, except where such remedy is warranted despite the time and expense involved.

Anti-deficiency Legislation. California law limits the remedies of a beneficiary under a deed of trust. Under the statutory provision commonly known as the "*one form of action*" rule, the beneficiary is required to exhaust the security under the deed of trust by foreclosure prior to bringing a personal action against the trustor on the deed of trust (i.e., the borrower) and is not permitted to bring a personal action in such event with respect to loans secured by one-to-four residential units. In addition, California law also limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale. This provision prevents a beneficiary from obtaining a large deficiency judgment against the debtor as a result of

low bids at the judicial sale. Other statutory provisions, such as the federal bankruptcy laws and laws giving certain priorities to federal tax liens, may have the effect of delaying enforcement of the lien on a defaulted loan and may, in certain circumstances, reduce the amount realizable from sale of a foreclosed property.

Special Considerations in Connection with Junior Priority Deeds of Trust. In addition to the general considerations concerning deeds of trust discussed above, there are certain special considerations applicable to junior priority deeds of trust. Junior priority deeds of trust have less security than the senior priority deeds of trust on the same property. It may be necessary for the junior lienholder to advance certain payments to senior lienholders in the event the senior encumbrances are also in default in order for the junior lienholder to protect its security. If a senior encumbrance proceeds to foreclosure sale first, the junior lienholder would lose its security. The foreclosure sale of a junior encumbrance is handled in the same manner as foreclosure sales discussed above except that the junior lienholder remains subject to all senior encumbrances should the junior lienholder become the owner of the subject property. Accordingly, a junior lienholder may be subject to substantial cash expenditures to properly protect its security.

Due-on-Sale Clauses. Historically, real property loans in California have contained provisions for the automatic acceleration of the due date for repayment upon the occurrence of certain specified events (these are known as "due-on-sale" clauses). It is likely that many of the senior liens on properties upon which the Company has made a Loan secured by a junior priority deed of trust will also have due-on-sale clauses. Specified events which may "trigger" the due-on-sale clauses may include further encumbrance, sale, other alienation, or waste of the property. The Garn-St. Germain Act provides that a due-on-sale clause may be exercised, with certain exceptions, by all creditors. Inasmuch as many of the Loans may be secured by junior priority deeds of trust, and because many of the liens which are senior to such junior priority deeds of trust may contain due-on-sale clauses, such junior priority deeds of trust may be subject to the risk that the Company would be required to fully discharge the senior encumbrance in order to protect the investment in the Loan secured by a junior priority deed of trust as a result of the acceleration of the due date of all amounts owed under the senior lien. (See also, "Risk Factors -- Loans Secured by Junior Deeds of Trust and Balloon Loans.")

Prepayment Charges. Loans acquired by the Company may provide for prepayment charges to be imposed on the borrower in the event of certain early payments thereon.

MANAGEMENT

Manager

Pursuant to the Company's Operating Agreement, substantially all management of the Company is vested in La Jolla Real Estate Loan Fund Management LLC, its Manager. (See "Risk Factors -- Reliance on the Manager.") Accordingly, among all of the Manager's other rights and authority, it will have control over selection of the Loan Portfolio and all decisions regarding the Company's equity and debt capitalization. (See "Risk Factors -- Risks of Leverage.") The Manager is a recently organized California limited liability company. The sole member of the Manager is Donovan J. Jacobs, Esq. although Mr. Jacobs expects that in the future he may sell the Manager and/or admit new members to the Manager. (See "Risk Factors -- Change of Control of Manager.")

Donovan J. Jacobs, Esq., 43, is and for the past approximately eight years has been actively engaged in the practice of law in San Diego, California. Mr. Jacobs has been involved in the real estate business since 1982 and holds a California real estate broker's license, entitling him to act as a mortgage broker in California. Mr. Jacobs' experience in the real estate lending business has been comprised primarily as an investor, but Mr. Jacobs has not previously been principally occupied in the origination, underwriting, and/or servicing of real estate loans. (See "Risk Factors -- Lack of Real Estate Lending Experience.") Prior to commencement of his law practice, from 1978 to 1989, Mr. Jacobs served the San Diego Police Department in various officerial roles, until retiring as a highly decorated officer. Mr. Jacobs is co-author of the book "Trust Deed Investments" and author of two books on criminal investigations, "Street Crime Investigations" and "Street Cop"; he has also been published in several nationwide police publications and has lectured widely in areas ranging from business law to police science.

Compensation to the Manager

The Manager will on January 15th of each year receive a management fee equal to ¼% (i.e., one-fourth of 1%) of the book value on the last day of the prior year. In addition, the Manager is also entitled to Company distributions in certain instances (see "*Description of the Securities -- Distributions*"). The Company will reimburse the Manager and/or its manager(s) and member(s) for any Company expenses advanced by them. Certain affiliates of the Manager may receive commissions from third-parties (but not the Company) with respect to transactions involving assets comprising the Loan Portfolio and/or fees from the Company for the servicing or management thereof. (See "*Certain Transactions*" and "*Risk Factors -- Conflicts of Interest*.")

USE OF PROCEEDS

The net proceeds from the sale of Preferred Shares after payment of brokerage commissions of 1½% of the gross offering proceeds and of approximately \$58,000 of other offering costs will principally be used for the funding or acquisition of Loans (see "*Loan Portfolio*"). In addition, the Company has the right to obtain debt financing and anticipates that any such debt financing would also principally be used for funding or acquisition of Loans. Such proceeds may also be used for the Company's ordinary working capital.

OPERATING AGREEMENT

The following summary is qualified entirely by reference to the Company's Operating Agreement (the "*Operating Agreement*"), copies of which have been furnished to each prospective investor together with this Prospectus.

Entity Format Generally

The Company is a limited liability company organized pursuant to Title 2.5 of the California Corporations Code. Generally, limited liability companies protect their owners from liability in the same manner that corporations do, yet are treated in the same manner as partnerships are for federal income tax purposes. The owners of limited liability companies are referred to as "*Members*" (i.e., as opposed to stockholders of corporations and partners in partnerships) and the affairs of limited liability companies are managed by "*Managers*." For purposes of this Prospectus, and under the Company's Operating Agreement, the Company's members are referred to as "*Shareholders*" and the equity interests in the Company are referred to as "*Shares*."

Term

The Company was organized in April 2000. The term of existence of the Company will be until December 31, 2006, unless waived by the Manager or sooner terminated as provided for in the Operating Agreement of the Company. (See "*Operating Agreement -- Dissolution*.")

Capitalization; Balance Sheet

The Company's initial capitalization is to be comprised of a class of Shares entitled "*Preferred Shares*" and another class of Shares entitled "*Common Shares*." Initially, the Company is to have outstanding an aggregate of up to 125,000 Shares, of which 75,000 will be Common Shares and up to 50,000 will be Preferred Shares, all of which will be a series titled 9¼% Participating Preferred Shares of Limited Liability Company Interest (the "*Preferred Shares*"). The Company is offering hereunder up to 50,000 Preferred Shares; the Company will also issue to the Manager in connection herewith a number of Common Shares equal to the number of Preferred Shares issued. Preferred Shares will be issued at a price of \$1,000 per Preferred Share; all of the Common Shares to be issued will be issued in consideration for the Manager's activities in organizing the Company. In addition, at the election of the Manager, additional Common Shares, Preferred Shares, and/or other equity interests may from time to time be issued by the Company and may dilute the respective interests of all of the Shareholders. Moreover, the Manager has the right to cause the Company to obtain debt financing. (See "*Risk Factors--Risk of Leverage*.") Set forth below is the Company's unaudited balance sheet as at the date of this Prospectus and, on a *pro forma* basis, assuming sale of all Preferred Shares offered hereby.

Balance Sheet
(Unaudited) (000's)

	<u>Current</u>	<u>Pro Forma</u>
Assets		
Cash	\$-0-	\$50,000
Property	-0-	-0-
<u>Other</u>	<u>-0-</u>	<u>-0-</u>
Total Assets	<u>\$ -0-</u>	<u>\$50,000</u>
Liabilities		
Notes Payable	\$ -0-	\$ -0-
<u>Other</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>\$ -0-</u>	<u>\$ -0-</u>
Shareholders' Equity	\$ -0-	\$50,000
Total Shareholders' Equity and Liabilities	<u>\$ -0-</u>	<u>\$50,000</u>

Registered Office

The Company's registered offices are located at 1200 Prospect Street, Suite 150, La Jolla, California 92037.

Rights and Powers of Shareholders

The Preferred Shareholders will take no part in the management of the Company and may not transact any business for the Company. Management of the Company is vested solely in the Manager, and not in the Preferred Shareholders. (See "Management" and "Risk Factors -- No Right to Manage.") Further, the Operating Agreement only permits removal of the Manager by the Preferred Shareholders if: (i) the Manager commits an act of willful misconduct which materially adversely damages the Company; and (ii) holders of not less than 75% of the Preferred Shares vote in favor of such removal; moreover, no such removal may in any manner divest the Manager of any of its ownership (e.g., of Common Shares or Preferred Shares) in the Company.

Annual Reports

All Shareholders will be furnished with an Annual Report within 90 days of the Company's fiscal year end. The Annual Report will contain: (i) a copy of the Company's federal income tax returns for that fiscal year, if available; (ii) supporting income and loss statements; (iii) a balance sheet showing the Company's financial position as of the end of the fiscal year; and (iv) additional information that the Shareholders may require for the preparation of their federal income tax returns, if available. The annual report shall be prepared or reviewed (as from time to time determined by the Manager) by an independent accounting firm selected by the Manager.

Distributions to Shareholders

For a description of the provisions of the Operating Agreement relating to distributions to Shareholders, see "Description of the Securities -- Distributions."

Limits of Liability.

Shareholders. The Company has been structured so that the liability of the Shareholders will be limited to their respective capital contributions to the Company, and the Shareholders will not have any personal liability for the acts or obligations of the Company (other than the potential loss of their capital contributions to the Company). California law permits limited liability companies to restrict the liability of the Shareholders such that the Shareholders will not have any liability for the acts or obligations of the Company. To the extent that unlawful distributions are for any reason made to the Shareholders, the Shareholders may be liable upon the demand of unpaid creditors of the Company to return to the Company distributions previously made to them by the Company.

Manager. California law permits limited liability companies to restrict the liability of their managers such that the Manager will not have any liability for the acts or obligations of the Company. Further, the Company's Operating Agreement provides that: (i) the Manager will not have liability in most instances to the Company for tort or contract liability resulting from acts or omissions to act on behalf of the Company, except as may result from the willful misconduct of the Manager; and (ii) the Manager will be indemnified by the Company to the extent permitted by applicable law. (See "*Risk Factors -- Limitation of Manager's Liability.*")

Limited Transferability of Shares

Under the Operating Agreement, Preferred Shares cannot be sold, transferred, pledged, or assigned without approval by the Manager. No person may become a substituted Shareholder without such approval. The Manager may grant, condition, or deny its approval(s) in its discretion, but will not unreasonably withhold its approval. Furthermore, even if the Manager's consent is obtained, Preferred Shares may not be transferred to any person or entity that is not a "*bona fide California resident*" (as that term is defined below, see "*Distribution of Securities -- Suitability*") for a period of nine (9) months after the last sale of securities under this Offering. Finally, it is unlawful to consummate a sale or transfer of the Preferred Shares, or any interest therein, or to receive any consideration therefor, without the prior written consent of the Commissioner of Corporations of the State of California, except as permitted in the Commissioner's Rules. (See "*Distribution of Securities -- Limitations on Transfer*" and "*Risk Factors -- Limitations on Transferability.*")

Dissolution

Unless waived by the Manager, the Company will be dissolved on December 31, 2006. The Company will also be dissolved by the occurrence of any event which under the laws of the State of California causes the dissolution of a limited liability company or as provided in the Operating Agreement, as follows: (i) the election to dissolve by the holders of a majority of the Shares, without regard to whether such Shares are Common Shares or Preferred Shares; (ii) the Manager's election to dissolve and wind up the affairs of the Company; or (iii) the sale (but not exchange, deferred or otherwise) of all or substantially all of the assets of the Company. In the event of the dissolution and winding up of the Company, the Manager or another person or entity designated by the Manager will be appointed the liquidating agent for the winding up of the affairs of the Company and the liquidation and distribution of the assets of the Company. Upon dissolution, Shareholders must look solely to the assets of the Company for the return of their capital contributions. If the property of the Company remaining after payment or discharge of the debts and liabilities of the Company is insufficient to return such sums, Shareholders will have no recourse against the Manager or any other Shareholder. Upon dissolution, the assets of the Company may be sold at prices deemed reasonable by the Manager, whether in cash, securities, or other property.

Amendment

Amendments to the Company's Operating Agreement may only be adopted and are only effective if they receive the affirmative vote of Shareholders owning in excess of 50% of each of the Common Shares and the Preferred Shares, in each case voting separately as a class; provided, however, that in each case such amendment may not alter the interest of any Shareholder in profits, losses, and cash distributions of the Company without such Shareholder's prior written consent, except in connection with the issuance of additional Shares or other equity interests in the Company issued in exchange for capital contributions of the Company.

DESCRIPTION OF THE SECURITIES

Distributions

9 3/4% Per Annum Priority Return Distributions to Preferred Shareholders. Preferred Shareholders are entitled on a cumulative but non-compounding basis, payable monthly in arrears, to a 9 3/4% per annum priority return on their original invested capital, as reduced by cumulative prior distributions to the Preferred Shareholders in respect of "*Preferred Operating Distributions,*" "*Preferred Liquidation Distributions,*" and "*Tax Recognition Distributions,*" as those terms are hereinafter defined (the "*Preferred Operating Distributions.*"). (See "*Risk Factors -- Special Challenges to the Company During Its Initial Year of Operations.*") No distributions may be made to Common Shareholders except to the extent that all accrued (with partial years *pro rated*) Preferred Operating Distributions have been paid and except

for "Tax Recognition Distributions" (see "Description of the Securities -- Distributions -- Tax Recognition Distributions" below).

Tax Recognition Distributions. Prior to its dissolution, the Company will use its reasonable efforts to pay both the Common and Preferred Shareholders annually the amount of federal (but not state) income tax that they will be required to pay in respect of their Shares on operating income of the Company (the "Tax Recognition Distributions"), assuming for such purposes that all Shareholders are in the highest marginal federal tax bracket.

Other Distributions from Operations. Once all Preferred Operating Distributions and Tax Recognition Distributions have been made, distributions from operations may generally be made to the Company's Shareholders *pro rata* in accordance with Share ownership, and without regard to whether such Shares are Common Shares or Preferred Shares. Accordingly, if all of the 50,000 Preferred Shares offered hereby are subscribed for, holders of the 75,000 outstanding Common Shares will receive 60% of all distributions of the type discussed in this paragraph and the holders of the Preferred Shares will receive 40% of all such distributions; however, if less than all of the 50,000 Preferred Shares offered hereby are subscribed for, then the proportion of such distributions to be paid to the holders of the 75,000 outstanding Common Shares will increase accordingly.

Liquidation Priority Distributions to Preferred Shareholder. Upon dissolution of the Company, all distributions will be made first to the Preferred Shareholders until they have received aggregate distributions (crediting all previously made Preferred Operating Distributions and Tax Recognition Distributions) equal to the sum of all Preferred Operating Distributions due and the Preferred Shareholders' investments in the Company (the "Preferred Liquidation Distributions"). (See "Risk Factors -- No Assurance of Return of Invested Capital.")

Other Distributions Upon Liquidation. Once all Preferred Liquidation Distributions have been made, distributions upon liquidation will be made *pro rata* in accordance with Share ownership, and without regard to whether such Shares are Common Shares or Preferred Shares. Accordingly, if all of the 50,000 Preferred Shares offered hereby are subscribed for, holders of the 75,000 outstanding Common Shares will receive 60% of all distributions of the type discussed in this paragraph and the holders of the Preferred Shares will receive 40% of all such distributions; however, if less than all of the 50,000 Preferred Shares offered hereby are subscribed for, then the proportion of such distributions to be paid to the holders of the 75,000 outstanding Common Shares will increase accordingly.

Summary of Distribution Provisions. The chart below summarizes the allocations of distributions by the Company:

	<u>Common</u> <u>Shareholders</u>	<u>Preferred</u> <u>Shareholders</u>
<i>Distributions From Operations:</i>		
Prior to Payment of All Accrued Preferred Operating Distributions*:	0%	100%
After Payment of All Accrued Preferred Operating Distributions**:	60%	40%
<i>Distributions Upon Liquidation***:</i>		
Prior to Payment of All Preferred Liquidation Distributions:	0%	100%
After Payment of All Preferred Liquidation Distributions**:	60%	40%

* Excluding annual Tax Recognition Distributions.

** Assuming the issuance of all Preferred Shares offered hereby, with the percentage allocable to the Common Shares to increase accordingly to the extent that less than all of the Preferred Shares offered hereby are subscribed for, as discussed above.

*** Under the Company's Operating Agreement, unless waived by the Manager in its discretion, the Company will be dissolved and its assets liquidated five (5) years after completion of this Offering.

Other Matters

Other than Company distributions, holders of Common Shares and of Preferred Shares are entitled to the same rights, privileges, and preferences except that holders of Common Shares and holders of Preferred Shares vote separately as a class to approve or disapprove any proposed amendments to the Operating Agreement.

DISTRIBUTION OF SECURITIES

The Offering

The Company is offering (this "Offering") up to 50,000 Preferred Shares ("Maximum Funding") for \$1,000 per Preferred Share, or an aggregate of \$50,000,000. Once the Company has received and is prepared to accept subscriptions for at least 500 (\$500,000) Preferred Shares ("Minimum Funding"), the Company has the right to accept subscriptions for Preferred Shares (each such acceptance, a "Closing") on one or more occasions (i.e., through "Multiple Closings") and need not thereafter receive subscriptions for all of the Preferred Shares offered hereby. (See "Risk Factors -- Lack of Diversification; Effect of Minimum Funding.")

Offering Price

The Offering price and the terms of the Preferred Shares have been set by the Manager and do not necessarily bear a relationship to the Company's earnings or to other established methods of pricing securities.

Plan of Distribution

This Offering is being made by DM Financial Services, Inc., a licensed broker-dealer (the "Underwriter") and by the Company itself. Pursuant to its agreement with the Company, the Underwriter will use its reasonable best efforts to sell the Preferred Shares on behalf of the Company and the Company will pay to the Underwriter commissions equal to 1½% of all proceeds from sales of Preferred Shares and the Underwriter's accountable expenditures in connection with the distribution of Preferred Shares. The Company will not pay any other commissions or finder's fees except to the extent permitted by applicable law. The Company has also agreed to indemnify the Underwriter in connection with certain liabilities that may arise as a result of the Offering. The Manager and/or the Underwriter have the right to acquire for their respective own account and/or to permit their respective affiliates to acquire for their respective own accounts any number of Preferred Shares.

Suitability

This Offering is limited to natural persons whose principal residence is located in California and to entities organized under the laws of California (collectively, "bona fide California residents") which natural persons and entities either: (i) have a minimum net worth of at least \$250,000, had minimum gross income of \$65,000 during the last tax year, and will have (based on a good faith estimate) minimum gross income of \$65,000 during the current tax year; or (ii) have a minimum net worth of \$500,000. For these purposes, "net worth" excludes homes, home furnishings, and automobiles and is based on assets valued at fair market value.

Subscription

Preferred Shares may be subscribed for until no later than April 24, 2001, unless extended by the Manager, in its sole discretion. The minimum purchase by investors is 20 Preferred Shares (\$20,000) unless otherwise agreed to by the Manager. Prospective investors may subscribe for Preferred Shares by fully executing and returning the Subscription Agreement furnished together with the Operating Agreement (such subscriptions are subject to acceptance by the Company, in its sole discretion). Pending the initial Closing, unless waived by any subscriber, all funds will be held in a special account of the Company and may be invested by the Company, in its sole discretion, in savings accounts, certificates of deposit, interest-bearing government securities, bank repurchase agreements, short-term commercial paper, money market funds, and/or similar investment vehicles. Any interest earned on the funds prior to a Closing will be for the benefit of the Company. If Minimum Funding is not achieved by April 24, 2001 (unless

extended by the Manager), this Offering will terminate and all funds and related documents will be returned to the subscribers without interest or deduction, except to the extent that the subscribers and the Manager consent otherwise.

Limitations on Transfer

The Preferred Shares issued pursuant hereto will not be registered under the Securities Act in reliance on the exemption therefrom for intra-state offerings contained in Section 3(a)(11) of the Securities Act and Rule 147 promulgated thereunder. (See "*Risk Factors – Securities Law Compliance.*") The Company will have no obligation to register the Preferred Shares. Holders of Preferred Shares will not be permitted to transfer any such securities except in accordance with applicable law (including limitations of transferability under California law, as described above (see "*Operating Agreement -- Limited Transferability of Shares*") and the Operating Agreement and in no event may such holders transfer Preferred Shares other than to a *bona fide* California resident for a period of nine (9) months after the last sale of any securities under this Offering. (See "*Operating Agreement -- Limited Transferability of Shares*" and "*Risk Factors -- Limitations on Transferability.*") Even to the extent that the Preferred Shares are permitted to be transferred, there will be no public market for the Preferred Shares. (See "*Risk Factors – No Market for Preferred Shares.*")

CERTAIN TRANSACTIONS

Under the Operating Agreement, affiliates of the Manager may receive loan origination, broker's, finder's, and/or other fees from third-parties (but not the Company) in connection with the acquisition and/or disposition of assets comprising the Company's Loan Portfolio, and may also receive directly from the Company Servicing Fees for servicing the Company's Loans (see "*Loan Portfolio -- Loan Performance*"). In particular, it is expected that the Manager or an affiliate of the Manager will: (i) earn fees (e.g., loan origination fees) from third-parties in connection with Loans originated, funded, acquired, and/or disposed of by the Company; and (ii) receive fees from the Company for servicing the Loans. Since the Manager and/or its affiliates may earn substantial fees in the manners set forth above and irrespective of whether or not the Company recognizes profits, the Manager and/or its members will have a conflict of interest with respect to decisions made in connection with the fee-generating activities set forth above. In addition, the Company may enter into transactions with affiliates of the Manager, which transactions will raise conflicts of interest in connection with such transactions. (See "*Risk Factors -- Conflicts of Interest.*")

RISK FACTORS

The following factors should be carefully considered by investors before making any decision to purchase Preferred Shares:

Risks of the Investment Generally and of Real Estate Debt and Equity Investments

Lack of Real Estate Lending Experience. The principal of the Manager has only limited experience in the origination, underwriting, and servicing of real estate loans. (See "*Management.*") If the Manager is unable to identify, analyze, fund, and/or service real estate loans on a profitable basis, the Company's affairs will be materially adversely effected.

Sufficiency of Loan Portfolio. There can be no assurance of return of invested capital inasmuch as the ability of the Company to generate income will depend upon a wide variety of factors, including the default rate of the Loans and the recovery rate of the Company in connection therewith, the adequacy of the capital reserves maintained by the Company, which reserves may be deemed to be inadequate given the level of risk of the Company's investments and the fact that the Company has the right to make distributions subject only to certain limitations set forth in the Operating Agreement, the Company's ability to identify Loans for the Loan Portfolio of appropriate levels of risk and return, the servicing of the Loans by the Servicing Agent, the financial strength of the Company, which may determine the Company's ability to make optional advances in connection with a default upon a senior lien, and certain conditions over which the Company will have little or no control, such as regional and local economic conditions, competition among lenders, note purchasers on the secondary market, investors in tax liens, real estate purchasers and developers, new government regulation, and certain acts of nature or of government seizure. (See "*Loan Portfolio -- Selection.*")

The Ability of Borrowers to Make Payments on Notes; Effect of Recession. Investments in Preferred Shares will be affected by the ability of the borrowers to pay interest on the Loans and to repay their principal upon maturity, as well as the ability of taxpayers to pay taxes upon liened real property. Both of these issues will be directly affected by the income of the borrowers and taxpayers, as the case may be. In turn, the income of borrowers and taxpayers as well as the values of the collateral for the Loans will be affected by a wide variety of factors, substantially all of which will be outside of the Company's control. In particular, adverse general economic events, such as a recession, may have an adverse effect on the ability of borrowers to repay their Loans. (See "Loan Portfolio -- Loan Underwriting -- Prospective Borrower.")

No Appraisals. The Company will frequently not obtain appraisals of properties which will serve as collateral for Loans that will be a part of the Loan Portfolio, relying instead on the opinion of the Manager with respect to the value of such properties. (See "Risk Factors -- Lack of Real Estate Lending Experience" and "Management.") If the values of such properties are inadequate, the Preferred Shares and the Loan Portfolio will be materially adversely affected. (See "Loan Portfolio -- Loan Underwriting -- Collateral Value.")

Lack of Diversification; Effect of Minimum Funding. The Company may have an undue concentration of its invested capital outstanding to a single Loan type (e.g., construction loans), geographic area (e.g., the southern California area), and/or borrower or borrowing group. In particular, the Company is obligated to invest at least 80% of its assets in the State of California. Such a lack of diversification will subject the Preferred Shareholders to greater risk if such investments do not perform effectively. Moreover, the Company has the right to close this Offering and commence its activities hereunder when only \$500,000 (or more) of the \$50,000,000 of Preferred Shares offered hereby have been subscribed for (i.e., "Minimum Funding"); in such event or in any case to the extent that less than \$50,000,000 of Preferred Shares are issued hereunder, the diversification of risk contemplated hereby will be reduced and the risk to investors will be more greatly concentrated in particular investments or investment types. (See "Distribution of Securities -- The Offering.")

Special Challenges to the Company During Its Initial Year of Operations. The Company believes that it will be extremely difficult during its first twelve months of operations to achieve sufficient cash flows to pay the Preferred Operating Distributions for that year because of delays in initially locating acceptable investments for all of the funds raised in this Offering and because funds not invested will receive interest yields materially below the 9¼% Preferred Operating Distributions. (See "Description of the Securities -- Distributions -- 9¼% Per Annum Priority Return Distributions to Preferred Shareholders.")

"Blind Pool" Offering; Broad Discretion of Management. Preferred Shareholders will not have an opportunity to evaluate the specific merits or risks of any one or more of the Company's investments, all of which will be selected by the Manager, in its sole and absolute discretion. As a result, Preferred Shareholders will be entirely dependent on the broad discretion and judgment of the Company in connection with the allocation of the proceeds of the Offering and the selection of the Company's investments. There can be no assurance that determinations ultimately made by the Manager will yield an effective return on investment to the Company. (See "Loan Portfolio -- Selection" and "Risk Factors -- Lack of Real Estate Lending Experience.")

Risks of "Leverage." The Company has the right to obtain debt financing to augment the capital available to it from the proceeds of this Offering. (See "Management.") The use of debt financing or "leverage" imposes significant greater risk on the Preferred Shares because the rights of lenders to assets of the Company (e.g., in Loan Portfolio and cash) are superior to the rights of the Preferred Shareholders, with the effect being that in the event that the Loan Portfolio sustains a loss or that the Company does not recognize earnings in excess of the sums due under the debt financing, the loss recognized by the Preferred Shareholders will be disproportionately greater than the percentage of capital (i.e., debt and equity) which is derived from the sale of the Preferred Shares. Moreover, since there are no restrictions on the amount of debt financing that the Company is permitted to obtain, Preferred Shareholders may encounter substantial risk of a loss of their entire investment if the Company obtains a large amount of debt financing and is unable to service and/or repay those obligations.

Reliance on the Manager. The Company will be dependent upon the experience and expertise of its Manager in the selection, underwriting, acquisition, funding, administration, servicing, and management of the Company's investments. The Company, in turn, is reliant with respect thereto upon Mr. Jacobs, the sole member of the Manager.

If for any reason Mr. Jacobs ceases to act on behalf of the Manager, the Company's performance may be materially adversely affected. Mr. Jacobs does not have an employment agreement with the Manager and neither the Company nor the Manager maintains any "key man" life insurance on Mr. Jacobs. Moreover, Mr. Jacobs has only limited experience in the origination, underwriting, funding, and/or servicing of real estate loans. (See "Management" and "Risk Factors -- Lack of Real Estate Lending Experience.")

Change of Control of Manager. Mr. Jacobs, the sole member of the Manager, may in the future transfer ownership of the Manger and/or issue interests in the Manager, in either case leading to a change of control of the Manager. In the event of such a change of control of the Manager, the affairs of the Company would no longer be directed by Mr. Jacobs, on behalf of the Manager, but rather by one or more other parties who would not need to be approved by the holders of Preferred Shares. To the extent that the new management of the Manager does not operate the Company in an effective manner, the interests of the Preferred Shareholders will be materially adversely effected. (See "Management -- Manager.")

Uninsured Losses; Cost of Insurance. Although the Company will generally: (i) require that its borrowers maintain certain comprehensive insurance coverage for the collateral for its Loans; and (ii) maintain itself such insurance coverage upon those properties that it owns directly, in each case to the extent that it determines such to be reasonable, costs of insurance may escalate beyond those anticipated, or certain types of losses may be uninsurable or may exceed available coverage. Additionally, certain important coverages may not be readily available in the insurance market or may be economically prohibitive to the extent that it would preclude purchase of such coverage. Any uninsured loss of collateral for Loans would adversely effect the ability of the Company to generate revenues for distributions to the Preferred Shareholders. (See "Loan Portfolio -- Insurance.")

Economic Uncertainties. The Company's success will depend upon certain factors which are beyond the control of the Company and cannot be predicted accurately at this time. Such factors include general and local real estate and economic conditions, values of the Loan Portfolio, changes in spending patterns, and limitations imposed by government regulation. (See "Loan Portfolio -- Selection.")

Risks of Loans Already in Default. The Company may from time to time acquire Loans already in default. Loans already in default are of significantly greater risk to investors than performing Loans since there is a greater likelihood that the Loan in default will result in foreclosure upon the collateral securing it. The Company will attempt to minimize the risks attendant with origination and acquisition of Loans in default by adhering to the Loan-to-Value Ratios. (See "Loan Portfolio -- Description of Loans.")

Bankruptcy of the Borrower. If a borrower under a Loan becomes a debtor under bankruptcy law, either voluntarily or involuntarily, an automatic stay of all proceedings against the borrower's property will be in effect. This stay will prevent the Company, or its related entities, from foreclosing on the property until relief from the stay can be obtained from the bankruptcy court. No guarantee can be given that the bankruptcy court will lift the stay, and significant legal fees and costs may be incurred in attempting to obtain such relief, although such fees and costs are generally recoverable as additional obligations secured by the collateral for the Loan. Further, in certain bankruptcy reorganization plans, the bankruptcy court may modify the terms of the Loan as part of a reorganization plan of the debtor. (See "Loan Portfolio -- Description of Loans.")

Values of California Real Property. Investments in Preferred Shares will be materially affected by the value of the real property located in California because: (i) as noted above, 80% of the proceeds of this Offering are required to be invested in the State of California, and accordingly, most of the properties which are directly a part of the Loan Portfolio or secure debt investments that are a part of the Loan Portfolio, will be located in California; (ii) in certain instances, the Company may be relying entirely on the value of the real property securing the Loan, and not upon the credit of the borrower, in its loan underwriting analysis; and (iii) in many instances the Loans will, either by law or as a practical matter, be non-recourse to the borrower. In such instances, upon any default the Company's primary source of recovery will be through foreclosure upon the Loans and, assuming default thereunder, sale of the property securing the defaulted-upon Loans. In the event that the proceeds of such sales are in insufficient amounts, the Company's performance will be adversely effected. Although the Company believes that the Loan-to-Value Ratios it will use in its Loan underwriting will provide an adequate cushion to shield those types of investments against a loss in the event of foreclosure, a decline in value of the real property securing any Loan will be detrimental to the Company. California

real property has in the recent past generally appreciated in value, thus protecting lenders secured by and investors who acquire California real property; however, during the 1990s values decreased precipitously. Should California real property values decline in the future, equity investments will be placed at risk, the default rate on real estate loans is likely to increase, and the recovery rate on foreclosures is likely to decrease. (See "*Loan Portfolio – Selection.*")

Loans Secured by Junior Deeds of Trust and Balloon Loans. Some of the Loans will be secured by second or more junior priority deeds of trust. In the event of a foreclosure upon any senior priority deed of trust, the debts secured thereby must be cured and may have to be satisfied before any proceeds from the sale of the property can be applied toward the debt owed to the Company. To protect the junior security interest of such Loans and reinstate obligations secured by a senior priority deed of trust, the Company may be required to advance the necessary sums, or if the Company believes that to do so would not be in its best interests, to suffer a loss of some or all of its invested capital. Therefore, Loans secured by junior priority deeds of trust are subject to greater risk in the event of a decline of property value than are Loans which are secured by first priority deeds of trust or security instruments. Finally, the Company anticipates that many of its Loans will be payable interest-only or will provide only for partial amortization, in each case giving rise to a balloon payment upon maturity. In such cases, the borrower may be required to sell or refinance the collateral or have it foreclosed upon. (See "*Loan Portfolio -- Description of Loans.*")

Operating Risks

New Entity: No History of Profitability. The Company is a newly-formed entity which had no operations prior to this Offering. There can be no assurance that the Company will operate profitably in the future. (See "*The Company.*")

No Assurance of Return of Invested Capital. Any return to the Preferred Shareholders on their invested capital will be dependent upon the ability of the Manager to successfully invest the Company's capital. Such investment activities will depend, in part, upon economic factors and conditions beyond the control of the Manager. There can be no assurance that the Manager will be able to successfully invest the Company's capital. (See "*Description of the Securities -- Liquidation Priority Distributions to Preferred Shareholders.*")

Conflicts of Interest. Mr. Jacobs, the sole member of the Manager (and any successor party(ies) in control of the Manager) will be confronted with certain conflicts of interest with respect to the Loan Portfolio because he: (i) is anticipated to receive, through an affiliate, fees from third-parties in connection with the funding, acquisition, and/or disposition of Loans; (ii) will have the right, in his sole and absolute discretion, to determine whether or not to make available to the Company (or to any other affiliate of his) any potential investment; (iii) may receive servicing fees from the Company which will incentivize establishing a larger Loan Portfolio (and therefore may cause degradation in the Loan selection process); and (iv) may from time to time permit the Company to enter into transactions directly with his affiliates. (See "*Certain Transactions.*") In addition, the Manager may from time to time directly encounter conflicts of interest with the Company. In each instance, the Manager will seek to resolve any potential conflicts of interest in accordance with applicable law.

Risks of the Company Format, the Preferred Shares, and the Offering Structure

No Right to Manage. A Member is not permitted to take any part in the management or control of the business or affairs of the Company. The Operating Agreement vests exclusive control and management of the Company in the Manager as a result of which the Preferred Shareholders have no right to participate in the management of the Company and will be totally dependent on the Manager to manage the business of the Company. Accordingly, the success of the Company's business will depend in large part on the expertise of the Manager. (See "*Operating Agreement – Rights and Powers of Shareholders.*")

Limitation of Manager's Liability. The Manager, its affiliates, partners, employees, and agents will not be liable to the Company or any Shareholder, and the Company will indemnify the foregoing against any claims, liabilities, or damages, including attorney fees incurred by them by virtue of the performance by any of them of the duties of the Manager acting in such capacity in connection with the Company's business, so long as such person acted within the scope of its, his, or her authority and in good faith on behalf of the Company, but only if such course of conduct does not constitute gross negligence, fraud, or willful misconduct. Under the terms of the Operating Agreement, the

Manager, its members, employees, and agents will not be liable for any loss or damage to Company property caused by or due to any occurrence beyond the control of the Manager. A Shareholder may have a more limited right of action against the Manager than would be available absent the indemnification provisions contained in the Operating Agreement. (See "*Operating Agreement -- Limits of Liability -- Manager.*")

No Market for Preferred Shares. There is no public market for the Preferred Shares being sold by the Company in this Offering. Accordingly, Preferred Shareholders may be required to bear the risk of investment in the Preferred Shares for an indefinite period of time. (See "*Distribution of the Securities -- Limitations on Transfer.*")

Limitations on Transferability. The transferability of Preferred Shares is restricted by the provisions of Rule 147 promulgated under Section 3(a)(11) of the Securities Act and by the terms of the Company's Operating Agreement, and may only be consummated with the prior written consent of the Manager and, for a period of nine months from completion of this Offering, to *bona fide* California residents. (See "*Operating Agreement -- Limited Transferability of Shares*" and "*Distribution of Securities -- Limitations on Transfer.*")

Securities Law Compliance. This Offering has not been registered under the Securities Act in reliance on the exemption therefrom for intra-state offerings set forth in Section 3(a)(11) of the Securities Act and Rule 147 promulgated thereunder. There is no assurance that the Offering presently qualifies or will continue to qualify under such exemptive provisions due to, among other things, the manner of distribution of the Offering, future sales of Preferred Shares by Preferred Shareholders, or the retroactive change of any securities laws or regulations. If suits for rescission are brought against the Company under the Securities Act or any state laws, both capital and assets of the Company could be adversely affected. Further, the expenditure of time and capital of the Company in defending an action by investors, the Securities and Exchange Commission, or state regulators, even if the Company is ultimately exonerated, may adversely affect the Company's performance. (See "*Distribution of Securities -- Limitations on Transfer.*")

Federal Income Tax Risks

The following briefly summarizes certain material tax risks of investment in the Company. The tax aspects of investment in the Company should be discussed in more detail by prospective investors with their tax advisors. Prospective investors are urged to consult their personal tax advisors in evaluating the tax aspects of an investment in the Company.

General. Subject to certain assumptions and representations, the Company believes that it will be classified as a partnership for federal income tax purposes. No rulings have been or will be sought from the IRS regarding the tax consequences or risks described herein. As a result, no assurance can be given that the conclusions reached by the Company would be sustained by a court if contested by the Internal Revenue Service. If the Company is not so treated as a partnership, serious tax consequences would result. (See "*Federal Income Tax Considerations*"). While the defense by the Company of any challenge to the Company tax returns will be borne by the Company, each investor would be responsible for expenses relating to the challenges of its, his, or her personal tax return.

Profit and Loss Allocations; Preferred Liquidation Distributions. The applicable federal tax rules governing profit and loss allocations are complex, and subject to uncertainty. Certain allocations otherwise anticipated by a Preferred Shareholder may be adversely affected by special rules contained in Code Section 704(b), the Treasury regulations thereunder, the related provisions of the Operating Agreement, and allocations under the Operating Agreement designed to result in a full payment of Preferred Liquidation Distributions. (See "*Federal Income Tax Considerations -- Allocation of Net Income and Loss.*") Preferred Shareholders should be aware that, due primarily to rules governing liquidating distributions contained in the Code Section 704(b) regulations, under the Operating Agreement, in a liquidation of the Company, there is a significant risk that Common Shareholders will receive a distribution, even though the amount of Preferred Liquidation Distributions may not be paid in full (if there is not enough Company income or loss available to be able to eliminate the distribution to the Common Shares by a reallocation, under such circumstances).

Loss Limitations. The utilization of allocated Company net losses (if any) by any Preferred Shareholder will be subject to adjusted tax basis limitations, at-risk limitations and the passive loss rules. (See "*Federal Income Tax Considerations - Deduction of Losses.*")

Additional Tax Issues Affecting the Company. The foregoing is not intended as an exhaustive analysis or listing of the risk factors associated with the tax aspects relating to the proposed investment and the operation of the Company. No representation or warranty of any kind is made by the Manager or the Company with respect to any tax consequences of an investment in the Company or the allocations of taxable income or loss set forth in the Operating Agreement. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT WITH ITS, HIS, OR HER OWN TAX ADVISOR(S) REGARDING THE ANTICIPATED TAX EFFECTS OF AN INVESTMENT IN THE COMPANY.

FEDERAL INCOME TAX CONSIDERATIONS

This summary discusses certain federal income tax considerations that reasonably can be anticipated to affect an investment in the Preferred Shares. No attempt has been made to comment on all federal income tax matters that may affect the Company or particular Preferred Shareholders.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change, possibly retroactively. This Summary pertains only to investors that will hold Preferred Shares as capital assets, and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, insurance companies, tax-exempt organizations (including, without limitation, employee benefit plans), dealers in securities, persons that will hold Preferred Shares as part of an integrated investment, or persons that have a functional currency other than the United States dollar. In addition, this discussion does not consider the effect of any foreign, state, local, estate, gift or other tax laws.

Potential investors should be aware that there is uncertainty concerning some of the federal income tax consequences relating to the operation of entities classified as "*Partnerships*," for federal income tax purposes, which own real estate, and the ownership of interests in such entities. Many provisions of relatively recent tax legislation, which significantly affect the tax consequences of investments in such "*Partnerships*," have not yet been the subject of court decisions, IRS rulings or interpretive regulations. No rulings have been, or will be, requested from the IRS concerning any of the tax matters described herein. Accordingly, there can be no assurance that the IRS or a court of law will agree with the following discussion or with any of the positions taken by the Company, for federal income tax reporting purposes.

The United States Treasury Department has set forth certain guidelines that must be followed by practitioners who provide opinions analyzing the federal tax effects of so-called "*tax-shelter*" investments. For purposes of these guidelines, a "*tax shelter*" is an investment which has as a significant and intended feature, for federal income or excise tax purposes, the generation of tax losses or credits to offset taxable income or tax liability from other sources. The Company does not believe that it constitutes a "*tax shelter*" because the production of losses or credits to offset income or tax liability from other sources is not a significant or intended feature of an investment in Preferred Shares. Accordingly, counsel is not required to render an overall opinion with respect to realization of the material tax benefits from such investment, and so no such opinion has been, or will be, provided.

Partnership Status

The Company desires to be treated as a "*partnership*" for federal income tax purposes, so that it will not be subject to an entity-level federal income tax. The Company has been formed as a "*limited liability company*" under California law. A California limited liability company is considered an "*eligible entity*" under Treasury regulations classifying various types of business entities. Since its formation, the Company has had at least two members. Under applicable Treasury regulations, a newly-formed domestic eligible entity that has two or more owners will automatically qualify for "*partnership*" tax classification status. The Company's Operating Agreement prohibits the Manager from electing corporate classification status. Accordingly, subject to the discussion below regarding "*publicly traded partnership*," the Company will be classified as a "*partnership*," and not as an "*association taxable as a corporation*," for federal income tax purposes.

Publicly-Traded Partnership Rules

Section 7704 of the Internal Revenue Code of 1986, as amended (the "Code") provides that any "publicly traded partnership" will be taxed as a corporation, for federal income tax purposes, even though such partnership otherwise would be classified as a partnership, for federal income tax purposes.

A partnership is considered to be a publicly-traded partnership if interests in the partnership are (or become): (i) traded on an established securities market, or (ii) readily tradable on a secondary market (or the substantial equivalent thereof). Treasury regulations set forth limited safe harbors from the definition of a publicly-traded partnership. Although the Company believes that more than one such safe harbor rule will be applicable to the Company, one safe harbor from the definition of "publicly-traded partnership" is applicable where, the partnership does not participate in the establishment of the market or the inclusion of its interests thereon, and the partnership does not recognize any transfers made on the market. The Operating Agreement of the Company prohibits the Manager or any Shareholder from (i) listing, facilitating, or recognizing the trading of Preferred Shares on an established securities market, or (ii) creating for Preferred Shares or facilitating or recognizing the trading of Preferred Shares on a secondary market (or the substantial equivalent thereof), within the meaning of Section 7704 of the Code and the Treasury regulations promulgated thereunder. Assuming compliance with the Operating Agreement, the foregoing safe harbor exclusion from the definition of "publicly traded partnership" will be applicable.

Taxation of the Preferred Shareholders

As a "partnership," for federal income tax purposes, the Company itself will not be subject to federal income tax. Instead, the Shareholders will be required to report on their federal income tax returns, and to take into account, in determining their own income tax liabilities, their allocable shares of the income, gain, loss, deductions, credits and tax preference items of the Company for the portion of any taxable year during which they were Preferred Shareholders. The Preferred Shareholders are subject to federal income tax on their distributive shares of the Company's taxable income and items of income, gain or items of tax preference required to be taken into account separately, even if the Preferred Shareholders may have received total cash distributions of less than the amount of reportable income or gain to such Shareholder, or less than the resultant federal income tax liability. The Operating Agreement, however, requires the Company to use its reasonable efforts to pay, annually, Tax Recognition Distributions equal to the assumed resulting federal income tax liability to each Preferred Shareholder.

Basis of Preferred Shares

A Preferred Shareholder's adjusted basis in the Preferred Shares is relevant in determining gain or loss on the sale or other disposition of the Preferred Shares, in determining the taxability of cash distributions to the Preferred Shareholders, and in determining the ability of the Shareholders to deduct losses of the Company. A Preferred Shareholder's adjusted basis in a Preferred Share initially will be equal to the amount of the purchase price of the Preferred Share, and will be increased by the Preferred Shareholder's allocable share of items of Company net income. A Preferred Shareholder's basis in a Preferred Share will be decreased (but not below zero) by (i) cash distributions received from the Company, and (ii) the Preferred Shareholder's distributive share of items of Company net loss. A Preferred Shareholder's basis is also generally affected by the amount of Company debt allocated to such Preferred Shareholder, with increases in allocable debt increasing basis and decreases reducing basis.

Allocations of Net Income and Loss

A Shareholder's distributive share of Company income, gain, loss, deduction and credit, for federal income tax purposes is generally determined in accordance with the provisions of the Operating Agreement. Under Section 704(b) of the Code, however, an allocation will be respected only if it either has "substantial economic effect" or is in accordance with the Shareholder's "interest in the Company." Otherwise, the IRS will generally make a reallocation. The Treasury regulations promulgated under Section 704(b) of the Code are extremely complex, and are subject to varying interpretations.

Essentially, the Code Section 704(b) regulations require capital accounts to be maintained, for each Shareholder, as a sort of "bank account" for each Shareholder, reflecting the amount they will be entitled to withdraw

upon liquidation of their interests. The initial capital account balance, the initial purchase price for Preferred Shares, in general, is increased by each Preferred Shareholder's distributive share of net profits of the Company, and decreased by their distributive share of net losses of the Company and also the amount of cash distributions made to such Preferred Shareholder. Then, under the Treasury regulations, upon liquidation, distributions to the Shareholders are required to be made pro rata, based on capital account distributions. In addition, the Code Section 704(b) regulations contain requirements to address negative capital account balances. As applicable to this case, the Treasury regulations contain a requirement that Company income, to the extent it is available, be specially allocated to any Shareholder that has a negative capital account balance, in certain circumstances, under a "*qualified income offset*" provision. The Code Section 704(b) regulations also contain "*minimum gain charge back*" provisions that, also, can result in income being specially allocated to Shareholders with negative capital account balances, under certain circumstances.

The Code Section 704(b) regulations can result in items of Company income and loss being allocated differently from the basic economic arrangement of the Shareholders, although the Operating Agreement seeks to minimize unintended results by providing for curative allocations. Preferred Shareholders should consult their own tax advisors regarding the potential impact of the Code Section 704(b) regulations. In that regard, it is important to note that, under such regulations, it is not generally permissible for preferred liquidating distributions to be made without regard to the relative capital account balances of the "*Partners*" or members (in this case, Shareholders). Accordingly, the Operating Agreement provides, essentially, that if the Capital Account balance ratios become (either during operations or at the time of liquidation) such that upon liquidation (with distributions to be made to all Shareholders pro rata based on positive Capital Account balances) the requisite payments in respect of the Preferred Liquidation Distributions would not be paid in full, income and/or loss, as appropriate and to the extent available, will be specially allocated in an attempt to adjust the Capital Account ratios, so that the Preferred Liquidation Distributions to Preferred Shareholders would be paid in full. There can be no assurance, however, that sufficient Company income or loss will be available to achieve such desired result, and, accordingly, there is a significant risk that, at liquidation, the Common Shareholders will receive liquidating distributions, while the Preferred Shareholders may not receive the full amount of required Preferred Liquidation Distributions.

Deduction of Losses

The ability of a Preferred Shareholder to utilize any net losses of the Company, in the event any net loss is allocated to a Preferred Shareholder, in general, is determined by applying three limitations, namely, the tax basis requirement (Code Section 704(d)), at-risk limitations (Code Section 465) and passive activity rules (Code Section 469). Although Preferred Shareholders should consult their own tax advisors, it is anticipated that, even in situations where the tax basis and at-risk rules do not limit the utilization or allocation of losses to Preferred Shareholders, the passive loss rules will generally apply to limit the ability to utilize any allocated net losses.

Cash Distributions to Preferred Shareholders

A cash distribution to a Preferred Shareholder (other than a cash distribution made in exchange for all or part of an interest in the Company) will not be taxable to the Preferred Shareholder, except to the extent, if any, that the distribution exceeds the adjusted basis in the Preferred Shareholder's Preferred Shares. A cash distribution in excess of the tax basis of the Preferred Shares will be taxable to the Preferred Shareholder as if it resulted from a sale or exchange of the Preferred Shares. In addition, if a Preferred Shareholder realizes a net loss from the Company, a cash distribution which reduces the Preferred Shareholder's amount "*at risk*" (under Code Section 465) below zero will be taxable to the extent of the lesser of: (i) the amount of the cash distribution; or (ii) the amount of net loss from the Company previously deducted by the Preferred Shareholder.

Alternative Minimum Tax

The Code contains an "*alternative minimum tax*," which may reduce the return or investment to particular Preferred Shareholders. The alternative minimum tax is payable to the extent it exceeds the "*regular*" federal income tax payable for that taxable year.

Sale of Preferred Shares

Upon a sale of a Preferred Share, the excess, if any, of the amount realized on the sale over the adjusted tax basis of the Share would constitute taxable gain to the Preferred Shareholder. The amount realized will include the amount of the Preferred Shareholder's allocable share (if any) of Company debt. Gain realized on the sale of a Preferred Share, by a Preferred Shareholder who is not a "dealer" with respect to such Share, and who held it for more than one year, generally is treated as long-term capital gain, except for that portion of any gain attributable to "unrealized receivables" and "substantially appreciated inventory," under Section 751 of the Code, which would be taxable as ordinary income. Depreciation recapture may be treated, depending on the circumstances, as an "unrealized receivable" or taxed at a rate in excess of the 20% maximum rate applicable to most long-term capital gains for noncorporate taxpayers.

Dissolution of the Company

The dissolution of the Company will involve the distribution to the Shareholders of the assets, if any, remaining after the payment of (or provision for) all of the liabilities of the Company. Upon dissolution, the Preferred Shares may be liquidated by one or more distributions of cash or other property. If the Preferred Shareholders receive only cash in liquidation, gain would be recognized by each Preferred Shareholder to the extent, if any, that the amount of cash received exceeds the adjusted tax basis in the Shares. No gain or loss is generally recognized by a "partnership" upon a distribution of its own assets in liquidation.

Property Held Primarily for Sale

If the Company were, at any time, deemed, for federal income tax purposes, to be a "dealer" in loans, tax lien certificates, real property, or other property, (i.e., a person who holds the property primarily for sale to customers in the ordinary course of business, any gain recognized upon a sale of such property would be taxable as ordinary income, rather than as capital gain). Whether the Company will be treated as a dealer, with respect to any of its assets, will depend on future facts and circumstances.

Election for Basis Adjustments

Under Section 754 of the Code, "partnership" may elect to adjust the basis of their assets upon the transfer of an interest in the partnership, so that the transferee will be treated, for purposes of computing the transferee's share of depreciation and gain (or loss) as though such transferee had acquired a direct interest in the partnership's assets. As a result of the complexities and increased expense of tax accounting required to implement such an election, the Manager does not intend to cause the company to make such an election, which may impair the ability to sell the Preferred Shares.

THE FOREGOING ANALYSIS IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING, PARTICULARLY SINCE THE FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN PREFERRED SHARES ARE COMPLEX, AND CERTAIN OF THESE CONSEQUENCES COULD VARY SIGNIFICANTLY WITH THE PARTICULAR TAX AND FINANCIAL SITUATION OF EACH PREFERRED SHAREHOLDER. ACCORDINGLY, PROSPECTIVE PREFERRED SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS, WITH SPECIFIC REFERENCE TO THEIR OWN TAX AND FINANCIAL SITUATIONS, REGARDING THE POSSIBLE FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PREFERRED SHARES.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain material considerations to prospective Preferred Shareholders arising under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Code. It is not intended to address all material aspects of ERISA, the United States Department of Labor ("DOL") regulations promulgated thereunder, Code Section 4975, or, to the extent not preempted, relevant state law.

ERISA imposes certain duties on persons who are fiduciaries of pension, profit-sharing, retirement or other employee benefit plans subject to ERISA ("*Plans*"). Under ERISA, any person who exercises any authority or control with respect to the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan, subject to all the standards of fiduciary conduct under ERISA. These standards include the requirement that the assets of Plans be invested and managed for the exclusive benefit of Plan participants and beneficiaries, the requirement that any investment of Plan assets is permitted under the governing Plan instruments and is prudent and appropriate for the Plan, and the requirement of a diversified portfolio.

ERISA and the corresponding provisions of the Code prohibit a wide range of transactions involving the assets of the Plan and persons who have certain specified relationships to the Plan ("*parties in interest*," under ERISA, "*disqualified persons*," under the Code). Accordingly, a designated Plan fiduciary considering an investment in Preferred Shares should specifically consider whether the acquisition or the continued holding of the Preferred Shares might constitute or give rise to a direct or indirect prohibited transaction.

The fiduciary of an individual retirement account ("*IRA*"), or of an employee benefit plan that is not subject to Title I of ERISA, because it does not cover common law employees (a "*Non-ERISA Plan*"), should consider that such an IRA or Non-ERISA Plan may only make investments that are authorized by the appropriate governing documents, not prohibited under Code Section 4975 and permitted under applicable state law.

Under DOL regulations, which provide guidance on the definition of "*plan assets*" under ERISA, if a Plan acquires an equity interest in an entity, such as the Preferred Shares, the Plan's assets would include both the equity interest, itself, and an undivided interest in each of the entity's underlying assets, unless certain exceptions (not expected to be applicable, in this case) are applicable.

A PLAN FIDUCIARY CONSIDERING THE PURCHASE OF PREFERRED SHARES SHOULD CONSULT ITS LEGAL ADVISOR REGARDING WHETHER COMPANY ASSETS WOULD BE CONSIDERED TO BE PLAN ASSETS, THE POSSIBILITY OF DIRECT OR INDIRECT PROHIBITED TRANSACTIONS AND OTHER ISSUES TO THE PLAN AND THEIR POTENTIAL CONSEQUENCES.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Private Placement Memorandum contains certain forward-looking statements within the meaning of Section 27A of the Securities Act, and information relating to the Company that is based on the beliefs of the Company, the Manager, and its principal as well as assumptions made by and information currently available to them. These statements include, among other things, the discussions of the Company's contemplated Loan Portfolio and business strategy, and its expectations concerning its future operations and profitability. When used herein, the words "*anticipate*," "*feel*," "*believe*," "*estimate*," "*expect*," "*plan*," and "*intend*" and similar expressions, as they relate to the Company, the Manager, or its principal, are intended to identify forward-looking statements. Such statements reflect the current view of the Company and the Manager respecting future events and are subject to certain risks, uncertainties, and assumptions, including the meaningful and important risks and uncertainties noted, particularly those related to the Company's operations and strategy, competitive factors, changes in legal and regulatory requirements, general economic conditions, and other factors described herein. Although the Company has attempted to identify important facts that could cause actual results to differ materially, there may be other factors that could cause the forward-looking statements not to come true as anticipated, believed, estimated, expected, planned, or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, or intended. Neither the Company nor any other person undertakes any obligation to revise these forward-looking statements, to identify important facts, or to reflect the occurrence of unanticipated events after the date hereof that could cause actual results to differ materially.

ADDITIONAL INFORMATION

Prospective investors and their advisors, if any, are encouraged to ask questions of, and receive answers from, the Manager concerning the terms and conditions of this Offering, and to obtain additional information, to the extent possessed or obtainable without unreasonable effort or expense, necessary to verify the accuracy of the information contained herein. Inquiries to the Manager should be directed to Donovan J. Jacobs, Esq., the Manager's Manager, at 1200 Prospect Street, Suite 150, La Jolla, California 92037. Mr. Jacobs may be contacted by telephone at (858) 459-4175. Except as set forth herein, no person has been authorized to give any information, or to make any representations or warranties, either expressed or implied, concerning the Company or the Preferred Shares. If made, such information must not be relied upon.

OFFERS OF PREFERRED SHARES ARE MADE SOLELY BY MEANS OF THIS PROSPECTUS AND THE ACCOMPANYING MATERIALS REFERRED TO HEREIN, INCLUDING THE OPERATING AGREEMENT OF THE COMPANY AND THE SUBSCRIPTION AGREEMENT. OFFERS OF SUCH SHARES ARE SUBJECT TO PRIOR SALE, THE RIGHT OF THE COMPANY TO WITHDRAW OR MODIFY THIS OFFER WITHOUT PRIOR NOTICE, OR TO REJECT ANY SUBSCRIPTIONS, AND CERTAIN OTHER CONDITIONS. NO OFFERING LITERATURE OR ADVERTISING IN WHATEVER FORM MAY BE RELIED UPON IN THIS OFFERING EXCEPT FOR THE DOCUMENTS REFERRED TO ABOVE.

UNLESS SOONER TERMINATED BY THE COMPANY UPON THE SALE OF AT LEAST 500 PREFERRED SHARES, OR UNLESS EXTENDED BY THE COMPANY, IN ITS SOLE DISCRETION, THIS SOLICITATION WILL TERMINATE ON APRIL 24, 2001. IF SUBSCRIPTIONS FOR AT LEAST 500 PREFERRED SHARES HAVE NOT BEEN RECEIVED BY SUCH DATE, THE COMPANY MAY: (i) TERMINATE THE OFFER AND RETURN ALL FUNDS RECEIVED FROM SUBSCRIBERS WITHOUT INTEREST OR DEDUCTION; OR (ii) OBTAIN THE SUBSCRIBERS' WRITTEN CONSENT TO CLOSE WITH A LESSER NUMBER OF PREFERRED SHARES SOLD; PROVIDED, HOWEVER, THAT THE COMPANY SHALL RETURN, WITHOUT INTEREST OR DEDUCTION, ALL FUNDS RECEIVED FROM SUBSCRIBERS WHO DO NOT CONSENT TO ANY SUCH MODIFICATIONS OF THIS OFFERING.

**FOR CALIFORNIA
RESIDENTS ONLY**

TABLE OF CONTENTS

	<u>Page</u>
PROSPECTUS SUMMARY	2
THE COMPANY	5
LOAN PORTFOLIO	5
REGULATION	7
MANAGEMENT	8
USE OF PROCEEDS	9
OPERATING AGREEMENT	9
DESCRIPTION OF THE SECURITIES	11
DISTRIBUTION OF SECURITIES	13
CERTAIN TRANSACTIONS	14
RISK FACTORS	14
FEDERAL INCOME TAX CONSIDERATIONS	19
CERTAIN ERISA CONSIDERATIONS	22
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	23
ADDITIONAL INFORMATION	23

\$50,000,000

**9¾% Participating Preferred Shares of
Limited Liability Company Interest**

\$1,000 Per Preferred Share

**LA JOLLA REAL
ESTATE LOAN FUND LLC**

PROSPECTUS

DM FINANCIAL SERVICES, INC.

May 10, 2000