

**OPERATING AGREEMENT**

**FOR**

**PLAZA 26 LLC**  
**a California limited liability company**

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A CALIFORNIA LIMITED LIABILITY COMPANY**

Richard K. Wood adopts and enters into this Operating Agreement effective as of December 17, 2007 as follows:

**ARTICLE I  
Background and Purpose**

1.1. Articles. On August 23, 2007, Articles of Organization ("**Articles**") for Plaza 26 LLC, a limited liability company formed under the laws of the State of California (the "**Company**"), were filed with the office of the California Secretary of State.

1.2. Adoption. The Member (as defined below) hereby adopts and approves this Operating Agreement for the Company under the Act (as defined below) upon the terms and subject to the conditions set forth herein.

**ARTICLE II  
Certain Definitions**

The following terms shall have the meanings set forth below unless the context requires otherwise:

2.1. Act. "Act" means the Beverly-Killea Limited Liability Company Act, codified at Section 17000 *et seq.* of the California Corporations Code, as the same may be amended from time to time.

2.2. Agreement. "Agreement" means this operating agreement of Plaza 26 LLC, as originally executed and as amended from time to time.

2.3. Articles. "Articles" means the Articles of Organization for the Company, as originally filed with the California Secretary of State and as amended from time to time.

2.4. Capital Account. "Capital Account" means an account initially reflecting the Capital Contribution of a Member which the Company establishes and maintains for such Member pursuant to Section 4.2.

2.5. Capital Contribution. "Capital Contribution" means the total value of cash and fair market value of property (including promissory notes or other obligation to contribute cash or property) contributed to the Company by a Member or the Member's predecessor in interest.

2.6. Code. "Code" means the Internal Revenue Code of 1986, as amended from time to time, the provisions of succeeding law, and to the extent applicable, the Regulations.

2.7. Company. "Company" means Plaza 26 LLC, a California limited liability company formed pursuant hereto upon the filing of the Articles and execution of this Agreement.

2.8. Distributable Cash. "Distributable Cash" means cash from any source including the net revenues from operations, net proceeds from any sales or other dispositions or refinancing of Company assets, and all principal and interest payments with respect to any note or other obligation received by the Company in connection with sales and other dispositions of Company assets, less any portion used to pay into or establish working capital reserves.

2.9. Distribution. "Distribution" means the transfer of money or property by the Company to the Member or its Members without consideration.

2.10. Fiscal Year. "Fiscal Year" means the Company's fiscal year, which shall end on December 31.

2.11. Membership Interest. "Membership Interest" means a Member's entire interest in the Company including the Member's Economic Interest, the right to vote on or participate in the management, and the right to receive information concerning the business and affairs of the Company.

2.12. Member. "Member" means Richard K. Wood.

2.13. Person. "Person" means any individual, corporation, partnership, association, limited liability company, trust, estate or other entity.

2.14. Taxable Net Income and Taxable Net Loss. "Taxable Net Income and Taxable Net Loss" means the income, gain, loss, deductions and credits of the Company in the aggregate or separately, as appropriate, determined in accordance with the methods of accounting, at the close of each Fiscal Year, selected by the Company.

### **ARTICLE III** **Organization of the Company**

3.1. Formation. The Member hereby establishes a limited liability company under the Act by the filing the Articles and by entering into this Agreement. This Agreement controls all rights and obligations of the Member to the fullest extent permitted by law.

3.2. Name. The name of the Company shall be "Plaza 26 LLC." The Company may conduct business under that name or any other name determined by the Member.

3.3. Term. The term of the Company will commence on the date of the filing of the Articles and shall terminate as provided under Article XI.

3.4. Office and Agent. The Company shall continuously maintain an office and registered agent in the State of California as required by the Act. The principal office of the Company shall be at such location as the Member may determine. The Company also may have such offices, anywhere within and without the State of California, as the Member from time to time may determine, or the operation of the Company may require. The registered agent shall be as stated in the Articles or as otherwise determined by the Member.

3.5. Purpose of the Company. The purpose of the Company is to engage in and carry on any lawful business purpose or activity that is approved by the Member and permitted under the Act.

### **ARTICLE IV** **Capital Contribution; Capital Account**

4.1. Capital Contributions. Contemporaneously with the execution of this Agreement, the Member shall contribute the assets specified on Exhibit A attached hereto.

4.2. Capital Accounts. The Company shall establish an individual Capital Account for the Member. The Company shall determine and maintain the Capital Account in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv). The Member's Capital Account shall initially be credited with the Capital Contribution made pursuant to Section 4.1.

4.3. No Obligation for Additional Capital Contributions. The Member shall have no obligation to make any additional Capital Contributions to the Company.

4.4. Loans. The Member, from time to time, may obtain loans to the Company from third parties or from the Member. Such loans may be unsecured or secured by all or a portion of the Company's assets.

4.5. No Interest. The Company shall not pay any interest on Capital Contributions.

## **ARTICLE V** **Members**

5.1. Single Member. The sole Member of the Company shall be the Member.

5.2. Admission of Additional Members. Additional Members may be admitted to the Company only with the written consent of the Member. Upon admission of a new Member this Agreement shall be amended to set forth the terms and conditions of such new Member's admission and such other terms and provisions as may be agreed upon.

5.3. Payments to Members. The Member and its affiliates shall be entitled to remuneration for services rendered or goods provided to the Company on such terms as the Member may determine in accordance with applicable law and this Agreement. The Company shall reimburse the Member for the actual cost of goods and materials used by the Company and for organizational expenses (including, without limitation, legal and accounting fees and costs) incurred to form the Company and prepare the Articles and this Agreement.

5.4. Meetings or Actions by Written Consent. No annual or regular meeting of the Member or written actions by consent of the Member shall be required.

5.5. Competing Activities. The Member and its affiliates may engage or invest in, independently or with others, any business activity of any type or description, including without limitation those that might be the same as or similar to the business of the Company and that might be in direct or indirect competition with the Company. The Company shall have no right in or to such other ventures or activities or to the income or proceeds derived therefrom. The Members shall not be obligated to present any investment opportunity or prospective economic advantage to the Company, even if the opportunity is of the character that, if presented to the Company, could be taken by the Company.

## **ARTICLE VI** **Management and Control of the Company**

6.1. Exclusive Management by Member. The business, property and affairs of the Company shall be managed and all powers of the Company shall be exercised by or under the direction of the Member.

6.2. Powers and Authority. The Member shall have exclusive, full and complete authority, power and discretion to manage and control the business, property and affairs of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incidental to the management of the Company's business, property and related affairs, including without limitation the power to:

(a) Acquire, purchase, renovate, improve, alter, rebuild, demolish, replace, and own real property and any other property or assets that the Member determines is necessary or appropriate or in the interest of the Company's business, and to acquire options for the purchase of any such property;

(b) Sell, exchange, lease, or otherwise dispose of the property and assets owned by the Company, or any part thereof, or any interest therein;

(c) Borrow money from any party including the Member and its affiliates, issue evidences of indebtedness in connection therewith, refinance, increase the amount of, modify, amend, or change the terms of, or extend the time for the payment of any indebtedness or obligation of the Company, and secure such indebtedness by mortgage, deed of trust, pledge, security interest, or other lien on Company assets;

(d) Guarantee the payment of money or the performance of any contract or obligation of any person;

(e) Sue on, defend, or compromise any and all claims or liabilities in favor of or against the Company; submit any or all such claims or liabilities to arbitration;

(f) Retain legal counsel, auditors, and other professionals in connection with the Company's business and to pay therefor such remuneration as the Member may determine;

(g) Endorse checks, drafts and other evidences of indebtedness made payable to the order of the Company, and make checks, drafts and other evidences of indebtedness obligating the Company to pay money in any amount; and

(h) Act as an agent for the Company in all matters.

6.3. No Liability of Member for Management. The Member shall not be liable, responsible or accountable to the Company for any mistake of fact or judgment, or doing of failing to do any act, or any loss or damage sustained by the Company.

6.4. Officers of the Company. The Member may, from time to time, appoint one or more individuals to be officers of the Company. Any officers so appointed shall have such authority and perform such duties as the Member may, from time to time, delegate to them. Unless the Member decides otherwise, if the title of an officer is one commonly used for an officer of a business corporation formed under the California General Corporation Law, the use of such title shall constitute the delegation to such officer of the authority and duties that are normally associated with that office. Any officer may be removed as such, either with or without cause, by the Member. Officers and other employees of the Company shall be entitled to such compensation that is expressly approved by the Member.

## **ARTICLE VII** **Distributions of Distributable Cash**

7.1. Distribution of Distributable Cash. Except as otherwise provided in Section 11.3 with respect to Distributions upon dissolution and liquidation, Distributable Cash shall be distributed to the Member when and as determined by the Member:

7.2. No Restoration of Deficit Capital Account Balance. The Member shall not be obligated to contribute to the Company to restore a deficit in the Member's Capital Account balance.

7.3. Limitations on Distributions. No cash or property shall be distributed to the Member to the extent that the Distribution is prohibited by the Act. If the Member receives a distribution from the Company, all or a portion of which is determined to have been prohibited by the Act, the Member shall return such prohibited portion of the distribution to the Company.

### **ARTICLE VIII** **Allocations of Taxable Net Income and Taxable Net Loss**

8.1. Taxable Net Income and Taxable Net Loss. All Taxable Net Income and Taxable Net Loss shall be allocated to the Member.

### **ARTICLE IX** **Transfer and Assignment of Interests**

9.1. Transfer and Assignment of Interest. The Member shall be entitled to transfer, assign, convey, sell, encumber or alienate all or any portion of the Member's Membership Interest.

### **ARTICLE X** **Accounting, Records, Reporting by Members**

10.1. Books and Records. The books and records of the Company shall be kept, and the financial position and the results of its operations recorded, in accordance with the accounting methods followed for federal income tax purposes. The books and records of the Company shall reflect all the Company transactions and shall be appropriate and adequate for the Company's Business. The Company shall maintain at its principal office in California all of the information required by Corporations Code Section 17058.

10.2. Bank Accounts. The Company shall maintain the funds of the Company in one or more separate bank accounts in the name of the Company, and shall not permit the funds of the Company to be commingled in any fashion with the funds of any other person. All checks, drafts, and other instruments obligating the Company to pay money shall be signed in accordance with the requirements established by the Member from time to time.

### **ARTICLE XI** **Dissolution and Winding Up**

11.1. Conditions of Dissolution. The Company shall dissolve upon the occurrence of any of the following events:

- (a) The happening of any event of dissolution specified in the Articles; or
- (b) The determination of the Member to dissolve the Company.

11.2. Winding Up. Upon the dissolution of the Company under the Act or this Agreement, the Company's assets shall be disposed of and its affairs wound up and the conduct of the Company's business shall be limited to those matters consistent with the disposition of assets and winding up of affairs.

11.3. Order of Payment of Liabilities, Distribution of Assets, Upon Dissolution. After determining that all known debts and liabilities of the Company in the process of winding-up, including, without limitation, debts and liabilities to the Member, if a creditor of the Company, have been paid or adequately provided for, the remaining assets shall be liquidated and the proceeds distributed.

## **ARTICLE XII** **Indemnification of Agents**

12.1. Indemnification. The Company may, at the discretion of the Member, indemnify and defend any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he, she or it is or was a Member, officer, employee or other agent of the Company or that, being or having been such a Member, officer, employee or agent, he, she or it is or was serving at the request of the Company as a manager, director, officer, employee or other agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (all such Persons being referred to hereinafter as an "*agent*"), to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, including without limitation, providing for defense of any such action and the payment of the legal fees necessary to provide such defense. The Member shall be authorized, on behalf of the Company, to enter into indemnity agreements from time to time with any Person entitled to be indemnified by the Company hereunder, upon such terms and conditions as the Member deem appropriate in the Member's business judgment.

12.2. Limitation on Indemnification. Notwithstanding subsection 12.1 above, no Person shall be entitled to or shall receive indemnification in respect to any matters that proximately result from the person's fraud, bad faith, gross negligence or willful misconduct or the person's material breach of this Agreement, unless, and only to the extent that, a court or arbitrator of competent jurisdiction determines upon application that, despite the misconduct of such person, under the circumstances, the Person is fairly and reasonably entitled to indemnity for those expenses that the court shall deem proper.

12.3. Indemnification on Successful Defense. To the extent that the Person entitled to indemnification is successful on the merits or otherwise in defense of any action, suit, or proceeding for which no indemnification is provided pursuant to Section 12.2, or in the defense of any claim, issue or matter therein, the Company shall indemnify the person against the expenses, including attorney's fees, actually and reasonably incurred in connection therewith.

## **ARTICLE XIII** **Miscellaneous**

13.1. Entire Agreement. This document constitutes the entire operating agreement, all other agreements being merged herein, and supersedes all prior representations. There are no representations, agreements, arrangements, or understandings, oral or written, relating to the subject matter of this Agreement that are not fully expressed herein.

13.2. Interpretation. All pronouns shall be deemed to refer to the masculine, feminine, or neuter, singular or plural, as the context in which they are used may require. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the interpretation of any provision of this Agreement. Numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement unless otherwise expressly stated.

13.3. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

13.4. Amendment. The provisions of this Agreement may be modified at any time by the Member. Any such agreement hereafter made shall be ineffective to modify this Agreement in any respect unless in writing and signed by the Member.

13.5. Remedies Cumulative. No remedy or election hereunder shall be deemed exclusive but shall whenever possible be cumulative with all other remedies at law or in equity.

13.6. Succession. Subject to the provisions otherwise contained in this Agreement, this Agreement shall inure to the benefit of and be binding on the successors and assigns of the respective parties.

13.7. Captions. All paragraph captions are for reference only and shall not be considered in construing this Agreement.

13.8. Parties in Interest. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the parties to it and their respective successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provision give any third persons any right of subrogation or action against any party to this Agreement.

13.9. Choice of Law. The laws of the State of California, including, without limitation, the Act, shall govern the organization and internal affairs of the Company and the liability of the Member.

**MEMBER:**

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(Richard K. Wood)

**EXHIBIT A**  
**CAPITAL CONTRIBUTION**

Property located at 2600 Q Street, APN: 007-0336-001



**WOOD RODGERS**

Capital Contribution Statement

February 14, 2008

City of Sacramento  
Development Services Department  
915 I Street, Suite 300  
Sacramento, CA 95814

Plaza 26  
2600 Q Street  
Sacramento, CA 95816

I, Richard Wood, am the applicant and owner of the Plaza 26 project. This Capital Contribution Statement accompanies a Special Permit application for conversion of the Plaza 26 property to condominiums.

The Plaza 26 property buildings and landscaping are completely renovated with new materials. The property should not require any extensive maintenance and/or repair costs for a number of years. A Capital Contribution is not required.

The property is covered with insurance for any potential building defects or unexpected events. The homeowners association, which will be formed prior to the sale of any units, will provide long-term maintenance of the property. Presently, Arreola's is maintaining the landscaping.