

---

---

# FORM 10-K

---

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

---

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to

Commission file number 0-17686

---

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**  
(Exact name of registrant as specified in its charter)

---

**Wisconsin**  
(State or other jurisdiction of  
incorporation or organization)

**39-1606834**  
(I.R.S. Employer  
Identification No.)

**1100 Main Street, Suite 1830 Kansas City, Missouri 64105**  
(Address of principal executive offices, including zip code)

**(816) 421-7444**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: Limited Partnership Interests**

---

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting securities held by non-affiliates of the Registrant: The aggregate market value of limited partnership interests held by non-affiliates is not determinable since there is no public trading market for the limited partnership interests.

---

---

## TABLE OF CONTENTS

DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP  
FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Page</u>
<u>PART I</u>	
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	5
<u>Item 1B. Unresolved Staff Comments</u>	5
<u>Item 2. Properties</u>	5
<u>Item 3. Legal Proceedings</u>	10
<u>Item 4. Mine Safety Disclosures</u>	10
<u>Part II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
<u>Item 6. Selected Financial Data</u>	11
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 8. Financial Statements and Supplementary Data</u>	20
<u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	38
<u>Item 9A. Controls and Procedures</u>	38
<u>Item 9B. Other Information</u>	39
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	39
<u>Item 11. Executive Compensation</u>	41
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	41
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	42
<u>Item 14. Principal Accountant Fees and Services</u>	44
<u>Part IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	45
<u>Signatures</u>	50

## PART I

### **Item 1. Business**

#### **Background**

The Registrant, DiVall Insured Income Properties 2 Limited Partnership (the “Partnership”), is a limited partnership organized under the Wisconsin Uniform Limited Partnership Act pursuant to a Certificate of Limited Partnership dated as of November 20, 1987, and governed by a Limited Partnership Agreement, as amended from time to time (collectively, the “Partnership Agreement”). The Partnership is managed by its general partner, The Provo Group, Inc. (“TPG” or the “General Partner”). As of December 31, 2014, the Partnership had 1,519 limited partners owning an aggregate of 46,280.3 Limited Partnership Interests (the “Interests”).

The Partnership is engaged in the business of owning and operating its investment portfolio of commercial real estate properties (the “Properties”). At December 31, 2014, the Partnership owned eleven properties, located in a total of four states. The Properties are leased on a triple net basis primarily to, and operated by, franchisees of national, regional and local retail chains under long-term leases. The lessees are fast food, family style, and casual/theme restaurants.

At December 31, 2014 nine of the eleven Properties were and continue to be leased to three Wendy’s Franchisees, with six of the Properties being leased to Wendgusta, LLC (“Wendgusta”), two of the Properties being leased to Wendcharles I, LLC (“Wendcharles I”), and one of the Properties being leased to Wendcharles II, LLC (“Wendcharles II”). Operating base rents from these nine leases comprised approximately 79% of the total 2014 operating base rents. During 2014, additional percentage rents were also generated from these nine Wendy’s properties and totaled \$500,747. Additionally, the nine properties exceeded 82% of the Partnership’s total Properties, both by historical asset value and number. One of the Wendy’s leases is set to expire in November 2016, another seven are set to expire in November 2021, with a ninth lease set to expire in November 2026.

See Properties under Item 2 below for the table of all Properties and lease expirations and a discussion of Properties with significant developments.

During the process of leasing the Properties, the Partnership may experience competition from owners and managers of other properties. As a result, in connection with negotiating tenant leases, along with recognizing market conditions, the General Partner may offer rental concessions, or other inducements, which may have an adverse impact on the results of the Partnership’s operations. The Partnership is also in competition with sellers of similar properties to locate suitable purchasers for its Properties.

The Partnership will be dissolved on November 30, 2020, or earlier upon the prior occurrence of any of the following events: (a) the disposition of all its Properties; (b) the written determination by the General Partner, that the Partnership’s assets may constitute “plan assets” for purposes of ERISA; (c) the agreement of limited partners owning a majority of the outstanding limited partner interests to dissolve the Partnership; or (d) the dissolution, bankruptcy, death, withdrawal, or incapacity of the last remaining General Partner, unless an additional General Partner is elected previously by a majority of the limited partners. During the second quarters of the six odd numbered years from 2001-2011, consent solicitations

were circulated to the Partnership's limited partners (each being a "Consent"). If approved, any of these Consents would have authorized the sale of all of the Properties and the dissolution of the Partnership. Limited partners owning a majority of the limited partnership interests did not vote in favor of any of the Consents. Again, in the third quarter of 2013, consent solicitations were circulated (the "2013 Consent"), which if approved would have authorized the sale of all of the Properties and the dissolution of the Partnership. Limited partners owning a majority of the limited partnership interests did not vote in favor of the 2013 Consent, and the General Partner declared the 2013 Consent solicitation process concluded on August 30, 2013. Therefore, the Partnership continues to operate as a going concern.

### **The Permanent Manager Agreement**

The Permanent Manager Agreement ("PMA") was entered into on February 8, 1993, between the Partnership, DiVall 1 (which was dissolved in December 1998), DiVall 3 (which was dissolved in December 2003), the now former general partners, Gary J. DiVall and Paul E. Magnuson, their controlled affiliates, and TPG, naming TPG as the Permanent Manager. The PMA contains provisions allowing TPG to submit to the PMA, election of TPG as General Partner, and the issue of acceptance of the resignations of the former general partners to a vote of the limited partners through a solicitation of written consents.

TPG, as the General Partner, has been operating and managing the affairs of the Partnership in accordance with the provisions of the PMA and the Partnership Agreement since February 8, 1993.

Effective January 1, 2015, the PMA was renewed by the General Partner for a two-year period ending December 31, 2016. The PMA can be terminated earlier (a) by a vote at any time by a majority interest of the Limited Partners, (b) upon the dissolution and winding up of the Partnership, (c) upon the entry of an order of a court finding that TPG has engaged in fraud or other like misconduct or has shown itself to be incompetent in carrying out its duties under the Partnership Agreement, or (d) upon sixty days written notice from TPG to the limited partners of the Partnership.

### **Advisory Board**

The concept of the Advisory Board was first introduced by TPG during the solicitation of written consents seeking to elect TPG as the General Partner. The first Advisory Board was appointed in October 1993, and held its first meeting in November 1993. Among other functions, the three person Advisory Board has the following rights: to review operational policies and practices; to review extraordinary transactions; to review internal financial controls and practices; and to review the performance of the independent auditors of the Partnership. The Advisory Board's powers are advisory only and the Advisory Board does not have the authority to direct management decisions or policies of the Partnership or remove the General Partner. The Advisory Board has full and free access to the Partnership's books and records, and individual Advisory Board members have the right to communicate directly with the Limited Partners concerning Partnership business. Members of the Advisory Board are compensated \$1,500 annually and \$500 for each quarterly meeting attended.

The Advisory Board currently consists of a broker dealer representative, William Arnold; and limited partners of the Partnership: Jesse Small and Albert Kramer. For a brief description of each Advisory Board member, refer to Item 10, Directors and Executive Officers of the Registrant.

The Partnership has no employees.

All of the Partnership's business is conducted in the United States.

### **Available Information**

The Partnership is required to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, along with any related amendments and supplements to these periodic and current reports. The SEC maintains a website containing these reports and other information regarding our electronic filings at [www.sec.gov](http://www.sec.gov). These reports may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE Washington, DC 20549. Further information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

We also make these reports and other information available either on or through our Internet Website at [www.divallproperties.com](http://www.divallproperties.com) as soon as reasonably practicable after such reports are available. Please note that any internet addresses provided in this Form 10-K are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.

### **Item 1A. Risk Factors**

As a smaller reporting company, the Partnership is not required to report risk factors in its annual report on Form 10-K.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

All of the Properties are leased to franchisees of national, regional and local fast food, family style and casual/theme restaurants.

Original lease terms for the Properties are generally five to twenty years from their inception. All leases are triple-net which require the tenant to pay all property operating costs including maintenance, repairs, utilities, property taxes, and insurance. A majority of the leases contain percentage rent provisions, which require the tenant to pay a specified percentage (five percent to eight percent) of gross sales above a threshold amount. None of the Properties are mortgaged. The Partnership owns the buildings and land and all improvements for all the Properties, except for the property leased to the franchisee of a Kentucky Fried Chicken restaurant ("KFC") in Santa Fe, New Mexico. KFC is located on land where the Partnership has entered into a long-term ground lease, as lessee, which is set to expire in 2018. The Partnership has the option to extend the ground lease for two additional ten year periods. The Partnership owns all improvements constructed on the land (including the building and improvements) until the termination of the ground lease, at which time all constructed improvements will become the land owner's property.

The Partnership owned the following Properties as of December 31, 2014:

Acquisition Date	Property Name & Address	Lessee	Purchase Price (1)	Operating Rental Per Annum	Lease Expiration Date	Renewal Options
10/10/88	Kentucky Fried Chicken (5) 1014 S St Francis Dr Santa Fe, NM	Palo Alto, Inc,	\$ 451,230	\$ 60,000	06-30-2018	None
12/22/88	Wendy's (6) 1721 Sam Rittenburg Blvd Charleston, SC	Wendcharles II, LLC	596,781	76,920	11-6-2021	(2)
12/22/88	Wendy's (7) 3013 Peach Orchard Rd Augusta, GA	Wendgusta, LLC	649,594	86,160	11-6-2021	(3)
02/21/89	Wendy's (7) 1901 Whiskey Rd Aiken, SC	Wendgusta, LLC	776,344	96,780	11-6-2021	(3)
02/21/89	Wendy's (7) 1730 Walton Way Augusta, GA	Wendgusta, LLC	728,813	96,780	11-6-2021	(3)
02/21/89	Wendy's (8) 343 Folly Rd Charleston, SC	Wendcharles I, LLC	528,125	70,200	11-6-2021	(2)
02/21/89	Wendy's (8) 361 Hwy 17 Bypass Mount Pleasant, SC	Wendcharles I, LLC	580,938	55,333	11-6-2026	(3)
03/14/89	Wendy's (7) 1004 Richland Ave Aiken, SC	Wendgusta, LLC	633,750	90,480	11-6-2021	(3)
12/29/89	Wendy's (7) 1717 Martintown Rd N Augusta, SC	Wendgusta, LLC	660,156	87,780	11-6-2021	(3)
12/29/89	Wendy's (7) 3869 Washington Rd Martinez, GA	Wendgusta, LLC	633,750	84,120	11-6-2016	None
05/31/90	Applebee's 2770 Brice Rd Columbus, OH	RMH Franchise Corporation	1,434,434	144,801	10-31-2016	(4)
			<u>\$7,673,915</u>	<u>\$949,354</u>		

Footnotes:

- (1) Purchase price includes all costs incurred by the Partnership to acquire the property.
- (2) The tenant has the option to extend the lease two additional periods of five years each.
- (3) The tenant has the option to extend the lease an additional period of five years.
- (4) The tenant has the option to extend the lease three additional periods of two years each.

- (5) Ownership of lessee's interest is under a ground lease. The tenant is responsible for payment of all rent obligations under the ground lease.
- (6) One of the eleven Properties owned as of December 31, 2014 was leased to Wendcharles II. Since more than 82% of the Properties, both by historical asset value and number are leased to Wendy's franchisees the financial status of the tenant may be considered relevant to investors. At the request of the Partnership, Wendcharles II provided it with a copy of its reviewed financial statements for the fiscal years ended December 28, 2014 and December 29, 2013. Those reviewed financial statements are attached to this Annual Report on Form 10-K as Exhibit 99.2.
- (7) Six of the eleven Properties owned as of December 31, 2014 were leased to Wendgusta. Since more than 82% of the Properties, both by historical asset value and number, are leased to Wendy's franchisees, the financial status of the tenant may be considered relevant to investors. At the request of the Partnership, Wendgusta provided it with a copy of its reviewed financial statements for the fiscal years ended December 28, 2014 and December 29, 2013. Those reviewed financial statements are attached to this Annual Report on Form 10-K as Exhibit 99.0.
- (8) Two of the eleven Properties owned by the Partnership as of December 31, 2014 were leased to Wendcharles I. Since more than 82% of the Properties, both by historical asset value and number, are leased to Wendy's franchisees, the financial status of the tenant may be considered relevant to investors. At the request of the Partnership, Wendcharles I provided it with a copy of its reviewed financial statements for the fiscal years ended December 28, 2014 and December 29, 2013. Those reviewed financial statements are attached to this Annual Report on Form 10-K as Exhibit 99.1.

The following summarizes significant developments, by property, for Properties with such developments.

#### Vacant Phoenix, AZ Property

A contract to sell the then vacant Phoenix, AZ property to an unaffiliated party was executed on February 14, 2012 for the sale price of \$325,000. The sale was closed on October 22, 2012, resulting in net cash proceeds of \$293,000, after third party commissions and other selling expenses, which is greater than the Property's estimated fair value of \$150,000 as of September 30, 2012. The carrying amount of the property was increased by \$142,747 during the fourth quarter of 2012 to reflect the net proceeds of the sale.

#### Wendy's- 361 Highway 17 Bypass, Mt. Pleasant, SC Property

On November 30, 2010, the County of Charleston (the "County") made a purchase offer of approximately \$177,000 to the Partnership in connection with an eminent domain (condemnation) land acquisition of approximately 5,000 square feet of the approximately 44,000 square feet of the Wendy's- Mt. Pleasant, SC ("Wendy's-Mt. Pleasant") property. The Partnership received Notice that the County filed condemnation proceedings on October 12, 2011, which resulted in a partial taking of the Wendy's-Mt. Pleasant property leased by tenant Wendcharles I, LLC ("Tenant"). In May 2013, the Partnership and Tenant settled the condemnation action for the sum of \$871,500 and the widening of the remaining curb cut at the property. Subsequently, the Partnership and Tenant settled the adjudication of lease and just compensation award allocation of the \$724,247 deposited with the Clerk of Court before a trial on the allocation of just compensation occurred. On July 19, 2013, the Partnership entered into a Release, evidencing the settlement that provides for a payout of the monies held by the Clerk of Court and an amendment to the lease with Tenant providing for a reduction in monthly rent of the property. Per the terms of the Release, on August 15, 2013 the Tenant received \$181,062 of the monies on deposit with the Clerk of Court. The Tenant will receive the balance of \$181,062 ratably over the balance of the original term of the lease effective August 1, 2013 in the form of a rent reduction in monthly savings of \$1,829 in rent on the condition that Tenant continues to lease the property without default, and the Tenant's annual rent under the lease will revert to the current annual fixed rent beginning in November 2021 at the onset of the five year renewal option lease term.



Contemporaneously with the Partnership's execution of the Release, the Partnership entered into an Amendment of Lease with Tenant, dated July 19, 2013 (the "Amendment"), which amends the original lease, as amended ("Lease"), as a condition to the Release. The Amendment renews the Lease under the first extension term, commencing on November 7, 2021 and ending on November 6, 2026. The Amendment revised the legal description of the premises under the Lease and replaces Section 1.12 of the Lease to provide that the Base Monthly Rent for the remainder of the Lease, beginning on the Effective Date and ending on November 6, 2021, shall be \$4,611.09 and for the first extension term beginning on November 7, 2021 and ending on November 6, 2026 and for the second extension term shall be \$6,440. Finally, the Amendment further provides that it, together with the Release, settles all claims relating to the apportionment of the condemnation award and Article X of the Lease is deemed satisfied with respect to such condemnation proceedings. The Lease and the Amendment were filed with the SEC as Exhibits 99.1 and 99.2, respectively to the Partnerships current report on Form 8-K on July 24, 2013.

#### Vacant Property – 4875 Merle Hay Rd, Des Moines, IA (Formerly Daytona's All-Sports Café "Daytona's")

Daytona's lease expired May 31, 2014 and the tenant vacated the premises on or about the same date. On January 24, 2014, the Partnership sent Daytona's a 30-day Notice of Default for failure to pay its January rent. On February 3, 2014, the Partnership received payment for a portion of Daytona's January rent and real estate tax escrow payment. The 30-day Notice of Default expired on February 23, 2014. As of December 31, 2014 Daytona's has not made its monthly rent or real estate tax escrow payments for February, March, April or May 2014. On May 29, 2014, the Partnership filed a motion for default judgment, which the tenant filed an answer denying all claims made against it. On July 10, 2014, the Partnership filed for summary judgment against the tenant for all amounts owing and as of December 31, 2014, and is still pursuing collection against the tenant.

On July 8, 2014, the Partnership signed a listing agreement with a broker, Hubbell Commercial Brokers, L.C. On September 12, 2014, the Partnership signed a purchase agreement with Sundance, Inc., for the sale of the property at a sale price of \$555,000. The Partnership completed the sale of the property on December 22, 2014 with net proceeds of approximately \$490,000 paid to the Partnership.

#### Applebee's- Columbus, OH Property

An Amendment and Extension of Lease ("Amendment") was executed with the Applebee's restaurant occupying the property located in Columbus, OH on November 4, 2009 and was set to expire on October 31, 2012. The Partnership waived the Amendment's 90 day notice period and allowed the tenant to exercise the first option to renew its lease for an additional two year period, effective November 1, 2012.

On December 20, 2013 the lease was assigned from Thomas & King, Inc. to RMH Franchise Corporation. Per the Assumption and Assignment of Lease agreement, the monetary lease obligations and original lease expiration date remained the same.

On October 23, 2014, the tenant, RMH Franchise Corporation, and the Partnership, agreed to the two year extension of Applebee's lease via option exercise, even though the notice given to the landlord by the tenant was not within the terms of the lease agreement. Applebee's lease now expires October 31, 2016 and the rent will increase by 2% each year, effective November 1, 2014 and 2015.

#### Formerly Owned Panda Buffet Restaurant- Grand Forks, ND Property

A sales contract was executed on September 30, 2009 for the installment sale of the Panda Buffet restaurant property ("Panda Buffet") located in Grand Forks, ND to the owner tenant. The Partnership completed the sale of the Panda Buffet property on November 12, 2009 for \$450,000. The buyer paid \$150,000 at closing with the remaining balance of \$300,000 being delivered in the form of a Promissory note ("Buyers Note") to the Partnership. The Buyers Note reflected a term of three years, an interest rate of 7.25%, and principal and interest payments paid monthly. Principal was amortized over a period of ten years beginning December 1, 2009 with a balloon payment due on November 1, 2012. Pursuant to the Buyers Note, there is no penalty for early payment of principal. The Buyers Note also required the buyer to escrow property taxes with the Partnership beginning January of 2010 at \$1,050 per month (lowered to \$700 beginning January 1, 2012 and increased to \$925 beginning January 1, 2013).

Effective November 1, 2012, the Partnership amended the Buyers Note in the amount of \$232,777, to \$200,000 after a principal payment of \$32,777 was received on October 19, 2012 under the following extended terms: The principal balance of \$200,000 will be amortized over five years at an interest rate of 7.25% per annum with a full balloon payment of \$133,396 due November 1, 2014. As of December 31, 2013, the buyer was current on its 2013 monthly property tax escrow obligations and escrow payments.

Effective November 1, 2014, the Partnership agreed to another two year extension as follows: Buyer will make a principal payment of \$13,396 which reduces the principal balance to \$120,000 as of November 1, 2014, and the balance will be amortized over two years with a monthly payment of approximately \$5,386 per month. The loan will be fully paid off by October 31, 2016. The property tax escrow cash balance held by the Partnership amounted to \$2,530 as December 31, 2014, after the \$9,960 payment of the 2013 property taxes in December 2014 and is included in the property tax payable in the condensed balance sheets.

Per the Buyer's Note amortization schedule, the monthly payments are to total approximately \$5,386 per month. The amortized principal payments yet to be received under the Buyer's Note amounted to \$115,339 as of December 31, 2014. During the year ended December 31, 2014, twelve note payments were received by the Partnership which totaled \$48,152 in principal and \$10,599 in interest.

#### Other Property Information

Property taxes, general maintenance, insurance and ground rent on the Properties are the responsibility of the respective tenants. However, when a tenant fails to make the required tax payments or when a property becomes vacant (such as the Des Moines, IA property, formerly operated as Daytona's), the Partnership makes the appropriate property tax payments to avoid possible foreclosure of the property. In a property vacancy the Partnership pays for insurance and maintenance related to the vacant property.

Such taxes, insurance and ground rent are accrued in the period in which the liability is incurred. The Partnership owns one restaurant, which is located on a parcel of land where it has entered into a long-term ground lease, as lessee, which is set to expire in 2018. The Partnership has the option to extend the ground lease for two additional ten year periods. The Partnership owns all improvements constructed on the land (including the building and improvements) until the termination of the ground lease, at which time all constructed improvements will become the land owner's property. The tenant, KFC, is responsible for the \$3,400 per month ground lease payment per the terms of its lease with the Partnership.

**Item 3. Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Partnership's business, to which the Partnership is a party.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### **Item 5. Market Price and Dividends on the Registrant's Common Equity and Related Stockholder Matters**

- (a) Although from time to time some Limited Partnership Interests (as defined above, the "Interests") have been traded, there is no active public market for the Interests, and it is not anticipated that an active public market for the Interests will develop.
- (b) As of March 17, 2015, there were 1,501 record holders of Interests in the Partnership.
- (c) The Partnership does not pay dividends. However, the Partnership Agreement provides for net income and loss of the Partnership to be allocated on a quarterly basis, 99% to the limited partners and 1% to the General Partner. The Partnership Agreement provides for the distribution of net cash receipts and net proceeds to the limited partners and General Partner on a quarterly basis, subject to the limitations on distributions to the General Partner described in the Partnership Agreement. See Note 4 to the financial statements for further information. During 2014 and 2013, \$857,000 and \$1,680,000, respectively, were distributed in the aggregate to the limited partners. The General Partner received aggregate distributions of \$3,589 and \$4,176 in 2014 and 2013, respectively.
- (d) The Partnership has no equity compensation plans under which equity securities of the Partnership are reserved for issuance.

### **Item 6. Selected Financial Data**

Not Applicable.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **CAUTIONARY STATEMENT**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are not historical facts but are the intent, belief or current expectations of management of DiVall Insured Income Properties 2 Limited Partnership (as defined above, the “Partnership”) based on its knowledge and understanding of the business and industry. Words such as “may,” “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “could,” “should” and variations of these words and similar expressions are intended to identify forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements we make regarding:

- our expectations regarding financial condition or results of operations in future periods;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding economic and business conditions;
- our business strategies and our ability to grow our business;
- our ability to collect rents on our leases;
- our ability to maintain relationships with our tenants, and when necessary identify new tenants;
- future capital expenditures;
- our ability to hire and retain key employees and consultants; and
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the “SEC”).

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. The Partnership cautions readers not to place undue reliance on forward-looking statements, which reflect management’s view only as of the date of this Form 10-K. All subsequent written and oral forward-looking statements attributable to the Partnership, or persons acting on the Partnership’s behalf, are expressly qualified in their entirety by this cautionary statement. Management undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Form 10-K include, without limitation, changes in general economic conditions, changes in real estate conditions, including without limitation, decreases in valuations of real properties, increases in property taxes and lack of buyers should the Partnership want to dispose of a property, lease-up risks, ability of tenants to fulfill their obligations to the Partnership under existing leases, sales levels of tenants whose leases include a percentage rent component, adverse changes to the restaurant market, entrance of competitors to the Partnership’s lessees

in markets in which the Properties are located, inability to obtain new tenants upon the expiration of existing leases, the potential need to fund tenant improvements or other capital expenditures out of operating cash flows, our inability to realize value for limited partners upon disposition of the Partnership's assets, such other factors as discussed in reports we file with the SEC.

### **Critical Accounting Policies and Estimates**

The General Partner's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Partnership's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on the General Partner's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Partnership believes that its most significant accounting policies deal with:

**Depreciation methods and lives-** Depreciation of the properties is provided on a straight-line basis over the estimated useful life of the buildings and improvements. While the Partnership believes these are the appropriate lives and methods, use of different lives and methods could result in different impacts on net income. Additionally, the value of real estate is typically based on market conditions and property performance. As a result, depreciated book value of real estate may not reflect the market value of real estate assets.

**Revenue recognition-** Rental revenue from investment properties is recognized on the straight-line basis over the life of the respective lease when collectability is assured. Percentage rents are accrued only when the tenant has reached the sales breakpoint stipulated in the lease.

**Impairment-** The Partnership periodically reviews its long-lived assets, primarily real estate, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership's review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, if deemed necessary, a provision for possible loss is recognized.

### **Investment Properties**

As of December 31, 2014, the Partnership owned eleven properties (as defined above, the "Properties") each containing a fully constructed fast-food or casual restaurant. One Property is located on a parcel of land which is subject to a ground lease (see paragraph below). The eleven tenants are composed of the following: nine Wendy's restaurants, an Applebee's restaurant, and a KFC restaurant. The Properties are located in a total of four states.

Property taxes, general maintenance, insurance and ground rent on the Properties are the responsibility of the respective tenants. A more detailed discussion of tax payments, insurance and ground rent is provided in Item 2, and incorporated herein by this reference.

There were no building improvements capitalized during 2014 or 2013.

In accordance with Financial Accounting Standards Board (“FASB”) guidance for “Accounting for the Impairment or Disposal of Long-Lived Assets”, current and historical results from operations for disposed properties and assets classified as held for sale are reclassified separately as discontinued operations. The guidance also requires the adjustment to carrying value of properties due to impairment in an attempt to reflect appropriate market values.

#### Further Information

A summary of significant developments as of December 31, 2014, by property, for properties with such developments, can be found in Item 2, Properties.

#### Net Income

Net income for the fiscal years ended December 31, 2014, 2013 and 2012 were \$903,463, \$1,041,105, and \$862,195, respectively. Net income per Interest for the fiscal years ended December 31, 2014, 2013 and 2012 were \$19.33, \$22.27, and \$18.44, respectively.

In each of the last three years, the Partnership has had income from the sale of a property. These sales have been the main reason for the fluctuation in total net income. The gain on sale in 2014 was \$227,943 related to the Des Moines, IA property, and the gain in 2013 was \$303,106 related to the resolution of the eminent domain proceedings in Mt. Pleasant, SC. The 2012 net income includes the fiscal year 2012 property impairment write up of \$142,747 related to the sale of the then vacant Phoenix, AZ property.

Net income for the fiscal years ended December 31, 2014, 2013 and 2012 included the results from both operations and discontinued operations. Assets disposed of or deemed to be classified as held for sale require the reclassification of current and previous years’ operations to discontinued operations in accordance with GAAP applicable to “Accounting for the Impairment or Disposal of Long Lived Assets”. As such, prior year operating results for those properties considered as held for sale or properties no longer considered for sale have been reclassified to conform to the current year presentation without effecting total net income. When properties are considered held for sale, depreciation of the properties is discontinued, and the properties are valued at the lower of the depreciated cost or fair value, less costs to dispose.

#### Results of Operations

Net income from continuing operations for the fiscal years ended December 31, 2014, 2013 and 2012 were \$695,052, \$997,958, and \$708,682, respectively. See the paragraphs below for further information as to individual operating income and expense items and explanations as to 2014, 2013 and 2012 variances.

#### *Fiscal year ended December 31, 2014 as compared to fiscal years ended December 31, 2013 and 2012:*

*Operating Rental Income:* Operating rental income for the fiscal years ended December 31, 2014, 2013 and 2012 was \$1.469 million, \$1.436 million, and \$1.428 million, respectively. The rental income was comprised of monthly lease obligations per the tenant leases, percentage rents obligations related to operating tenants who had reached their sales breakpoint, and included adjustments for straight-line rent. The slight increase in 2014 and compared to 2013 and 2012 is due to the continued increase in reported sales for tenants who had reached their sales breakpoint.

Management expects total base operating rental income to be approximately \$970,000 for the year 2015 based on operating leases currently in place. Future operating rental income has the potential to either decrease or increase. Future operating rental income may decrease with a tenant default and/or we may reclassify certain properties as properties held for sale. Future operating rental income may also increase with additional rents due from tenants, if those tenants experience increased sales levels, which require the payment of additional rent to the Partnership. Operating percentage rents included in operating rental income in 2014, 2013, and 2012 were \$500,747, \$470,478, and \$465,407, respectively. Management expects the 2015 percentage rents to be about the same as 2014.

*Insurance Expense:* Insurance expense for the fiscal years ended December 31, 2014, 2013 and 2012 was approximately \$6,000. Insurance expense for all three years was comprised of general liability insurance. Each tenant is responsible for insurance protection and beginning October 31, 2010 the Partnership only purchases property insurance for an individual property if the tenant cannot provide proof of insurance protection or due to a property vacancy. For 2015, management expects operating insurance expense to again be approximately \$6,000. This amount could increase upon a property insurance default or vacancy by a tenant or an increase in the general liability insurance premium for the 2015/2016 insurance year, which is expected to be paid in the fourth quarter of 2015.

*General and Administrative Expense:* General and administrative expenses for the fiscal years ended December 31, 2014, 2013 and 2012 were \$95,785, \$60,702, and \$82,515, respectively. General and administrative expenses were comprised of management expense, state/city registration and annual report filing fees, office supplies and printing costs, outside storage expenses, copy/fax costs, postage and shipping expenses, long-distance telephone expenses, website fees, bank fees and state income tax expenses. Total 2014 operating general and administrative expenses were higher than 2013 expenses, primarily due to increased 2013 state and local income tax expenses as a result of the condemnation sale that were paid in 2014. In 2014 the Partnership paid \$54,424 in state and local taxes versus \$10,404 paid in 2013. Management expects the total 2015 operating general and administrative expenses to be about 10% lower than 2014 expenses.

*Professional services:* Professional services expenses for the fiscal years ended December 31, 2014, 2013 and 2012 were \$251,521, \$261,501, and \$229,339, respectively. Professional service expenses were primarily comprised of investor relations data processing, investor mailings processing, website design, legal, auditing and tax preparation fees, electronic tax filings, and SEC report conversion and processing fees. The variance in professional services expenses is primarily due to the SEC mandated XBRL financial statement conversion and filing requirements for the Partnership beginning in the second quarter of 2011, the 2013 Consent and related SEC filings, and additional electronic state income tax filings in 2013 and 2012. Management anticipates that the total 2015 professional services expenses will be lower than 2014 in anticipation of lower legal fees. Legal fees in 2014 were unusually high due to the Daytona's tenant default.

*Note Receivable Interest Income:* Note receivable interest income for the fiscal years ended December 31, 2014, 2013 and 2012 was \$10,599, \$13,195, and \$17,370, respectively. The interest income was comprised of interest associated with the Buyer's Note from the Panda Buffet property sale in November of 2009. Management expects note receivable interest income to be approximately \$6,450 in 2015. See Item 2, Properties, for further information.

*Recovery of Amounts Previously Written-off:* Recovery of amounts previously written-off for the fiscal years ended December 31, 2014, 2013 and 2012 were \$0, \$0, and \$1,000, respectively, and were comprised of unexpected small recoveries from former general partners in connection with the misappropriation of assets by the former general partners and their affiliates. Management anticipates that such revenue type may continue to be generated until Partnership dissolution; however, no significant recoveries are anticipated.



### **Results of Discontinued Operations**

In accordance with FASB guidance for “Accounting for the Impairment or Disposal of Long Lived Assets”, discontinued operations represent the operations of properties disposed of or classified as held for sale as well as any gain or loss recognized in their disposition. During the fiscal years ended December 31, 2014, 2013 and 2012, the Partnership recognized income from discontinued operations of \$208,411, \$43,147 and \$153,513, respectively. The 2014 and 2013 income from discontinued operations was attributable to the sale of the vacant Des Moines, IA property. The 2012 income from discontinued operations was attributable to the third quarter of 2012 impairment adjustments of \$142,747 due to the sale of the Vacant Phoenix, AZ property. See the components of discontinued operations included in the statements of income for the years ended December 31, 2014, 2013 and 2012 in Note 3 Investment Properties and Properties Held for Sale.

Management anticipates that there will be no discontinued operations expenditures in 2015, since no additional properties are expected to be classified as property held for sale.

### **Cash Flow Analysis**

Net cash flows provided by operating activities for the fiscal years ended December 31, 2014, 2013 and 2012 were \$791,837, \$698,618, and \$871,443, respectively. Operating cash flows in 2013 were lower than 2014 and 2012 due to the increase in the security deposit escrow and the establishment of the deferred tenant award proceeds escrow of \$181,062.

General administrative expenses increased in 2014 due to the increased state income taxes due as a result of the Mt. Pleasant, SC condemned land sale in 2013. The Partnership also established a \$25,483 allowance for doubtful accounts due to the judgment against the former Daytona’s tenant. Legal, audit, and data processing fees have increased from an aggregate \$230,000 to \$250,000 over the same timeframe due to the additional expense of the SEC mandated XBRL financial statement filing requirements that began in 2011.

Property impairment write-downs, depreciation and amortization are non-cash items and do not affect the current operating cash flow of the Partnership or distributions to the Limited Partners.

Cash flows from investing activities for the fiscal years ended December 31, 2014, 2013 and 2012 were \$528,964, \$536,656, and \$341,297, respectively. Investing cash flows in 2013 were higher than 2014 and 2012 due to the deferred rent proceeds from the Mt. Pleasant, SC sale of condemned land. The 2014 amount was comprised of \$489,558 in net proceeds from the sale of the Des Moines, IA property and \$48,152 in note receivable principal payments from the promissory note, offset by a leasing commission payment relating to the Applebee’s lease extension. The 2013 amount was comprised of \$337,097 in net proceeds from the sale of the condemned land in Mt. Pleasant, SC, \$171,918 in deferred rent proceeds, and the receipt of \$33,801 in note receivable principal payments from the promissory note, offset by a leasing commission payment relating to the Wendy’s, Mt. Pleasant, SC property. The 2012 amount was comprised of \$292,747 in net proceeds from the sale of the vacant, Phoenix, AZ property, small recoveries from former general partners, and the receipt of \$55,955 in note receivable principal payments from the promissory note, offset by a leasing commission payment in relation to the Applebee’s, Columbus, OH property.

During 2015, principal payments to be received by the Partnership under the Buyer's Note amortization schedule total \$58,182. The Partnership anticipates paying no leasing commissions in 2015.

For the fiscal year ended December 31, 2014, cash flows used in financing activities were \$860,589 and consisted of aggregate limited partner distributions of \$857,000 million (including \$48,152 in promissory note principal payments received), and General Partner distributions of \$3,589. For the fiscal year ended December 31, 2013, cash flows used in financing activities were \$1.684 million and consisted of aggregate limited partner distributions of \$1.68 million (including \$62,708 in promissory note principal payments received), and General Partner distributions of \$4,176. For the fiscal year ended December 31, 2012, cash flows used in financing activities were approximately \$1.288 million and consisted of aggregate limited partner distributions of \$1.28 million (including \$55,000 in promissory note principal payments received), and General Partner distributions of \$2,878. Both limited partner and General Partner distributions have been and will continue to be made in accordance with the Amended Agreement of Limited Partnership of the Partnership. Management anticipates that aggregate limited partner distributions could be approximately \$1,390,000 during 2015.

### **Liquidity and Capital Resources**

The Partnership's cash balance was \$704,531 at December 31, 2014. Cash of \$600,000, which includes \$19,588 in promissory note principal and interest payments received, will be used to fund the fourth quarter of 2014 aggregate distribution to be paid to limited partners in February of 2015, and cash of approximately \$27,000 is anticipated to be used for the payment of quarter-end accrued liabilities, net of property tax cash escrow, which are included in the balance sheets. The remainder represents amounts deemed necessary to allow the Partnership to operate normally.

The Partnership's principal demands for funds are expected to be for the payment of operating expenses and distributions. Management anticipates that cash generated through the operations of the Properties and potential sales of Properties will primarily provide the sources for future fund liquidity and limited partner distributions. During the process of leasing the Properties, the Partnership may experience competition from owners and managers of other similarly situated properties. As a result, in connection with negotiating tenant leases, along with recognizing market conditions, management may offer rental concessions, or other inducements, which may have an adverse impact on the results of the Partnership's operations. The Partnership is also in competition with sellers of similar properties to locate suitable purchasers for its Properties. The two primary liquidity risks in the absence of mortgage debt are the Partnership's inability to collect rent receivables and impending or chronic property vacancies. The amount of cash to be distributed to our limited partners is determined by the general partner and is dependent on a number of factors, including funds available for payment of distributions, capital expenditures, and taxable income recognition matching, which is primarily attributable to percentage rents and property sales.

As of December 31, 2014 and 2013, the current eleven Properties were leased 100 percent. In addition, the Partnership collected 97.5% and 100% of its base rent from current operating tenants for the fiscal years ended December 31, 2014 and 2013, respectively, which we believe is a good indication of overall tenant quality and stability. There are no leases due to expire within 2015. See Item 2, Investment Properties for further information regarding properties with significant developments.

Nine of the eleven Properties operate as Wendy's fast food restaurants and are franchises of the international Wendy's Company. Operating base rents from the nine Wendy's leases comprised approximately 79% of the total 2014 operating base rents included in operating rental income. As of December 31, 2014, additional 2014 percentage rents totaled \$500,747, all of which were unbilled and were accrued in relation to the Wendy's properties. Therefore, during 2014, the Partnership generated approximately 85% of its total operating revenues from the nine properties. During 2013, additional

2013 percentage rents totaled \$470,478, all of which were unbilled and were accrued in relation to the Wendy's properties. Therefore, during 2013, the Partnership generated approximately 83% of its total operating revenues from those nine Properties. The 2013 percentage rents were both billed and fully collected as of December 31, 2014.

The Partnership's return on its investment will be derived principally from rental payments received from its lessees. Therefore, the Partnership's return on its investment is largely dependent upon the business success of its lessees. The business success of the Partnership's individual lessees can be adversely affected on three general levels. First, the tenants rely heavily on the management contributions of a few key entrepreneurial owners. The business operations of such entrepreneurial tenants can be adversely affected by death, disability or divorce of a key owner, or by such owner's poor business decisions such as an undercapitalized business expansion. Second, changes in a local market area can adversely affect a lessee's business operation. A local economy can suffer a downturn with high unemployment. Socioeconomic neighborhood changes can affect retail demand at specific sites and traffic patterns may change, or stronger competitors may enter a market. These and other local market factors can potentially adversely affect the lessees of the Properties. Finally, despite an individual lessee's solid business plans in a strong local market, the franchise concept itself can suffer reversals or changes in management policy, which in turn can affect the profitability of operations. An overall economic recession is another factor that could affect the relative success of a lessee's business. Therefore, there can be no assurance that any specific lessee will have the ability to pay its rent over the entire term of its lease with the Partnership.

Since the Properties involve restaurant tenants, the restaurant market is the major market segment with a material impact on Partnership operations. The success of customer marketing and the operating effectiveness of the Partnership's lessee's, will impact the Partnership's future operating success in a very competitive restaurant and food service marketplace.

There is no way to determine, with any certainty, which, if any, tenants will succeed or fail in their business operations over the term of their respective leases with the Partnership. Economic volatility, either locally or nationally, may affect a lessee's operational activity and its ability to meet lease obligations. Based on past experience, it can be reasonably anticipated that some lessees will default on future lease payments to the Partnership, which will result in the loss of expected lease income for the Partnership. The General Partner will use its best efforts to vigorously pursue collection of any defaulted amounts and to protect the Partnership's assets and future rental income potential by trying to re-lease any properties with rental defaults. External events, which could impact the Partnership's liquidity, include the entrance of other competitors into the market areas of our tenants; liquidity and working capital needs of the lessees; and failure or withdrawal of any of the national franchises held by the Partnership's tenants. Each of these events, alone or in combination, would affect the liquidity level of the lessees resulting in possible default by a tenant. Since the information regarding plans for future liquidity and expansion of closely held organizations, which are tenants of the Partnership, tend to be of a private and proprietary nature, anticipation of individual liquidity problems is difficult.

Despite an apparent slow economic recovery, the prior nationwide economic downturn has contributed to a continuing difficult credit environment for certain borrowers. Fortunately, the Partnership has limited exposure to the credit markets, as the Partnership has no mortgage debt. Management monitors the depository institutions that hold the Partnership's cash on a regular basis and believes that funds have been deposited with creditworthy financial institutions. However, the economic environment and any lack of available credit could delay or inhibit the General Partner's ability to dispose of the Properties, or cause management to have to dispose of the Properties for a lower than anticipated return. As a result, the General Partner continues to maintain an objective to preserve capital and sustain property values while selectively disposing of the Properties as appropriate.

### **Off-Balance Sheet Arrangements**

The Partnership does not have any off-balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Disposition Policies**

Management intends to hold the Properties until such time as sale or other disposition appears to be advantageous to achieve the Partnership's investment objectives or until it appears that such objectives will either currently not be met or not be met in the future. In deciding whether to sell properties, management considers factors such as potential capital appreciation or depreciation, cash flow and federal income tax considerations, including possible adverse federal income tax consequences to the limited partners. The general partner may exercise its discretion as to whether and when to sell a property, and there is no obligation to sell any of the properties at any particular time, except upon Partnership termination on November 30, 2020 or if limited partners holding a majority of the limited partnership units vote to liquidate and dissolve the Partnership in response to a formal consent solicitation to liquidate the Partnership.

### **Inflation**

To the extent that tenants can pass through commodity inflation in their sales prices, the Partnership will benefit from additional percentage rent from increased sales. The majority of the Partnership's leases have percentage rental clauses. Revenues from operating percentage rentals represented 33% of operating rental income for the fiscal year ended December 31, 2014, and 31% of operating rental income for the fiscal years ended December 31, 2013 and 2012. If, however, inflation causes sales to decrease, operating margins to deteriorate for lessees, or if expenses grow faster than revenues, then, inflation may well negatively impact the portfolio through tenant defaults.

Due to the "triple-net" nature of the property leases, asset values generally move inversely with interest rates.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Partnership is not subject to market risk as defined by Item 305 of Regulation S-K.

**Item 8. Financial Statements and Supplementary Data**

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**  
**(A Wisconsin limited partnership)**

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULE**

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	21-22
<u>Balance Sheets, December 31, 2014 and 2013</u>	23-24
<u>Statements of Income for the Years Ended December 31, 2014, 2013 and 2012</u>	25
<u>Statements of Partners' Capital for the Years Ended December 31, 2014, 2013 and 2012</u>	26
<u>Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012</u>	27
<u>Notes to Financial Statements</u>	28-38
<u>Schedule III—Investment Properties and Accumulated Depreciation, December 31, 2014</u>	48-49



## Report of Independent Registered Public Accounting Firm

To The Partners  
Divall Insured Income Properties 2 Limited Partnership

We have audited the accompanying balance sheet of Divall Insured Income Properties 2 Limited Partnership (a Wisconsin limited partnership) as of December 31, 2014 and the related statements of income, partners' capital, and cash flows for the year then ended. Our audit also included the financial statement schedule of Divall Insured Income Properties 2 Limited Partnership listed in Item 15 (a)(2). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Divall Insured Income Properties 2 Limited Partnership as of December 31, 2014 and the results of their operations, and their cash flows for year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

A handwritten signature in blue ink that reads "RBSM, LLP". The signature is written in a cursive, stylized font.

RBSM, LLP  
Leawood, Kansas  
March 30, 2015

Las Vegas, NV Kansas City, MO Houston, TX New York, NY Washington DC  
Mumbai, India Athens, Greece San Francisco, CA Beijing, China  
Member ANTEA INTERNATIONAL with offices worldwide



## **Report of Independent Registered Public Accounting Firm**

To the Partners  
Divall Insured Income Properties 2 Limited Partnership

We have audited the accompanying balance sheet of Divall Insured Income Properties 2 Limited Partnership (a Wisconsin limited partnership) as of December 31, 2013 and 2012, and the related statements of income, partners' capital, and cash flows for the years then ended. Our audits also included the financial statement schedules of Divall Insured Income Properties 2 Limited Partnership listed in Item 15(a)(2). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Divall Insured Income Properties 2 Limited Partnership as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ McGladrey LLP

Chicago, Illinois  
March 28, 2014, except for Note 3,  
as to which the date is March 30, 2015

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**

**BALANCE SHEETS**

**December 31, 2014 and 2013**

**ASSETS**

	December 31, 2014	December 31, 2013
<b>INVESTMENT PROPERTIES: (Note 3)</b>		
Land	\$ 2,794,122	\$ 2,956,118
Buildings	4,468,642	5,028,698
Accumulated depreciation	<u>(3,667,557)</u>	<u>(3,984,986)</u>
Net investment properties	<u>\$ 3,595,207</u>	<u>\$ 3,999,830</u>
<b>OTHER ASSETS:</b>		
Cash	\$ 704,531	\$ 244,319
Cash held in Indemnification Trust (Note 9)	452,912	452,645
Property tax cash escrow	2,530	25,697
Security deposits escrow	70,795	70,765
Rents and other receivables	500,746	470,478
Deferred tenant award proceeds escrow	150,657	171,948
Deferred rent receivable	0	2,250
Prepaid insurance	7,597	4,992
Deferred charges, net	160,074	178,987
Note receivable (Note 11)	115,339	163,491
Total other assets	<u>\$ 2,165,181</u>	<u>\$ 1,785,572</u>
Total assets	<u>\$ 5,760,388</u>	<u>\$ 5,785,402</u>

The accompanying notes are an integral part of these financial statements.



**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**

**BALANCE SHEETS**

**December 31, 2014 and 2013**

**LIABILITIES AND PARTNERS' CAPITAL**

	December 31, 2014	December 31, 2013
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 27,108	\$ 50,979
Property tax payable	1,605	25,701
Due to General Partner (Note 6)	3,254	1,227
Deferred rent	149,971	171,918
Security deposits	70,440	70,440
Unearned rental income	5,000	5,000
Total current liabilities	<u>\$ 257,378</u>	<u>\$ 325,265</u>
<b>CONTINGENCIES AND COMMITMENTS (Notes 8 and 9)</b>		
<b>PARTNERS' CAPITAL: (Notes 1, 4 and 10)</b>		
<b>General Partner -</b>		
Cumulative net income (retained earnings)	\$ 343,188	\$ 334,153
Cumulative cash distributions	(142,595)	(139,006)
	<u>\$ 200,593</u>	<u>\$ 195,147</u>
<b>Limited Partners (46,280.3 interests outstanding at December 31, 2014 and December 31, 2013)</b>		
Capital contributions	\$ 46,280,300	\$ 46,280,300
Offering Costs	(6,921,832)	(6,921,832)
Cumulative net income (retained earnings)	40,341,446	39,447,019
Cumulative cash distributions	(73,557,268)	(72,700,268)
	<u>\$ 6,142,646</u>	<u>\$ 6,105,219</u>
<b>Former General Partner -</b>		
Cumulative net income (retained earnings)	\$ 707,513	\$ 707,513
Cumulative cash distributions	(1,547,742)	(1,547,742)
	<u>\$ (840,229)</u>	<u>\$ (840,229)</u>
<b>Total partners' capital</b>	<u>\$ 5,503,010</u>	<u>\$ 5,460,137</u>
<b>Total liabilities and partners' capital</b>	<u>\$ 5,760,388</u>	<u>\$ 5,785,402</u>

The accompanying notes are an integral part of these financial statements.

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**

**STATEMENTS OF INCOME**

**For the Years Ended December 31, 2014, 2013, and 2012**

	2014	2013	2012
<b>OPERATING REVENUES:</b>			
Rental income (Note 5)	\$1,469,208	\$1,436,156	\$1,428,356
<b>TOTAL OPERATING REVENUES</b>	<u>\$1,469,208</u>	<u>\$1,436,156</u>	<u>\$1,428,356</u>
<b>EXPENSES:</b>			
Partnership management fees (Note 6)	262,086	258,060	252,344
Restoration fees (Note 6)	0	0	40
Insurance	5,969	5,900	5,890
General and administrative	95,785	60,702	82,515
Advisory Board fees and expenses	10,500	9,500	10,500
Professional services	251,521	261,501	229,339
Personal property taxes	0	0	820
Depreciation	135,356	135,356	135,356
Amortization	26,918	26,890	26,913
<b>TOTAL OPERATING EXPENSES</b>	<u>788,135</u>	<u>757,909</u>	<u>743,717</u>
<b>OTHER INCOME</b>			
Other interest income	3,380	3,130	2,031
Note receivable interest income (Note 11)	10,599	13,195	17,370
Other income	0	280	3,642
Gain on sale of land	0	303,106	0
Recovery of amounts previously written off (Note 2)	0	0	1,000
<b>TOTAL OTHER INCOME</b>	<u>13,979</u>	<u>319,711</u>	<u>24,043</u>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<u>695,052</u>	<u>997,958</u>	<u>708,682</u>
<b>INCOME FROM DISCONTINUED OPERATIONS (Note 3)</b>	<u>208,411</u>	<u>43,147</u>	<u>153,513</u>
<b>NET INCOME</b>	<u>\$ 903,463</u>	<u>\$1,041,105</u>	<u>\$ 862,195</u>
<b>NET INCOME- GENERAL PARTNER</b>	\$ 9,035	\$ 10,411	\$ 8,622
<b>NET INCOME- LIMITED PARTNERS</b>	<u>894,428</u>	<u>1,030,694</u>	<u>853,573</u>
	<u>\$ 903,463</u>	<u>\$1,041,105</u>	<u>\$ 862,195</u>
<b>PER LIMITED PARTNERSHIP INTEREST,</b>			
Based on 46,280.3 interests outstanding:			
<b>INCOME FROM CONTINUING OPERATIONS</b>	\$ 14.87	\$ 21.35	\$ 15.16
<b>INCOME FROM DISCONTINUED OPERATIONS</b>	\$ 4.46	\$ 0.92	\$ 3.28
<b>NET INCOME PER LIMITED PARTNERSHIP INTEREST</b>	<u>\$ 19.33</u>	<u>\$ 22.27</u>	<u>\$ 18.44</u>

The accompanying notes are an integral part of these financial statements

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**  
**STATEMENTS OF PARTNERS' CAPITAL**  
**For the years ended December 31, 2014, 2013 and 2012**

	General Partner			Limited Partners			Total Partners' Capital		
	Cumulative Net Income	Cumulative Cash Distributions	Total	Capital Contributions, Net of Offering Costs	Cumulative Net Income	Cumulative Cash Distribution		Reallocation	
<b>BALANCE AT DECEMBER 31, 2011</b>	<b>\$315,120</b>	<b>\$(131,952)</b>	<b>\$183,168</b>	<b>\$39,358,468</b>	<b>\$37,562,752</b>	<b>\$(69,735,268)</b>	<b>\$(840,229)</b>	<b>\$6,345,723</b>	<b>\$6,528,891</b>
Cash Distributions (\$27.77 per limited partnership interest)		(2,878)	(2,878)	0		(1,285,000)		(1,285,000)	(1,287,878)
Net Income	8,622		8,622		853,573			853,573	862,195
<b>BALANCE AT DECEMBER 31, 2012</b>	<b>\$323,742</b>	<b>\$(134,830)</b>	<b>\$188,912</b>	<b>\$39,358,468</b>	<b>\$38,416,325</b>	<b>\$(71,020,268)</b>	<b>\$(840,229)</b>	<b>\$5,914,296</b>	<b>\$6,103,208</b>
Cash Distributions (\$36.30 per limited partnership interest)		(4,176)	(4,176)	0		(1,680,000)		(1,680,000)	(1,684,176)
Net Income	10,411		10,411		1,030,694			1,030,694	1,041,105
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>\$334,153</b>	<b>\$(139,006)</b>	<b>\$195,147</b>	<b>\$39,358,468</b>	<b>\$39,447,019</b>	<b>\$(72,700,268)</b>	<b>\$(840,229)</b>	<b>\$5,264,990</b>	<b>\$5,460,137</b>
Cash Distributions (\$18.52 per limited partnership interest)		(3,589)	(3,589)	0		(857,000)		(857,000)	(860,589)
Net Income	9,035		9,035		894,427			894,427	903,462
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>\$343,188</b>	<b>\$(142,595)</b>	<b>\$200,593</b>	<b>\$39,358,468</b>	<b>\$40,341,446</b>	<b>\$(73,557,268)</b>	<b>\$(840,229)</b>	<b>\$5,302,417</b>	<b>\$5,503,010</b>

The accompanying notes are an integral part of these financial statements.

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2014, 2013, and 2012**

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 903,463	\$ 1,041,105	\$ 862,195
Adjustments to reconcile net income to net cash from operating activities -			
Depreciation and amortization	170,668	178,778	178,801
Net gain on disposal of land	0	(303,106)	0
Net gain on sale of asset	(227,943)	0	0
Recovery of amounts previously written off	0	0	(1,000)
Property impairment write-downs	0	0	(142,747)
Interest applied to Indemnification Trust account	(267)	(551)	(133)
Increase in rents and other receivables	(30,925)	(5,072)	(25,412)
Increase in security deposit escrow	(31)	(67,854)	(20)
Decrease (Increase) in property tax cash escrow	23,167	(270)	2,703
(Increase) Decrease in prepaid insurance	(2,605)	(90)	1,601
Decrease in deferred rent receivable	2,250	(279)	(204)
(Decrease) Increase in accounts payable and accrued expenses	(23,871)	27,740	6,358
(Decrease) Increase in property tax payable	(24,096)	270	(10,274)
Increase in deferred award escrow	0	(171,948)	0
Increase (Decrease) in due to General Partner	2,027	(105)	(425)
Net cash from operating activities	<u>791,837</u>	<u>698,618</u>	<u>871,443</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net proceeds from sale of investment properties	489,558	337,097	292,747
Note receivable, principal payments received	48,152	33,801	55,955
Deferred rent	0	171,918	0
Payment of leasing commissions	(8,746)	(6,160)	(8,405)
Recoveries from former General Partner affiliates	0	0	1,000
Net cash from investing activities	<u>528,964</u>	<u>536,656</u>	<u>341,297</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>			
Cash distributions to Limited Partners	(857,000)	(1,680,000)	(1,285,000)
Cash distributions to General Partner	(3,589)	(4,176)	(2,878)
Net cash used in financing activities	<u>(860,589)</u>	<u>(1,684,176)</u>	<u>(1,287,878)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	460,212	(448,902)	(75,138)
<b>CASH AT BEGINNING OF YEAR</b>	<u>244,319</u>	<u>693,221</u>	<u>768,359</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 704,531</u>	<u>\$ 244,319</u>	<u>\$ 693,221</u>

The accompanying notes are an integral part of these financial statements.

## DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014, 2013 AND 2012

#### **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

DiVall Insured Income Properties 2 Limited Partnership (the "Partnership") was formed on November 20, 1987, pursuant to the Uniform Limited Partnership Act of the State of Wisconsin. The initial capital, contributed during 1987, consisted of \$300, representing aggregate capital contributions of \$200 by the former general partners and \$100 by the initial Limited Partner. The minimum offering requirements were met and escrowed subscription funds were released to the Partnership as of April 7, 1988. On January 23, 1989, the former general partners exercised their option to increase the offering from 25,000 interests to 50,000 interests and to extend the offering period to a date no later than August 22, 1989. On June 30, 1989, the general partners exercised their option to extend the offering period to a date no later than February 22, 1990. The offering closed on February 22, 1990, at which point 46,280.3 interests had been sold, resulting in total offering proceeds, net of underwriting compensation and other offering costs, of \$39,358,468.

The Partnership is currently engaged in the business of owning and operating its investment portfolio of commercial real estate properties (the "Properties"). The Properties are leased on a triple net basis primarily to, and operated by, franchisors or franchisees of national, regional, and local retail chains under primarily long-term leases. The lessees are fast food, family style, and casual/theme restaurants. As of December 31, 2014, the Partnership owned eleven Properties, which are located in a total of four states.

The Partnership will be dissolved on November 30, 2020, or earlier upon the prior occurrence of any of the following events: (a) the disposition of all its Properties; (b) the written determination by the General Partner, that the Partnership's assets may constitute "plan assets" for purposes of ERISA; (c) the agreement of limited partners owning a majority of the outstanding limited partner interests to dissolve the Partnership; or (d) the dissolution, bankruptcy, death, withdrawal, or incapacity of the last remaining General Partner, unless an additional General Partner is elected previously by a majority of the limited partners. During the second quarters of the six odd numbered years from 2001-2011, consent solicitations were circulated to the Partnership's limited partners (each being a "Consent"). If approved, any of these Consents would have authorized the sale of all of the Properties and the dissolution of the Partnership. Limited partners owning a majority of the limited partnership interests did not vote in favor of any of the Consents. Again, in the third quarter of 2013, consent solicitations were circulated (the "2013 Consent"), which if approved would have authorized the sale of all of the Properties and the dissolution of the Partnership. Limited partners owning a majority of the limited partnership interests did not vote in favor of the 2013 Consent, and the General Partner declared the 2013 Consent solicitation process concluded on August 30, 2013. Therefore, the Partnership continues to operate as a going concern.

#### Significant Accounting Policies

Rental revenue from the Properties is recognized on the straight-line basis over the term of the respective lease. Percentage rents are only accrued when the tenant has reached the sales breakpoint stipulated in the lease.

Rents and other receivables are comprised of billed but uncollected amounts due for monthly rents and other charges, and amounts due for scheduled rent increases for which rentals have been earned and will be collected in the future under the terms of the leases. Receivables are recorded at management's estimate of the amounts that will be collected.

As of December 31, 2014 and 2013 there were \$25,483 and \$0 values for allowance for doubtful accounts based on an analysis of specific accounts and historical experience.

The Partnership considers its operations to be in only one segment, the operation of a portfolio of commercial real estate leased on a triple net basis, and therefore no segment disclosure is made.

Depreciation of the Properties is provided on a straight-line basis over the estimated useful lives of the buildings and improvements.

Deferred charges represent leasing commissions paid when the Properties are leased and upon the negotiated extension of a lease. Leasing commissions are capitalized and amortized over the term of the lease. As of December 31, 2014 and 2013, accumulated amortization amounted to \$157,456 and \$129,795, respectively. Fully amortized deferred charges of \$83,292, including related accumulated amortization, were removed from the condensed balance sheets as of December 31, 2014.

Deferred tenant award proceeds escrow represents the portion of the award proceeds from the sale of the portion of the Mt. Pleasant, South Carolina property that will be paid to the tenant ratably over 99 months beginning August 1, 2013.

The Partnership generally maintains cash in federally insured accounts which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Financial instruments that potentially subject the Partnership to significant concentrations of credit risk consist primarily of cash investments and leases. Additionally, as of December 31, 2014, nine of the Partnership's eleven Properties are leased to three significant tenants, Wendgusta, LLC ("Wendgusta"), Wendcharles I, LLC ("Wendcharles I") and Wendcharles II, LLC ("Wendcharles II"), all three of whom are Wendy's restaurant franchisees. The property lease(s) for these three tenants comprised approximately 56%, 15% and 8%, respectively, of the Partnership's total 2014 operating base rents reflected for the fiscal year ended December 31, 2014.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets disposed of or deemed to be classified as held for sale require the reclassification of current and previous years' operations to discontinued operations in accordance with GAAP applicable to "Accounting for the Impairment or Disposal of Long Lived Assets". As such, prior year operating results for those properties considered as held for sale or properties no longer considered for sale have been reclassified to conform to the current year presentation without affecting total income. When properties are considered held for sale, depreciation of the properties is discontinued, and the properties are valued at the lower of the depreciated cost or fair value, less costs to dispose. If circumstances arise that were previously considered unlikely, and, as a result, the property previously classified as held for sale is no longer to be sold, the property is reclassified as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell.

Assets are classified as held for sale, generally, when all criteria within GAAP applicable to “Accounting for the Impairment or Disposal of Long Lived Assets” have been met.

The Partnership periodically reviews its long-lived assets, primarily real estate, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership’s review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, a provision for possible loss is recognized, if any. The carrying amount of the vacant, Phoenix, AZ property (which we later sold) was increased by \$142,747 to its estimated fair value less estimated costs to sell of \$293,000 during the fourth quarter of 2012. There were no adjustments to carrying values for the fiscal years ended December 31, 2013 and 2014.

The Financial Accounting Standards Board (“FASB”) guidance on “Fair Value Measurements and Disclosure”, defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. The adoption of the provisions of this FASB issuance, with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, including (but not limited to) the valuation of reporting units for the purpose of assessing goodwill impairment and the valuation of property and equipment when assessing long-lived asset impairment, did not have a material impact on how the Partnership estimated its fair value measurements but did result in increased disclosures about fair value measurements in the Partnership’s financial statements as of and for the years ended December 31, 2014 and 2013. See Note 12 for further disclosure.

GAAP applicable to disclosure about fair value of financial instruments requires entities to disclose the fair value of all financial assets and liabilities for which it is practicable to estimate. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The General Partner believes that the carrying value of the Partnership’s assets (exclusive of the Properties) and liabilities approximate fair value due to the relatively short maturity of these instruments.

No provision for federal income taxes has been made, as any liability for such taxes would be that of the individual partners rather than the Partnership. At December 31, 2014 the tax basis of the Partnership’s assets exceeded the amounts reported in the December 31, 2014 financial statements by approximately \$6,861,581.

The following represents an unaudited reconciliation of net income as stated on the Partnership statements of income to net income for tax reporting purposes:

	2014 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)
Net income, per statements of income	\$ 903,463	\$ 1,041,105	\$ 862,195
Book to tax depreciation difference	(56,003)	(31,709)	(24,201)
Tax over (under) Book gain from asset disposition	(32,548)	352,979	(230,437)
Straight line rent adjustment	2,250	(279)	(204)
Penalties	0	0	242
Prepaid rent	(21,947)	0	0
Bad Debts	25,483	0	0
Other expense/deduction items with differences	(3,836)	0	0
Impairment (write-down)/write-up of assets held	0	0	(142,747)
Net income for tax reporting purposes	<u>\$ 816,862</u>	<u>\$ 1,362,096</u>	<u>\$ 464,848</u>

The Partnership is not subject to federal income tax because its income and losses are includable in the tax returns of its partners, but may be subject to certain state taxes. FASB has provided guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the entity's tax returns to determine whether the tax positions are more-likely-than-not to be sustained when challenged or when examined by the applicable taxing authority. Management has determined that there were no material uncertain income tax positions. Tax returns filed by the Partnership generally are subject to examination by U.S. and state taxing authorities for the years ended after December 31, 2011.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs (:ASU No. 2011-04"). ASU No. 2011-04 updates and further clarifies requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-04 clarifies the FASB's intent about the application of existing fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively.

## **2. REGULATORY INVESTIGATION:**

A preliminary investigation during 1992 by the Office of Commissioner of Securities for the State of Wisconsin and the Securities and Exchange Commission (the "Investigation") revealed that during at least the four years ended December 31, 1992, the former general partners of the Partnership, Gary J. DiVall ("DiVall") and Paul E. Magnuson ("Magnuson"), had transferred substantial cash assets of the Partnership and two affiliated publicly registered limited partnerships, DiVall Insured Income Fund Limited Partnership ("DiVall 1"), which was dissolved December of 1998, and DiVall Income Properties 3 Limited Partnership ("DiVall 3"), which was dissolved December of 2003, (collectively, the "three original partnerships") to various other entities previously sponsored by or otherwise affiliated with DiVall and Magnuson. The unauthorized transfers were in violation of the respective Partnership Agreements and resulted, in part, from material weaknesses in the internal control system of the Partnerships.

Subsequent to discovery, and in response to the regulatory inquiries, The Provo Group (as previously defined, "TPG") was appointed Permanent Manager (effective February 8, 1993) to assume responsibility for daily operations and assets of the Partnerships as well as to develop and execute a plan of restoration for the three original partnerships. Effective May 26, 1993, the limited partners, by written consent of a majority of limited partnership interests, elected TPG as General Partner. TPG terminated the former general partners by accepting their tendered resignations.

In 1993, the General Partner estimated an aggregate recovery of \$3 million for the three original partnerships. At that time, an allowance was established against amounts due from former general partners and their affiliates reflecting the estimated \$3 million receivable. This net receivable was allocated among the three original partnerships based on their pro rata share of the total misappropriation, and restoration costs and recoveries have been allocated based on the same percentage. Through



December 31, 2014, approximately \$5,918,000 of recoveries have been received which exceeded the original estimate of \$3 million. As a result, from January 1, 1996 through December 31, 2014, the Partnership has recognized a total of approximately \$1,229,000 as recovery of amounts previously written off in the statements of income, which represents its share of the excess recovery. The General Partner continues to pursue recoveries of the misappropriated funds; however, no further significant recoveries are anticipated.

### **3. INVESTMENT PROPERTIES and PROPERTY HELD FOR SALE:**

The total cost of the Properties includes the original purchase price plus acquisition fees and other capitalized costs paid to an affiliate of the former general partners of the Partnership.

As of December 31, 2014, the Partnership owned eleven Properties that contained fully constructed fast-food/casual dining restaurant facilities. The eleven tenants are composed of the following: nine Wendy's restaurants, an Applebee's restaurant, and a KFC restaurant. The eleven Properties are located in a total of four states.

A summary of significant developments as of December 31, 2014, by property, for properties with such developments, can be found in Item 2, Properties.

#### **Discontinued Operations**

During the fiscal years ended December 31, 2014, 2013 and 2012, the Partnership recognized income from discontinued operations of \$208,411, \$43,147 and \$153,513, respectively. The 2014 and 2013 income from discontinued operations was attributable to the sale of the vacant Des Moines, IA property in 2014. The 2012 income from discontinued operations was attributable to the third quarter of 2012 impairment adjustments of \$142,747 due to the sale of the vacant Phoenix, AZ property.

The components of discontinued operations included in the statements of income for the years ended December 31, 2014, 2013 and 2012 are outlined below:

	December 31, 2014	December 31, 2013	December 31, 2012
<b>Revenues</b>			
Rental Income	\$ 27,750	\$ 59,679	\$ 60,804
Other Income	0	0	2,500
Total Revenues	<u>\$ 27,750</u>	<u>\$ 59,679</u>	<u>\$ 63,304</u>
<b>Expenses</b>			
Insurance	328	0	2,555
Bad Debt Expense	25,482	0	0
Professional services	0	0	2,060
Property tax expense	12,770	0	12,546
Maintenance expense	306	0	15,745
Property impairment write-up	0	0	(142,747)
Depreciation	7,653	14,750	14,750
Amortization	743	1,782	1,782
Other expenses	0	0	3,100
Total Expenses (Income)	<u>\$ 47,282</u>	<u>\$ 16,532</u>	<u>\$ (90,209)</u>
Net (Loss) Income from Rental Operations	\$ (19,532)	\$ 43,147	\$ 153,513
Net Gain on Sale of Properties	<u>227,943</u>	<u>0</u>	<u>0</u>
Net Income from Discontinued Operations	<u>\$ 208,411</u>	<u>\$ 43,147</u>	<u>\$ 153,513</u>

#### **4. PARTNERSHIP AGREEMENT:**

The Amended Agreement of Limited Partnership was amended, effective as of November 9, 2009, to extend the term of the Partnership to November 30, 2020, or until dissolution prior thereto pursuant to the consent of the majority of the outstanding Units.

On May 26, 1993, pursuant to the results of a solicitation of written consents from the limited partners, the Partnership Agreement was amended to replace the former general partners and amend various sections of the agreement. The former general partners were replaced as General Partner by TPG. Under the terms of the amendment, net profits or losses from operations are allocated 99% to the limited partners and 1% to the current General Partner. The amendment also provided for distributions from Net Cash Receipts to be made 99% to limited partners and 1% to the current General Partner, provided that quarterly distributions are cumulative and are not to be made to the current General Partner unless and until each limited partner has received a distribution from Net Cash Receipts in an amount equal to 10% per annum, cumulative simple return on his or her Adjusted Original Capital, as defined, from the Return Calculation Date, as defined, except to the extent needed by the General Partner to pay its federal and state income taxes on the income allocated to it attributable to such year.

The provisions regarding distribution of Net Proceeds, as defined, were also amended to provide that Net Proceeds are to be distributed as follows: (a) to the limited partners, an amount equal to 100% of their Adjusted Original Capital; (b) then, to the limited partners, an amount necessary to provide each limited partner a liquidation preference equal to a 13.5% per annum, cumulative simple return on Adjusted Original Capital from the Return Calculation Date including in the calculation of such return on all prior distributions of Net Cash Receipts and any prior distributions of Net Proceeds under this clause, except to the extent needed by the General Partner to pay its federal and state income tax on the income allocated to it attributable to such year; and (c) then, to limited partners, 99%, and to the General Partner, 1%, of remaining Net Proceeds available for distribution.

Additionally, per the amendment of the Partnership Agreement dated May 26, 1993, the total compensation paid to all persons for the sale of the investment properties is limited to commissions customarily charged by other brokers in arm's-length sales transactions involving comparable properties in the same geographic area, not to exceed six percent of the contract price for the sale of the property. The General Partner may receive up to one-half of the competitive real estate commission, not to exceed three percent, provided that the General Partner provides a substantial amount of services in the sales effort. It is further provided that a portion of the amount of such fees payable to the General Partner is subordinated to its success in recovering the funds misappropriated by the former general partners. See Note 6 for further information.

Effective June 1, 1993, the Partnership Agreement was amended to (i) change the definition of "Distribution Quarter" to be consistent with calendar quarters, and (ii) change the distribution provisions to subordinate the General Partner's share of distributions from Net Cash Receipts and Net Proceeds, except to the extent necessary for the General Partner to pay its federal and state income taxes on Partnership income allocated to the General Partner. Because these amendments do not adversely affect the rights of the limited partners, pursuant to section 10.2 of the Partnership Agreement, the General Partner made the amendments without a vote of the limited partners.

## **5. LEASES:**

Original lease terms for the majority of the Properties were generally five to twenty years from their inception. The leases generally provide for minimum rents and additional rents based upon percentages of gross sales in excess of specified breakpoints. The lessee is responsible for occupancy costs such as maintenance, insurance, real estate taxes, and utilities. Accordingly, these amounts are not reflected in the statements of income except in circumstances where, in the General Partner's opinion, the Partnership will be required to pay such costs to preserve its assets (i.e., payment of past-due real estate taxes). Management has determined that the leases are properly classified as operating leases; therefore, rental income is reported when earned on a straight-line basis and the cost of the property, excluding the cost of the land, is depreciated over its estimated useful life.

As of December 31, 2014, the aggregate minimum operating lease payments to be received under the current operating leases for the Partnership's Properties are as follows:

Year ending December 31,	
2015	949,354
2016	914,607
2017	720,433
2018	690,433
2019	660,433
Thereafter	1,608,416
	<u>\$5,543,676</u>

## **6. TRANSACTIONS WITH GENERAL PARTNER AND ITS AFFILIATES:**

Pursuant to the terms of the Permanent Manager Agreement (the "PMA") executed in 1993 and renewed for an additional two year term as of January 1, 2015, the General Partner receives a Base Fee for managing the Partnership equal to four percent of gross receipts, subject to an initial annual minimum amount of \$159,000. The PMA also provides that the Partnership is responsible for reimbursement of the General Partner for office rent and related office overhead ("Expenses") up to an initial annual maximum of \$13,250. Both the Base Fee and Expense reimbursement are subject to annual Consumer Price Index based adjustments. Effective March 1, 2014, the minimum annual Base Fee and the maximum Expense reimbursement increased by 1.46% from the prior year, which represents the allowable annual Consumer Price Index adjustment per the PMA. Therefore, as of March 1, 2014, the minimum monthly Base Fee paid by the Partnership was raised to \$21,893 and the maximum monthly Expense reimbursement was increased to \$1,766.

For purposes of computing the four percent overall fees, gross receipts include amounts recovered in connection with the misappropriation of assets by the former general partners and their affiliates. To date, TPG has received fees from the Partnership totaling \$59,729 on the amounts recovered, which includes restoration fees received for 2014, 2013 and 2012 of \$0, \$0 and \$40, respectively. The fees received from the Partnership on the amounts recovered reduce the four percent minimum fee by that same amount.

Amounts paid and/or accrued to the General Partner and its affiliates for the years ended December 31, 2014, 2013, and 2012, are as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
<b>General Partner</b>			
Management fees	\$ 262,086	\$ 258,060	\$ 252,344
Restoration fees	0	0	40
Overhead allowance	21,142	20,820	20,356
Advisory fee on sale	0	16,296	0
Outsourced XBRL Fees	2,513	6,038	6,200
Leasing commissions	8,746	6,160	8,405
Reimbursement for out-of-pocket expenses	4,123	5,285	6,849
Cash distribution	3,589	4,176	2,878
	<u>\$ 302,199</u>	<u>\$ 316,835</u>	<u>\$ 297,072</u>

At December 31, 2014 and 2013 \$3,254 and \$1,227, respectively, was payable to the General Partner.

As of December 31, 2014, TPG Finance Corp. owned 200 Interests of the Partnership. The President of the General Partner, Bruce A. Provo, is also the President of TPG Finance Corp., but he is not a shareholder of TPG Finance Corp.

#### **7. TRANSACTIONS WITH OWNERS WITH GREATER THAN TEN PERCENT BENEFICIAL INTERESTS:**

As of December 31, 2014, Advisory Board Member, Jesse Small, owns beneficially greater than ten percent of the Partnership's Units. Amounts paid to Mr. Small for the fiscal years ended December 31, 2014, 2013, and 2012 are as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Advisory Board Fees paid	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>
	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>

At December 31, 2014 and 2013, there were no outstanding Advisory Board fees accrued and payable to Jesse Small.

#### **8. CONTINGENT LIABILITIES:**

According to the Partnership Agreement, as amended, TPG, as General Partner, may receive a disposition fee not to exceed three percent of the contract price on the sale of the three original Partnerships' properties (See Note 2 for further information as to the original partnerships). In addition, fifty percent of all such disposition fees earned by TPG were to be escrowed until the aggregate amount of recovery of the funds misappropriated from the Partnerships by the former general partners was greater than \$4,500,000. Upon reaching such recovery level, full disposition fees would thereafter be payable and fifty percent of the previously escrowed amounts would be paid to TPG. At such time as the recovery exceeded \$6,000,000 in the aggregate, the remaining escrowed disposition fees were to be paid to TPG. If such levels of recovery were not achieved, TPG would contribute the amounts escrowed toward the recovery until the Partnerships were made whole. In lieu of a disposition fee escrow, the fifty percent of

all such disposition fees previously discussed were paid directly to a restoration account and then distributed among the three original Partnerships; whereby the Partnerships recorded the recoveries as income (Note 2). After the recovery level of \$4,500,000 was exceeded, fifty percent of the total disposition fee amount paid to the Partnerships recovery through the restoration account (in lieu of the disposition fee escrow) was refunded to TPG during March 1996. The remaining fifty percent amount allocated to the Partnership through the restoration account, and which was previously reflected as Partnership recovery income, may be owed to TPG if the \$6,000,000 recovery level is met. As of December 31, 2014, the Partnership may owe TPG \$16,296 if the \$6,000,000 recovery level is achieved. TPG does not expect any future refund, as it is uncertain that such a \$6,000,000 recovery level will be achieved.

#### **9. PMA INDEMNIFICATION TRUST:**

The PMA provides that TPG will be indemnified from any claims or expenses arising out of or relating to TPG serving in such capacity or as substitute general partner, so long as such claims do not arise from fraudulent or criminal misconduct by TPG. The PMA provides that the Partnership fund this indemnification obligation by establishing a reserve of up to \$250,000 of Partnership assets which would not be subject to the claims of the Partnership's creditors. An Indemnification Trust ("Trust") serving such purposes has been established at United Missouri Bank, N.A. The corpus of the Trust has been fully funded with Partnership assets. Funds are invested in U.S. Treasury securities. In addition, \$202,912 of earnings has been credited to the Trust as of December 31, 2014. The rights of TPG to the Trust will be terminated upon the earliest to occur of the following events: (i) the written release by TPG of any and all interest in the Trust; (ii) the expiration of the longest statute of limitations relating to a potential claim which might be brought against TPG and which is subject to indemnification; or (iii) a determination by a court of competent jurisdiction that TPG shall have no liability to any person with respect to a claim which is subject to indemnification under the PMA. At such time as the indemnity provisions expire or the full indemnity is paid, any funds remaining in the Trust will revert back to the general funds of the Partnership.

#### **10. FORMER GENERAL PARTNERS' CAPITAL ACCOUNTS:**

The capital account balance of the former general partners as of May 26, 1993, the date of their removal as general partners pursuant to the results of a solicitation of the Partnership of written consents from the limited partners, was a deficit of \$840,229. At December 31, 1993, the former general partners' deficit capital account balance in the amount of \$840,229 was reallocated to the limited partners.

#### **11. NOTE RECEIVABLE:**

A sales contract was executed on September 30, 2009 for the installment sale of the Panda Buffet restaurant property ("Panda Buffet") located in Grand Forks, ND to the owner tenant. The Partnership completed the sale of the Panda Buffet property on November 12, 2009 for \$450,000. The buyer paid \$150,000 at closing with the remaining balance of \$300,000 being delivered in the form of a Promissory note (the "Buyers Note") to the Partnership. The Buyers Note reflected a term of three years, an interest rate of 7.25%, and principal and interest payments paid monthly. Principal was amortized over a period of ten years beginning December 1, 2009 with a balloon payment due on November 1, 2012. Pursuant to the Buyers Note, there was no penalty for early payment of principal. The Buyers Note also required the buyer to escrow property taxes with the Partnership beginning January of 2010 at \$1,050 per month (lowered to \$700 beginning January 1, 2012 and increased to \$925 beginning January 1, 2013).

Effective November 1, 2012, the Partnership amended the Buyers Note in the amount of \$232,777, to \$200,000 after a principal payment of \$32,777 was received on October 19, 2012 under the following extended terms: The principal balance of \$200,000 will be amortized over five years at an interest rate of 7.25% per annum with a full balloon payment of \$133,396 due November 1, 2014. As of December 31, 2013, the buyer was current on its 2013 monthly property tax escrow obligations and escrow payments.

Effective November 1, 2014, the Partnership agreed to another two year extension as follows: Buyer will make a principal payment of \$13,396 which reduces the principal balance to \$120,000 as of November 1, 2014, and the balance will be amortized over two years with a monthly payment of approximately \$5,386 per month. The loan will be fully paid off by October 31, 2016. The property tax escrow cash balance held by the Partnership amounted to \$2,530 as December 31, 2014, after the \$9,960 payment of the 2013 property taxes in December 2014 and is included in the property tax payable in the condensed balance sheets.

Per the Buyer's Note amortization schedule, the monthly payments are to total approximately \$5,386 per month. The amortized principal payments yet to be received under the Buyer's Note amounted to \$115,339 as of December 31, 2014. During the year ended December 31, 2014, twelve note payments were received by the Partnership and totaled \$48,152 in principal and \$10,599 in interest.

## **12. FAIR VALUE DISCLOSURES**

The Partnership has determined the fair value based on hierarchy that gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the accounting principle are described below:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment.

Level 3. Unobservable inputs for which there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation and the use of discounted cash flow models to value the investment.

The fair value hierarchy is based on the lowest level of input that is significant to the fair value measurements. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Partnership assesses the levels of the Investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Partnership's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended December 31, 2014 and 2013, there were no such transfers.

Investment property measured at fair value on a nonrecurring basis relates to land, building and improvements that were held for investment or held for sale. In 2012, a gain of \$142,747 represents the property impairment adjustment related to the sale of the Vacant, Phoenix, AZ property. The fair value of these assets was determined by management and incorporates management's knowledge of comparable properties, past experience and future expectations.

### **13. SUBSEQUENT EVENTS**

#### **Limited Partner Distributions**

On February 13, 2015, the Partnership made a distribution to the Limited Partners of \$600,000, which amounted to \$12.96 per Interest.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

On December 2, 2014, the Partnership dismissed McGladrey LLP (“McGladrey”) as the Partnership’s independent registered public accountants. During the fiscal years ended December 31, 2012 and December 31, 2013 and through McGladrey’s dismissal on December 2, 2014, there were (i) no disagreements with McGladrey on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of McGladrey would have caused McGladrey to make reference to the subject matter of the disagreements in connection with its reports, and (ii) no events of the type listed in paragraphs (A) through (D) of Item 304(a)(1)(v) of Regulation S-K.

#### **Item 9A. Control and Procedures**

##### **Controls and Procedures**

As of December 31, 2014, the Partnership’s management, including the persons performing the functions of the Partnership’s principal executive officer and principal financial officer, have concluded that the Partnership’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended.

##### **Management’s Report on Internal Control over Financial Reporting**

The Partnership’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). The Partnership’s management assessed the effectiveness of the internal control over financial reporting as of December 31, 2014. In making this assessment, the Partnership’s management used the criteria set forth in the original Framework issued in 2013, by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The Partnership’s management has concluded that, as of December 31, 2014, the internal control over financial reporting is effective based on these criteria. Further, there were no changes in the Partnership’s controls over financial reporting during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Partnership’s internal controls over financial reporting.

The Partnership’s management does not expect that the disclosure controls and procedures of the internal controls will prevent all error and misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

This Form 10-K does not include an attestation report of the Partnership's registered public accounting firm regarding internal control over financial reporting. As a non-accelerated filer, management's report was not subject to attestation by the Partnership's registered public accounting firm pursuant to rules in the Dodd Frank Act that permit the Partnership to provide only management's report in this Annual Report.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

The Partnership itself does not have any employees, executive officers or directors and, therefore, no board committees.

The General Partner of the Partnership is TPG. TPG is an Illinois corporation with its principal office at 1100 Main Street, Suite 1830, in Kansas City, Missouri 64105. TPG was elected General Partner by vote of the Limited Partners effective on May 26, 1993. Prior to such date, TPG had been managing the Partnership since February 8, 1993, under the terms of the Permanent Manager Agreement as amended (as defined above "PMA"), which remains in effect. See Items 1 and 13 hereof for additional information about the PMA and the election of TPG as General Partner.

The executive officer and director of the General Partner who controls the affairs of the Partnership is as follows:

***Bruce A. Provo, Age 64—President, Founder and Director, TPG.***

Mr. Provo has been involved in the management of real estate and other asset portfolios since 1979. TPG was founded by Mr. Provo in 1985 and he has served as its President since its formation. TPG's focus has been to provide professional real estate services to outside clients. Since the founding of TPG in 1985, Mr. Provo has also founded various entities engaged in unique businesses such as Rescue Services, Owner Representation, Asset Management, Managed Financial and Accounting Systems, Investments, and Virtual Resort Services. The entities are generally grouped under an informal umbrella known as The Provo Group of Companies. Since TPG was appointed General Partner to the Partnership in 1993, Mr. Provo has been primarily responsible for making management, leasing and disposition decisions on behalf of the Partnership.

From 1982 to 1986, Mr. Provo also served as President and Chief Operating Officer of the North Kansas City Development Company ("NKCDC"), North Kansas City, Missouri. NKCDC was founded in 1903 and the assets of the company were sold in December 1985 for \$102,500,000. NKCDC owned commercial and industrial properties, including an office park and a retail district, as well as apartment complexes, motels, recreational facilities, fast food restaurants, and other properties. NKCDC's holdings consisted of over 100 separate properties and constituted approximately 20% of the privately held real property in North Kansas City, Missouri (a four square mile municipality). Following the sale of the company's real estate, Mr. Provo served as the President, Chief Executive Officer and Liquidating Trustee of NKCDC from 1986 to 1991.



Mr. Provo graduated from Miami University, Oxford, Ohio in 1972 with a B.S. in Accounting. He became a Certified Public Accountant in 1974 and was a manager in the banking and financial services division of Arthur Andersen LLP prior to joining Rubloff Development Corporation in 1979. From 1979 through 1985, Mr. Provo served as Vice President—Finance and then as President of Rubloff Development Corporation.

The members of the Advisory Board of the Partnership are identified below. The Advisory Board provides guidance to management of the Partnership, however it does not have the express power or authority to oversee and direct the operations of the Partnership and its members are not deemed “Directors” or “Executive Officers” of the Partnership.

**William Arnold—Investment Broker.** Mr. Arnold works as a financial planner, real estate broker, and investment advisor at his company, Arnold & Company. Mr. Arnold graduated with a Master’s Degree from the University of Wisconsin and is a Certified Financial Planner. Mr. Arnold is a part of the brokerage community and the Partnership believes that as an Advisory Board member, he generally represents the views of the brokerage community.

**Jesse Small—CPA.** Mr. Small has been a tax and business consultant in Hallandale, FL for more than 30 years. Mr. Small has a Master’s Degree in Economics. Mr. Small is a Limited Partner, and the Partnership believes that as an Advisory Board member, he generally represents the views of Limited Partners. During the past five years after retiring from the accounting profession, Mr. Small has been developing property on the east and west coast of Florida.

**Albert Kramer—Retired.** Mr. Kramer is now retired, but previously worked as Tax Litigation Manager for Phillips Petroleum Company, now known as ConocoPhillips. His education includes undergraduate and MBA degrees from Harvard and a J.D. Degree from South Texas College of Law. Mr. Kramer is a Limited Partner, and the Partnership believes that as an Advisory Board member he generally represents the views of Limited Partners.

### **Code of Ethics**

The Partnership has no executive officers or any employees and, accordingly, has not adopted a formal code of ethics.

Mr. Provo and TPG require that all personnel, including all employees, officers and directors of TPG: engage in honest and ethical conduct; ensure full, fair, accurate, timely and understandable disclosure; comply with all applicable governmental laws, rules and regulations; and report to Mr. Provo any deviation from these principles. Because TPG has two employees (including Mr. Provo), and because Mr. Provo is the ultimate decision maker in all instances, TPG has not adopted a formal code of ethics. Mr. Provo, as Chief Executive Officer and Chairman of the Board of Directors of TPG, negotiates and resolves all conflicts to the best of his ability and determines appropriate actions if necessary to deter violations and promote accountability, consistent with his fiduciary obligations to TPG and the fiduciary obligations of TPG to the Partnership.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the officers and directors of TPG, and persons who own 10% or more of the Interests, to report their beneficial ownership of such Interests to the SEC. Their initial reports are required to be filed using the SEC's Form 3, and they are required to report subsequent purchases, sales, and other changes using the SEC's Form 4, which must be filed within two business days of most transactions. Officers, directors, and persons owning more than 10% of the Interests are required by SEC regulations to furnish the Partnership with copies of all of reports they file pursuant to Section 16(a).

As of December 31, 2014, Jesse Small was a beneficial owner of more than 10% of the Partnership Interests. Five Form 4s, which in total reported 9 transactions effected during 2014 were filed late by Mr. Small in 2014.

## **Item 11. Executive Compensation**

The Partnership has not paid any executive compensation to the corporate General Partner or to the directors and officers of the General Partner. The person that performs the role of principal financial officer of the Partnership is a consultant to the General Partner and receives fees from the General Partner (but not directly from the Partnership) pursuant to that relationship. The General Partner's participation in the income of the Partnership is set forth in the Partnership Agreement, which is filed as Exhibits 3.1, 3.2, 3.3, 3.4, 3.5 and 3.6 hereto. The General Partner received management fees and expense reimbursements during the year.

See Item 13, below, and Note 6 to the Financial Statements in Item 8 hereof for further discussion of payments by the Partnership to the General Partner and the former general partners. The principal executive officer of the General Partner is not directly compensated by the Partnership for controlling the affairs of the Partnership.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management**

(a) The following table sets forth certain information with respect to such beneficial ownership as of March 17, 2015. Based on information known to the Partnership and filed with the SEC, the following persons are known to beneficially own 5% or more of the outstanding Interests as follows:

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Interests Beneficially Owned</u>	<u>Percentage of Interests Outstanding(1)</u>
Limited Partnership Interest	Jesse Small (3) 401 NW 10 <sup>th</sup> Terrace Hallandale, FL 33009	6,965.64(2)	15.05%
Limited Partnership Interest	Ira Gaines 7000 N 16th St Suite 120 #503 Phoenix, AZ 85020	2,516.13(4)	5.44%

(1) Based on 46,280.3 Limited Partnership Interests outstanding as of March 17, 2015.

(2) Based on Form 4s filed with the SEC in March of 2015.

(3) Jesse Small may be deemed to beneficially own such voting and investment power over the Interests listed in the table above.

(4) Includes 1,473.60 units Mr. Gaines has a direct ownership in through a trust, and also includes 1,042.53 units which Mr. Gaines has an indirect ownership in and which he may be deemed to beneficially own under SEC Rule 13d-3.

(b) As of December 31, 2014, the General Partner did not own any Interests. The following chart identifies the beneficial ownership of the person that preforms the functions of the principal executive of the General Partner.

<u>Title of Class</u>	<u>Name of Beneficial Owner(1)</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Interests Outstanding(4)</u>
Limited Partnership Interest	Bruce A. Provo	200(2)(3)	0.43%

- (1) A beneficial owner of a security includes a person who, directly or indirectly, has or shares voting or investment power with respect to such security. Voting power is the power to vote or direct the voting of the security and investment power is the power to dispose or direct the disposition of the security.
- (2) Bruce A. Provo is deemed to have beneficial ownership of all of TPG Finance Corp.'s Limited Partnership interests in the Partnership due to his control as President of TPG Finance Corp.
- (3) Bruce A. Provo may be deemed to beneficially own with the Interests listed above due to such voting and investment power.
- (4) Based on 46,280.3 Interests outstanding as of December 31, 2014.

(c) Management knows of no contractual arrangements, the operation or the terms of which may at a subsequent date result in a change in control of the Partnership, except for provisions in the PMA.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

Pursuant to the terms of the PMA, the General Partner receives a Base Fee for managing the Partnership equal to four percent of gross receipts, subject to a \$159,000 minimum, annually. The PMA also provides that the Partnership is responsible for reimbursement for office rent and related office overhead ("Expenses") up to a maximum of \$13,250 annually. Both the Base Fee and Expense reimbursement are subject to annual Consumer Price Index based adjustments. Effective March 1, 2014, the minimum annual Base Fee and the maximum Expense reimbursement increased by 1.46% from the prior year, which represents the allowable annual Consumer Price Index adjustment per the PMA. Therefore, as of March 1, 2014, the minimum monthly Base Fee paid by the Partnership was raised to \$21,893 and the maximum monthly Expense reimbursement was raised to \$1,766.

Additionally, TPG, or its affiliates, are allowed up to one-half of the commissions customarily charged by other brokers in arm's-length sales transactions involving comparable properties in the same geographic area, but such TPG commissions are not to exceed three percent of the contract price on the sale of an investment property. The payment of a portion of such fees is subordinated to TPG's success at recovering the funds misappropriated by the former general partners. See Note 8 to the financial statements for further information.

The PMA had an original expiration date of December 31, 2002. At the end of the original term, it was extended three years by TPG to an expiration date of December 31, 2005, an additional three years to an expiration date of December 31, 2008, an additional two years to an expiration date of December 31, 2010, an additional two years to an expiration date of December 31, 2012, and then an additional two years to an expiration date of December 31, 2014. Effective January 1, 2015, the PMA was renewed by TPG for the two-year period ending December 31, 2016. The PMA can

be terminated earlier (a) by a vote at any time by a majority in interest of the Limited Partners, (b) upon the dissolution and winding up of the Partnership, (c) upon the entry of an order of a court finding that TPG has engaged in fraud or other like misconduct or has shown itself to be incompetent in carrying out its duties under the Partnership Agreement, or (d) upon sixty (60) days written notice from TPG to the Limited Partners of the Partnership. Upon termination of the PMA, other than by the voluntary action of TPG, TPG shall be paid a termination fee of one month's Base Fee allocable to the Partnership, subject to a minimum of \$13,250. In the event that TPG is terminated by action of a substitute general partner, TPG shall also receive, as part of this termination fee, 4% of any proceeds recovered with respect to the obligations of the former general partners, whenever such proceeds are collected.

Under the PMA, TPG shall be indemnified by the Partnership, DiVall and Magnuson, and their controlled affiliates, and shall be held harmless from all claims of any party to the Partnership Agreement and from any third party including, without limitation, the Limited Partners of the Partnership, for any and all liabilities, damages, costs and expenses, including reasonable attorneys' fees, arising from or related to claims relating to or arising from the PMA or its status as Permanent Manager. The indemnification does not extend to claims arising from fraud or criminal misconduct of TPG as established by court findings. To the extent possible, the Partnership is to provide TPG with appropriate errors and omissions, officer's liability or similar insurance coverage, at no cost to TPG. In addition, TPG was granted the right to establish an Indemnification Trust in an original amount, not to exceed \$250,000, solely for the purpose of funding such indemnification obligations. Once a determination has been made that no such claims can or will be made against TPG, the balance of the Trust will become unrestricted property of the Partnership. The corpus of the Trust has been fully funded with Partnership assets.

### Advisory Board Member Independence

Although not "directors" or "officers" of the Partnership, the Partnership does evaluate whether the members of the Advisory Board are "independent" by evaluating whether each member has any relationships that, in the opinion of the General Partner, would interfere with any Advisory Board member's exercise of independent judgment with respect to matters concerning the Partnership. As a part of this evaluation the General Partner considers transactions and relationships between any member of the Advisory Board or any member of his family and the Partnership. The General Partner believes that each of Messrs. Arnold, Small and Kramer are "independent".

The Partnership paid and/or accrued the following to the General Partner and its affiliates in 2014 and 2013:

The Provo Group, Inc.:

	Incurred for the Year ended December 31, 2014	Incurred for the Year ended December 31, 2013
Management fees	\$ 262,086	\$ 258,060
Restoration fees	0	0
Overhead allowance	21,142	20,820
Advisory Fee on Sale	0	16,296
Outsourced XBRL Fees	2,513	6,038
Leasing commissions	8,746	6,160
Direct Cost Reimbursement	4,123	5,285
Cash Distributions	3,589	4,176
	<u>\$ 302,199</u>	<u>\$ 316,835</u>

**Item 14. Principal Accountant Firm Fees and Services**

Through December 2, 2014 McGladrey LLP (“McGladrey”) served as the Partnership’s independent registered public accountants. Fees charged to the Partnership by McGladrey during 2013 and 2014 are set forth below. RBSM, LLP now serves as the Partnership’s independent registered public accountants. No fees were paid to them in 2014. Fees for the 2014 audit will be paid in 2015.

Audit Fees

Aggregate billings during the years 2014 and 2013 for audit and interim review services provided by the Partnership’s former principal accounting firm, McGladrey to the Partnership, amounted to \$44,900 and \$71,956, respectively.

Audit-Related Fees

For the years ended December 31, 2014 and 2013, McGladrey did not perform any assurance and related services that were reasonably related to the performance of the audit or interim reviews.

Tax Fees

Tax compliance services billed during 2014 and 2013 were \$28,500 and \$24,500, respectively, provided by McGladrey.

All Other Fees

For the years ended December 31, 2014 and 2013, McGladrey did not perform any management consulting or other services for the Partnership.

## PART IV

### **Item 15. Exhibits and Financial Statement Schedule**

#### (a) 1. Financial Statements

The following financial statements of DiVall Insured Income Properties 2 Limited Partnership are included in Part II, Item 8 of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Independent Auditors' Report

Balance Sheets, December 31, 2014 and 2013

Statements of Income for the Years Ended December 31, 2014, 2013, and 2012

Statements of Partners' Capital for the Years Ended December 31, 2014, 2013, and 2012

Statements of Cash Flows for the Years Ended December 31, 2014, 2013, and 2012

Notes to Financial Statements

#### 2. Financial Statement Schedule

Schedule III – Investment Properties and Accumulated Depreciation, December 31, 2014

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and, therefore, have been omitted.

#### 3. Listing of Exhibits

- 3.1 Agreement of Limited Partnership dated as of November 20, 1987, amended as of November 25, 1987, and February 20, 1988, filed as Exhibit 3A to Amendment No. 1 to the Partnership's Registration Statement on Form S-11 as filed on February 22, 1988, and incorporated herein by reference.
- 3.2 Amendments to Amended Agreement of Limited Partnership dated as of June 21, 1988, included as part of Supplement dated August 15, 1988, filed under Rule 424(b)(3), and incorporated herein by reference.
- 3.3 Amendment to Amended Agreement of Limited Partnership dated as of February 8, 1993, filed as Exhibit 3.3 to the Partnership's 10-K for the year ended December 31, 1992, Commission File 0-17686, and incorporated herein by reference.
- 3.4 Amendment to Amended Agreement of Limited Partnership dated as of May 26, 1993, filed as Exhibit 3.4 to the Partnership's 10-K for the year ended December 31, 1993, Commission File 0-17686, and incorporated herein by reference.

- 3.5 Amendment to Amended Agreement of Limited Partnership dated as of June 30, 1994, filed as Exhibit 3.5 to the Partnership's 10-K for the year ended December 31, 1994, Commission File 0-17686, and incorporated herein by reference.
- 3.6 Amendment to Amended Agreement of Limited Partnership dated as of November 9, 2009, filed as Exhibit 4.1 to the Partnership Quarterly Report on Form 10-Q filed November 12, 2009, Commission File 0-17686, and incorporated herein by reference.
- 3.7 Certificate of Limited Partnership dated November 20, 1987. Commission File 0-17686, filed March 22, 2013, and incorporated herein by reference.
- 10.0 Permanent Manager Agreement filed as an exhibit to the Current Report on Form 8-K dated January 22, 1993, Commission File 33-18794, and incorporated herein by reference.
- 10.1 Release dated as of July 19, 2013, filed as Exhibit 99.1 to the Current Report on Form 8-K, filed July 24, 2013, and incorporated herein by reference.
- 10.2 Amendment to Lease dated as of July 19, 2013, filed as Exhibit 99.2 to the Current Report on Form 8-K, filed July 24, 2013, and incorporated herein by reference.
- 16.1 Letter from McGladrey, LLP to the U.S. Securities and Exchange Commission dated December 5, 2014, filed as Exhibit 16.1 to the Current Report on Form 8-K filed December 5, 2014, and incorporated herein by reference.
- 16.2 Letter from L.L. Bradford & Company, LLC to the U.S. Securities and Exchange Commission dated February 5, 2015, filed as Exhibit 16.1 to the Current Report on Form 8-K/A filed February 6, 2015, and incorporated herein by reference.
- 31.1 Sarbanes Oxley Section 302 Certifications.
- 31.2 Sarbanes Oxley Section 302 Certifications.
- 32.1 Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.
- 99.0 Reviewed Financial Statements of Wendgusta, LLC for the fiscal years ended December 28, 2014 and December 29, 2013 prepared by Vrona & Van Schuyler, CPAs, PLLC.
- 99.1 Reviewed Financial Statements of Wendcharles I, LLC for the fiscal years ended December 28, 2014 and December 29, 2013 prepared by Vrona & Van Schuyler, CPAs, PLLC.

- 99.2 Reviewed Financial Statements of Wendcharles II, LLC for the fiscal years ended December 28, 2014 and December 29, 2013 prepared by Vrona & Van Schuyler, CPAs, PLLC.
- 101 The following materials from the Partnership's Annual Report on Form 10-K for the year ended, formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets at December 31, 2014 and December 31, 2013, (ii) Statements of Income for the three years ended December 31, 2014, 2013 and 2012, (iii) Statement of Cash Flows for the years ended December 31, 2014, 2013 and 2012, and (v) Notes to the Condensed Financial Statements.



**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP**  
**SCHEDULE III – INVESTMENT PROPERTIES AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2014**

Property	Initial Cost to Partnership			Gross Amount at which Carried at End of Year		Accumulated Depreciation	Date of Construction	Date Acquired	Life on which Depreciation in latest statement of operations is computed (years)
	Land	Building and Improvements	Encumbrances	Land	Building and Improvements				
Santa Fe, NM	—	451,230	—	—	451,230	375,359	—	10/10/1988	31.5
Augusta, GA (1)	215,416	434,178	—	213,226	434,177	362,958	—	12/22/1988	31.5
Charleston, SC	273,619	323,162	—	273,619	323,162	270,152	—	12/22/1988	31.5
Aiken, SC	402,549	373,795	—	402,549	373,795	311,428	—	2/21/1989	31.5
Augusta, GA	332,154	396,659	—	332,154	396,659	330,477	—	2/21/1989	31.5
Mt. Pleasant, SC	286,060	294,878	—	252,069	294,878	245,678	—	2/21/1989	31.5
Charleston, SC	273,625	254,500	—	273,625	254,500	528,125	—	2/21/1989	31.5
Aiken, SC	178,521	455,229	—	178,521	455,229	379,274	—	3/14/1989	31.5
North Augusta, SC	250,859	409,297	—	250,859	409,297	660,156	—	12/29/1989	31.5
Martinez, GA	266,175	367,575	—	266,175	367,575	294,683	—	12/29/1989	31.5
Columbus, OH	351,325	708,141	—	351,325	708,140	557,380	—	6/1/1990	31.5
	<u>\$ 2,830,303</u>	<u>\$ 4,468,644</u>	<u>\$ 0</u>	<u>\$ 2,794,122</u>	<u>\$ 4,468,642</u>	<u>\$ 7,262,764</u>			
						<u>\$ 3,667,557</u>			

(1) In the Fourth Quarter of 2001, a portion of the land was purchased from the Partnership by the County Commission for utility and maintenance easement.

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP  
SCHEDULE III – INVESTMENT PROPERTIES AND ACCUMULATED DEPRECIATION**

**DECEMBER 31, 2014**

**(B) Reconciliation of “Investment Properties and Accumulated Depreciation”:**

<u>Investment Properties</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Accumulated Depreciation</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Balance at beginning of year	\$ 7,984,817	\$ 7,984,817	Balance at beginning of year	\$ 3,984,986	\$ 3,834,881
Additions:			Additions charged to costs and expenses	143,008	150,105
Deletions:					
Vacant- Des Moines, IA property sold	(722,052)	0	Vacant- Des Moines, IA property sold	(460,437)	0
Balance at end of year	<u>\$ 7,262,765</u>	<u>\$ 7,984,817</u>	Balance at end of year	<u>\$ 3,667,557</u>	<u>\$ 3,984,986</u>

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **DIVALL INSURED INCOME PROPERTIES 2, L.P.**

By: /s/ Bruce A. Provo  
President, Chief Executive Officer and  
Director of The Provo Group, Inc., the  
General Partner of the Partnership  
(principal executive officer of the registrant)

By: /s/ Lynette L. DeRose  
Chief Financial Officer of the Partnership  
(principal financial officer and principal  
accounting officer of the registrant)

By: THE PROVO GROUP, INC., General Partner

By: /s/ Bruce A. Provo  
President, Chief Executive Officer and  
Director of The Provo Group, Inc., the  
General Partner of the Partnership  
(principal executive officer of the registrant)

Dated: March 30, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Bruce A. Provo  
President, Chief Executive Officer and  
Director of The Provo Group, Inc., the  
General Partner of the Partnership

By: /s/ Caroline E. Provo  
Director of The Provo Group, Inc., the  
General Partner of the Partnership

Date: March 30, 2015

**DIVALL INSURED INCOME PROPERTIES 2  
LIMITED PARTNERSHIP**

**CERTIFICATIONS**

I, Lynette L. DeRose, certify that:

1. I have reviewed this annual report on Form 10-K of DiVall Insured Income Properties 2 Limited Partnership;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and



**DIVALL INSURED INCOME PROPERTIES 2  
LIMITED PARTNERSHIP**

**CERTIFICATIONS**

I, Bruce A. Provo, certify that:

1. I have reviewed this annual report on Form 10-K of DiVall Insured Income Properties 2 Limited Partnership;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and







**VRONA & VAN SCHUYLER CPAS, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

WENDGUSTA, LLC  
FINANCIAL STATEMENTS—INCOME TAX BASIS  
DECEMBER 28, 2014 and DECEMBER 29, 2013

**VRONA & VAN SCHUYLER CPAS, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
ADMIN@VRONAVANSCHUYLERCPA.COM  
WWW.VRONAVANSCHUYLERCPA.COM  
TEL: 516-670-9479 FAX: 516-670-9477

240 LONG BEACH ROAD  
ISLAND PARK, NY 11558-1541

232 MADISON AVE., 3RD FL  
NEW YORK, NY 10016-2901

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members  
Wendgusta, LLC  
27 Central Avenue  
Cortland, New York

We have reviewed the accompanying statements of assets, liabilities and members' capital-income tax basis of Wendgusta, LLC as of December 28, 2014 and December 29, 2013 and the related statements of revenues and expenses-income tax basis, changes in members' capital-income tax basis and cash flows-income tax basis for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note 1.



CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2015

Wendgusta, LLC  
 Statements of Assets, Liabilities and Members' Capital-Income Tax Basis  
 December 28, 2014 and December 29, 2013

	2014	2013
<b><u>ASSETS</u></b>		
Current assets:		
Cash—(Note 1J)	\$1,093,441	\$1,014,836
Inventories—(Note 1C)	63,635	74,581
Prepaid expenses and other current assets	83,400	128,546
Total current assets	1,240,476	1,217,963
Property and equipment, net of accumulated depreciation—(Notes 1D and 2)	999,112	966,348
Other assets:		
Goodwill, net of accumulated amortization of \$2,978,310 in 2014 and \$2,581,202 in 2013— (Note 1E)	2,978,317	3,375,425
Loan cost, net of accumulated amortization of \$17,155 in 2014 and \$6,862 in 2013—(Note 1G)	85,772	96,065
Tech fees, net of accumulated amortization of \$1,064 in 2014 and \$312 in 2013	13,936	14,688
Deposits	16,769	17,207
Total other assets	3,094,794	3,503,385
<b>TOTAL ASSETS</b>	<b>\$5,334,382</b>	<b>\$5,687,696</b>
<b><u>LIABILITIES AND MEMBERS' CAPITAL</u></b>		
Current liabilities:		
Current maturities of long-term debt—(Note 3)	\$ 427,323	\$ 410,161
Accounts payable, accrued expenses and taxes payable	1,046,442	1,077,339
Total current liabilities	1,473,765	1,487,500
Long-term liabilities:		
Long-term debt, less current maturities—(Note 3)	3,697,813	4,124,223
Total liabilities	5,171,578	5,611,723
Commitments and contingencies—(Notes 3, 4, 5, 6 and 7)	—	—
Members' capital—(Notes 1A, 5, 6B and 6C)	162,804	75,973
<b>TOTAL LIABILITIES AND MEMBERS' CAPITAL</b>	<b>\$5,334,382</b>	<b>\$5,687,696</b>

See independent accountants' review report and notes to the financial statements.

Wendgusta, LLC  
Statements of Revenues and Expenses-Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
Sales—net	\$15,034,878	\$15,064,037
Cost of sales—net	4,543,928	4,603,129
Gross profit	<u>10,490,950</u>	<u>10,460,908</u>
Labor expenses	4,398,638	4,438,869
Store operating and occupancy expenses	2,657,628	2,623,364
General and administrative expenses	684,742	679,983
Advertising expenses—(Note 4A)	715,549	728,069
Royalty expense—(Note 4A)	601,395	602,561
Depreciation and amortization—(Notes 1D, 1E, 1F and 1G)	745,530	744,976
Interest expense—(Note 3)	112,752	151,321
Total operating expenses	<u>9,916,234</u>	<u>9,969,143</u>
Operating income (loss)	574,716	491,765
Gain/(loss) on sale/(disposal) of assets	(10,064)	(60,000)
Other income	45,889	56,451
Excess (deficiency) of revenues over expenses—(Note 1H)	<u>\$ 610,541</u>	<u>\$ 488,216</u>

See independent accountants' review report and notes to the financial statements.

Wendgusta, LLC  
Statements of Changes in Members' Capital—Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

Members' Capital, December 30, 2012	\$ 81,107
Excess of revenues over expense for the year ended December 29, 2013	488,216
Distributions paid to members	(493,350)
Purchase of member's interest	<u>0</u>
Members' Capital, December 29, 2013	75,973
Excess of revenues over expense for the year ended December 28, 2014	610,541
Distributions paid to members	(523,710)
Purchase of member's interest	<u>0</u>
Members' Capital, December 28, 2014	<u>\$ 162,804</u>

See independent accountants' review report and notes to the financial statements.

Wendgusta, LLC  
 Statements of Cash Flows-Income Tax Basis  
 For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
<b>Cash flows from operating activities:</b>		
Excess (deficiency) of revenues over expenses	\$ 610,541	\$ 488,216
<b>Adjustments to reconcile to net cash provided by operating activities:</b>		
Depreciation and amortization	745,530	744,976
(Gain)/loss on (sale)/disposal of assets	10,064	60,000
Increase (decrease) in cash attributed to changes in assets and liabilities:		
Decrease (increase) in inventories	10,946	(1,182)
Decrease (increase) in prepaid expenses and other current assets	45,146	(43,136)
Increase (decrease) in accounts payable, accrued expenses and taxes	(30,897)	26,597
Total adjustments	780,789	787,255
<b>Net cash provided by operating activities</b>	<b>1,391,330</b>	<b>1,275,471</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, tangible and intangible assets	(380,205)	(511,930)
Security deposits received (paid)	438	(99)
<b>Net cash used in investing activities</b>	<b>(379,767)</b>	<b>(512,029)</b>
<b>Cash flows from financing activities:</b>		
Repayments of note payable	(409,248)	(331,052)
Members' distributions	(523,710)	(493,350)
Purchase of member's interest	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>(932,958)</b>	<b>(824,402)</b>
<b>Net increase (decrease) in cash</b>	<b>78,605</b>	<b>(60,960)</b>
Cash, beginning of year	1,014,836	1,075,796
<b>Cash, end of year</b>	<b>\$1,093,441</b>	<b>\$1,014,836</b>
<b>Supplemental Information:</b>		
Interest paid during the year	\$ 112,806	\$ 160,773

See independent accountants' review report and notes to the financial statements.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies

(A) The Company:

Wendgusta, LLC was formed on May 16, 2007 pursuant to the Georgia Limited Liability Company Act to acquire, own and operate eleven existing Wendy's Old Fashioned Hamburger Restaurants in Augusta and Martinez, Georgia and Aiken and North Augusta, South Carolina. The restaurants were acquired from one seller for an aggregate purchase price of \$7,650,000, plus various adjustments in the net aggregate amount of approximately \$50,000. The Company recorded goodwill in the amount of approximately \$6,527,000. The purchase price was financed principally by a \$7,250,000 equipment loan from General Electric Capital Corporation, ("GECC") with the balance provided by capital contributions of the members. The acquisition closed on July 2, 2007. (See Note 3).

In October 2007 the Company closed the Dean Bridge Road restaurant.

The Company currently operates ten restaurants, all of which are leased. (See Note 4B).

The Company is to continue in perpetuity, except it is to be dissolved as a result of the sale of all business operations or the sale of all or substantially all of its assets, in each of such cases upon the receipt of the consideration therefor in cash or the reduction to cash of non-cash consideration, or upon the occurrence of certain events as set forth in the operating agreement. (See Note 5B).

(B) Income Tax Basis of Accounting:

The Company is treated as a partnership for federal, Georgia and South Carolina income tax purposes. The accompanying financial statements have been prepared on the basis of accounting used to prepare the Company's federal partnership return. Such other comprehensive basis of accounting differs in certain respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in accordance with generally accepted accounting principles.

(C) Inventories:

Inventories represent food and supplies and are stated at cost.

(D) Property, Equipment and Depreciation:

Property and equipment are stated at cost. Depreciation is provided by application of the straight-line and declining balance methods over depreciable lives as follows:

Leasehold improvements	15 to 39 years
Restaurant and office equipment	5 to 7 years
Automobile	5 years
Land improvements	15 years

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(D) Property, Equipment and Depreciation—continued:

If it had qualifying property placed in service during the year, the Company has taken additional depreciation deductions in accordance with the federal government's enactment of the Economic Stimulus Act of 2008, amended by the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

(E) Goodwill:

Goodwill, representing the excess of the purchase price over the fair value of the assets acquired, is amortized over fifteen years.

(F) Organizational and Start-Up Costs:

The Company capitalized the costs incurred in the formation of the company. These costs are amortized over 5 years.

(G) Loan Cost:

The Company capitalized the costs incurred in obtaining the acquisition debt. These costs are amortized over 9 years. (See Note 3).

(H) Income Taxes:

The Company was organized as a Limited Liability Company under the laws of Georgia and is not subject to any federal or state income tax. For federal, Georgia and South Carolina income tax purposes, the Company is treated as a partnership. Accordingly, each member is required to report on his federal and applicable state income tax return his distributive share of all items of income, gain, loss, deduction, credit and tax preference of the Company for any taxable year, whether or not any cash distribution has been or will be made to such member.

The Company's tax returns are subject to examination by the Federal and State taxing authorities. The tax rules and regulations governing these returns are complex, technical and subject to varying interpretations. If an examination required the Company to make adjustments, the profit or loss allocated to the members would be adjusted accordingly. Management believes the Company is no longer subject to tax examinations for the years prior to 2011.

Although income tax rules are used to determine the timing of the reporting revenues and expenses, non-taxable revenues and non-deductible expenses are included in the determination of net income in the accompanying financial statements.

(I) Fiscal Year:

The Company's annual accounting period is a fiscal year ending on the last Sunday of December.

See independent accountants' review report.



Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(J) Cash:

The Company maintains its cash in various banks. The accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation, to a maximum of \$250,000. At any time during the year, the cash balance may exceed \$250,000.

(K) Use of Estimates:

The preparation of financial statements in conformity with the income tax accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(L) Advertising:

The Company expenses all advertising costs when incurred.

(M) Sales Tax:

The Company collects sales tax and remits to the states of Georgia and South Carolina. The liability is reflected in taxes payable on the balance sheet.

Note 2—Property and Equipment

Property and equipment consist of the following:

	2014	2013
Restaurant and office equipment	\$2,126,854	\$1,927,775
Automobile	13,413	13,413
Leasehold improvements	1,629,768	1,575,343
Land improvements	133,885	113,249
Construction in progress	0	2,550
Total	3,903,920	3,632,330
Less: Accumulated depreciation	2,904,808	2,665,982
Property and equipment, net	<u>\$ 999,112</u>	<u>\$ 966,348</u>

Note 3—Acquisition Debt

At the time of the acquisition closing, the Company borrowed \$7,250,000 from GECC. The loan maturity date was August 1, 2016 and was payable in monthly installments assuming a 13.5 year amortization period with a balloon payment due at maturity. In December 2009 the Company made an additional principal payment of \$491,190 reducing the amount owed to \$6,000,000 and restructured the terms of the loan. The loan bore interest at a rate of LIBOR plus 4.5% and was payable in monthly installments based upon a 12.5 year amortization with a balloon payment of approximately \$2,050,919 plus interest due on January 1, 2019. The loan was repaid in April 2013.

On April 19, 2013 the Company refinanced the GECC loan with a new note from Wells Fargo for \$4,800,000. Repayment terms are monthly principal payments of \$33,202 plus interest at 2.417% with a balloon payment of approximately \$2,638,000 due April 3, 2018.

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 3—Acquisition Debt—(Continued):

The future annual principal payments are as follows:

2015	427,323
2016	443,272
2017	461,336
2018	2,793,205
	<u>\$4,125,136</u>

Note 4—Commitments and Contingencies

(A) Franchise Agreement Commitments:

The Company is the franchisee for the ten Wendy's restaurants it owns and operates. The franchise agreements obligate the Company to pay to Wendy's International a monthly royalty equal to 4% of the gross sales of each restaurant, or \$250, whichever is greater. The Company must also pay to Wendy's National Advertising Program 3.25% of the gross sales and spend not less than .75% of the gross sales of each restaurant for local and regional advertising.

(B) Minimum Operating Lease Commitments:

The lease for the restaurant located at 517 Martintown Road in North Augusta expires on November 6, 2021. The annual rent is \$87,780. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$746,181.

The lease for the restaurant located at 1730 Walton Way in Augusta expires on November 6, 2021. The annual rent is \$96,780. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$768,937.

The lease for the restaurant located at 2738 Washington Road in Augusta had a primary term that expired on October 31, 2004. The current term expires on October 31, 2019 and includes one remaining five-year renewal options. The annual rent is \$71,573 for all terms of the lease. In addition the Company is required to pay percentage rent equal to 5% of gross sales in excess of \$900,000.

The lease for the restaurant located at 1004 Richland Avenue in Aiken expires on November 6, 2021. The annual rent is \$90,480. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$752,048.

The lease for the restaurant located at 3342 Wrightsboro Road in Augusta had a primary term that expired on October 31, 2004. The current term expires on October 31, 2019 and includes one remaining five-year renewal options. The annual rent is \$68,581 for all terms of the lease. In addition the Company is required to pay percentage rent equal to 5% of gross sales in excess of \$687,458.

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 4—Commitments and Contingencies—(Continued):

(B) Minimum Operating Lease Commitments—continued:

The lease for the restaurant located at 3859 Washington Road in Martinez expires on November 6, 2016. The annual rent is \$84,120. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$860,000.

The lease for the restaurant located at 3013 Peach Orchard Road in Augusta expires on November 6, 2021. The annual rent is \$86,160. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$744,784.

The lease for the restaurant located at 1901 Whiskey Road in Aiken expires on November 6, 2021. The annual rent is \$96,780. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$960,000.

The lease for the restaurant located at 449 Walton Way in Augusta had a primary term that expired on February 28, 2003. The current term expires on February 28, 2018. The annual rent is \$96,600 for all terms of the lease. In addition the Company is required to pay percentage rent equal to 6% of gross sales less base rent.

The lease for the restaurant located at 430 South Belair Road in Augusta has a primary term that expires on November 30, 2025 and includes two five-year renewal options. The annual rent is \$159,347 through November 30, 2015. At that time and on each one year anniversary thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1.5%.

The leases are all net leases and require the Company to pay real estate taxes, insurance, maintenance and other property expenses.

Rent expense was \$1,308,230 in 2014 and \$1,299,564 in 2013 including percentage rent of \$372,384 in 2014 and \$366,038 in 2013.

Future annual minimum rentals are as follows:

2015	938,201
2016	927,973
2017	858,897
2018	780,859
2019	743,900
Thereafter	<u>1,901,018</u>
	<u>\$6,150,848</u>

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 4—Commitments and Contingencies—(Continued):

(C) Financial and Operational Advisory Services Agreement:

At the closing, the Company entered into a financial and operational advisory services agreement with its two managing members and another individual. The agreement provides for these three individuals to: (i) consult with and advise the Company on applicable financial and/or operational matters; and (ii) if required by the Company's debt, lease or franchise agreements, to which they are signatories, to remain ready, willing and able to maintain such status for the benefit of the Company, except where such guarantees are not needed; and (iii) remain able to provide such additional personal guarantees as, within their sole discretion, may reasonably be necessary to maintain the business of the Company. The initial term ended December 31, 2010 and is automatically renewable annually thereafter, as long as the Company remains in business. The agreement also provides for the reimbursement of reasonable expenses incurred by the individuals in fulfilling their duties. Fees paid pursuant to this agreement aggregated \$84,000 in 2014 and \$81,000 in 2013. (See Note 6A).

Note 5—Capitalization and Operating Agreement

(A) Capitalization:

The Company's initial capitalization consisted of 800 units, of which 24 and 21 were sold to two managing members at \$25 per unit, or \$1,125 in the aggregate, and 80 units were sold to the third managing member at \$125 per unit, or \$10,000 in the aggregate. Of the remaining 675 units, 192 were sold at \$25 per unit, or \$4,800 in the aggregate, and 483 units were sold at per unit contributions of \$4,500 totaling \$2,173,500. All contributions totaled \$2,189,425. (See Note 5B).

In 2009 the Company required each member to contribute \$1,000 per unit of membership interest as an additional capital contribution. The proceeds were used in part to reduce the loan to GECC. (See Notes 3 and 6B).

(B) Operating Agreement:

All purchasers of membership interests are parties to the Company's operating agreement which provides for the capitalization and operation of the Company, distributions to members and transfers of interests. Members' consents representing 75% of all membership interests are required for the following actions: Change in the operating agreement; voluntary dissolution; sale or exchange of substantially all assets; merger or consolidation; incurrence of debt or refinancing other than in the ordinary course of business or in connection with entering new or unrelated businesses; and removal of a manager, for cause. Members are not required to make up negative capital accounts. Distributions either from cash flow generated by operations or capital transactions (as defined) other than capital contributions are made at the sole discretion of the managers,

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 5—Capitalization and Operating Agreement—(Continued):

(B) Operating Agreement—continued:

acting unanimously. Managers are elected by the members. Outside liens against membership interests are prohibited. For permitted transfers of membership interests, book value is equal to assets less liabilities using-the income tax method/accrual basis of accounting.

Members wishing to sell their interests shall submit their request in writing, together with appropriate documentation setting forth the terms of such sale, to the managing members, who within thirty days and at their sole discretion, shall approve or disapprove of such sale. If not approved, the managing members within fourteen additional days may elect to have the Company purchase the offered units at the stated terms. Such action by the managing members is to be by simple majority. If the managing members determine that the offered interests are not to be redeemed by the Company, then the interests shall be offered to the remaining members of the Company, pro-rata at the same offered terms, who will have 14 additional days to purchase the offered shares. If the interests are not purchased by the members, then they may be sold to the third-party purchaser at the offered terms. Membership interests may also be transferred to family members or trusts or by reason of death or incompetence.

In the event of a termination of a member's interest by death, retirement, resignation, expulsion, bankruptcy, incompetence, or in the case of a member that is not a natural person—dissolution, the Company must be dissolved unless it is continued by the consent of all the remaining members. Non-consenting members are deemed to offer and authorized representatives or trustees of deceased or bankrupt members may offer the applicable membership interest, first to the Company, and then to the consenting (continuing) members. In such case, the offered interests must be purchased by either the Company or one or more of the consenting members. Such purchases, unless made by the Company, are to be made pro-rata to the existing interests of purchasing members, unless they agree otherwise or there is only one purchasing member.

In any event, all offered interests of non-consenting members or by the estate, trustee, etc. of deceased or bankrupt members, etc. must be purchased by the Company or one or more consenting members or the Company must be dissolved and liquidated.

Note 6—Related Party Transactions

(A) Financial and Operating Advisory Service Fees:

The Company paid two of its three managing members and a third individual a total of \$84,000 in 2014 and \$81,000 in 2013 pursuant to a financial and operational advisory services agreement. (See Note 4C).

See independent accountants' review report.

Wendgusta, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 6—Related Party Transactions—(Continued):

(B) Additional Capital Contributions:

During 2009 additional capital contributions of \$1,000 per unit of membership interest were received by the Company for a total of \$796,000.

(C) Other:

In July 2008 the Company redeemed one member's .25% membership interest for \$2,000.

In March 2009 the Company redeemed one member's .13% membership interest for \$2,000.

In October 2009 the Company redeemed one member's .13% membership interest for \$3,600.

In 2010 the Company redeemed four members' 2.62% combined membership interest for an aggregate price of \$103,000.

In 2012 the Company redeemed four members' 5.93% combined membership for an aggregate price of \$89,700.

Note 7—Pension Plan

The Company maintains a qualified cash or deferred compensation plan under section 401(K) of the Internal Revenue Code for all full-time employees meeting certain service requirements. Under the plan, employees may elect to defer up to (15%) of their salary, subject to Internal Revenue Service limits. A discretionary matching contribution may be made by the Company and added to each participant's account. Company contributions for the plan amounted to \$2,797 for 2014 and \$2,355 for 2013.

Note 8—Subsequent Events

Subsequent events have been evaluated through the date the financial statements were issued, as reflected on the independent accountants' review report.

See independent accountants' review report.

**VRONA & VAN SCHUYLER CPAS, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

WENDCHARLES I, LLC  
FINANCIAL STATEMENTS—INCOME TAX BASIS  
DECEMBER 28, 2014 AND DECEMBER 29, 2013

**VRONA & VAN SCHUYLER CPAS, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
ADMIN@VRONAVANSCHUYLERCPA.COM  
WWW.VRONAVANSCHUYLERCPA.COM  
TEL: 516-670-9479 FAX: 516-670-9477

240 LONG BEACH ROAD  
ISLAND PARK, NY 11558-1541

232 MADISON AVE., 3RD FL  
NEW YORK, NY 10016-2901

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members  
Wendcharles I, LLC  
27 Central Avenue  
Cortland, New York

We have reviewed the accompanying statements of assets, liabilities and members' capital-income tax basis of Wendcharles I, LLC as of December 28, 2014 and December 29, 2013 and the related statements of revenues and expenses-income tax basis, changes in members' capital-income tax basis and cash flows-income tax basis for years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note 1.



CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2015



Wendcharles I, LLC  
 Statements of Assets, Liabilities and Members' Capital-Income Tax Basis  
 December 28, 2014 and December 29, 2013

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash (Note 1I)	\$ 511,413	\$ 117,670
Inventories—(Note 1C)	51,886	56,625
Prepaid expenses and other current assets	8,477	26,667
Total current assets	<u>571,776</u>	<u>200,962</u>
Property and equipment—(Notes 1D and 2)	<u>618,737</u>	<u>491,248</u>
Other assets:		
Goodwill, net of accumulated amortization of \$491,576 in 2014 and \$477,646 in 2013— (Note 1E)	1,060,780	1,313,534
Deposits	11,190	11,190
Total other assets	<u>1,071,970</u>	<u>1,324,724</u>
<b>TOTAL ASSETS</b>	<b><u>\$2,262,483</u></b>	<b><u>\$2,016,934</u></b>
<b><u>LIABILITIES AND MEMBERS' CAPITAL</u></b>		
Current liabilities:		
Current maturities of long-term debt—(Note 3)	\$ 61,380	\$ 281,742
Accounts payable, accrued expenses and taxes payable	756,278	700,259
Total current liabilities	<u>817,658</u>	<u>982,001</u>
Long-term liabilities:		
Deferred rent credit	9,417	0
Long-term debt, less current maturities—(Note 3)	210,798	1,028,102
Total Long-term liabilities	<u>220,215</u>	<u>1,028,102</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,037,873</u></b>	<b><u>2,010,103</u></b>
Commitments and contingencies—(Notes 3, 4, 5 and 7)	—	—
Members' capital—(Notes 1A, 5 and 6B)	<u>1,224,610</u>	<u>6,831</u>
<b>TOTAL LIABILITIES AND MEMBERS' CAPITAL</b>	<b><u>\$2,262,483</u></b>	<b><u>\$2,106,934</u></b>

See independent accountants' review report and notes to the financial statements.

Wendcharles I, LLC  
Statements of Revenues and Expenses-Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
Sales—net	\$10,885,339	11,105,515
Cost of sales—net	<u>3,175,353</u>	<u>3,257,032</u>
Gross profit	7,709,986	7,848,483
Labor expenses	3,524,879	3,701,479
Store operating and occupancy expenses	2,160,267	2,315,324
General and administrative expenses	610,516	737,953
Advertising expenses—(Note 4A)	585,323	602,059
Royalty expense—(Note 4A)	435,414	444,221
Depreciation and amortization—(Notes 1D, 1E, and 1F)	408,509	339,014
Interest expense—(Note 3)	<u>42,454</u>	<u>58,552</u>
Total operating expenses	7,767,362	8,198,602
Operating income (loss)	(57,376)	(350,119)
Gain/(loss) on sale/(disposal) of assets	(2,460)	(131,071)
Gain on sale of restaurant	0	399,724
Loss on closing of restaurant	(176,415)	(512,844)
Workers' compensation refund	135,000	140,000
Other income	24,455	66,631
Excess (deficiency) of revenues over expenses—(Note 1G)	<u>\$ (76,796)</u>	<u>\$ (387,679)</u>

See independent accountants' review report and notes to the financial statements.

Wendcharles I, LLC  
Statements of Changes in Members' Capital-Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

Members' Capital, December 30, 2012	\$ 482,400
Excess (deficiency) of revenues over expenses December 29, 2013	(387,679)
Distributions paid to members	<u>(87,890)</u>
Members' Capital, December 29, 2013	6,831
Excess (deficiency) of revenues over expenses December 28, 2014	(76,796)
Capital contribution, December 28, 2014	1,400,000
Distributions paid to members	<u>(105,425)</u>
Members' Capital, December 28, 2014	<u>\$1,224,610</u>

See independent accountants' review report and notes to the financial statements.

Wendcharles I, LLC  
 Statements of Cash Flows-Income Tax Basis  
 For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
<b>Cash flows from operating activities:</b>		
Excess (deficiency) of revenues over expenses	\$ (76,796)	\$ (387,679)
<b>Adjustments to reconcile to net cash provided by operating activities:</b>		
Depreciation and amortization	408,509	339,014
(Gain)/loss on (sale)/disposal of assets	2,460	131,071
Gain on sale of restaurant	0	(399,724)
Loss on closing of restaurants	176,415	209,483
<b>Increase (decrease) in cash attributed to changes in assets and liabilities:</b>		
Decrease (increase) in inventories	4,739	17,969
Decrease (increase) in prepaid expenses and other current assets	18,190	(19,843)
Increase (decrease) in accounts payable, accrued expenses and taxes	65,462	(113,583)
Total adjustments	675,775	164,387
<b>Net cash provided by operating activities</b>	<u>598,979</u>	<u>(223,292)</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures, tangible and intangible assets	(462,145)	(147,197)
<b>Net cash provided by (used in) investing activities</b>	<u>(462,145)</u>	<u>(147,197)</u>
<b>Cash flows from financing activities:</b>		
Closing costs	0	(500)
Repayments of note payable	(1,187,666)	(1,619,807)
Members' distributions	(105,425)	(87,890)
Members' capital contributions	1,400,000	0
Proceeds from sale of restaurant	0	811,061
Proceeds from debt	150,000	1,100,100
<b>Net cash provided by (used in) financing activities</b>	<u>256,909</u>	<u>202,864</u>
<b>Net increase (decrease) in cash</b>	393,743	(167,625)
Cash, beginning of period	117,670	285,295
<b>Cash, end of period</b>	<u>\$ 511,413</u>	<u>\$ 117,670</u>
<b>Additional Cash Flow Information:</b>		
Interest paid during the year	\$ 56,359	\$ 56,359

See independent accountants' review report and notes to the financial statements.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies

(A) The Company:

Wendcharles I, LLC was formed on June 24, 2008 pursuant to the South Carolina Code of Laws to acquire, own and operate eleven existing Wendy's Old Fashioned Hamburger Restaurants in the Charleston, South Carolina metropolitan area. As part of the same overall transaction, another South Carolina limited liability company, Wendcharles II, LLC, affiliated with the Company by certain common management and ownership interests, acquired six other existing Wendy's Old Fashioned Hamburger Restaurants in and proximate to North Charleston. The restaurants were all acquired from one unrelated seller for an aggregate purchase price of \$5,760,000, less net adjustments to the Company of approximately \$14,000. The Company's recorded goodwill in the amount of approximately \$4,060,000. The purchase price was financed principally by a \$3,500,000 loan from Bank of America, with the balance provided by capital contributions of the members. The acquisition closed and restaurant operations commenced on September 16, 2008.

The leases for the eleven leasehold estates, all in South Carolina, were assigned to the Company from different lessors. Four locations each are in Charleston and North Charleston and three are in Mt. Pleasant as follows: Charleston: 1721 Sam Rittenberg Boulevard; 194 Cannon Street; 343 Folly Road; and 5275 International Blvd; North Charleston: 4113 Rivers Avenue; 5115 Dorchester Rd; 9145 University Blvd; and 4892 Ashley Phosphate Road; Mt Pleasant: 361 Highway 17 Bypass; 935 Chuck Dawley Boulevard; and 596 Long Point Road. (See Note 4B).

On December 26, 2011 the Company sold its Sam Rittenberg Boulevard location to Wendcharles II, LLC, a related party. (See Notes 1A and 2).

In 2013 the Company closed its 5115 Dorchester Road store and sold its 4892 Ashley Phosphate Road store to Wendcharles II, LLC.

In 2014 the Company closed its 194 Cannon Street location. (See Note 2).

The Company is to continue in perpetuity, except it is to be dissolved as a result of the sale of all business operations or the sale of all or substantially all of its assets, in each of such cases upon the receipt of the consideration therefor in cash or the reduction to cash of non-cash consideration, or upon the occurrence of certain events as set forth in the operating agreement. (See Note 5B).

The Company currently operates seven restaurants, all of which are leased.

(B) Income Tax Basis of Accounting:

The Company is treated as a partnership for Federal and South Carolina income tax purposes. The accompanying financial statements have been prepared on the basis of accounting used to prepare the Company's federal partnership return. Such other comprehensive basis of accounting differs from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in accordance with generally accepted accounting principles.

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(C) Inventories:

Inventories represent food and supplies and are stated at cost.

(D) Property, Equipment and Depreciation:

Property and equipment are stated at cost. Depreciation is provided by application of the straight-line method over depreciable lives as follows:

Land improvements	15 years
Leasehold improvements	15 to 39 years
Restaurant equipment	5 to 7 years
Automobile	5 years

If it had qualifying property placed in service during the year, the Company has taken additional depreciation deductions in accordance with the federal government's enactment of the Economic Stimulus Act of 2008, amended by the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

(E) Goodwill:

Goodwill, representing the excess of the purchase price over the fair value of the assets acquired, is amortized over fifteen years.

(F) Deferred Costs:

The Company capitalized the costs incurred in obtaining its financing and its leases. These costs are amortized over the life of the loan.

(G) Income Taxes:

The Company was organized as a Limited Liability Company under the laws of South Carolina and is not subject to any federal or state income tax. For federal and South Carolina income tax purposes, the Company is treated as a partnership. Accordingly, each member is required to report on his federal and applicable state income tax return his distributive share of all items of income, gain, loss, deduction, credit and tax preference of the Company for any taxable year, whether or not any cash distribution has been or will be made to such member.

The Company's tax returns are subject to examination by the Federal and State taxing authorities. The tax laws, rules and regulations governing these returns are complex, technical and subject to varying interpretations. If an examination required the Company to make adjustments, the profit or loss allocated to the members would be adjusted accordingly. Management believes the Company is no longer subject to tax examinations for the years prior to 2011.

Although income tax rules are used to determine the timing of the reporting revenues and expenses, non-taxable and non-deductible expenses are included in the determination of net income in the accompanying financial statements.

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(H) Fiscal Year:

The Company's annual accounting period is a fiscal year ending on the last Sunday of December.

(I) Cash:

The Company maintains its cash in various banks. The accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation, to a maximum of \$250,000. At any time during the year, the cash balance may exceed \$250,000.

(J) Use of Estimates:

The preparation of financial statements in conformity with the income tax accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(K) Advertising:

The Company expenses all advertising costs when incurred.

(L) Sales Tax:

The Company collects sales tax and remits to the state of South Carolina. The liability is reflected in taxes payable on the balance sheet.

Note 2—Property and Equipment

Property and equipment consist of the following:

	2014	2013
Land improvements	\$ 214,972	\$ 120,103
Leasehold improvements	937,648	866,067
Restaurant equipment	1,488,650	1,425,263
Construction in progress	0	0
Automobile	13,514	13,514
Total	2,654,784	2,424,947
Less: Accumulated depreciation	2,036,047	1,933,699
Property and equipment, net	<u>\$ 618,737</u>	<u>\$ 491,248</u>

In 2013 the Company closed its 5115 Dorchester Road store and recognized a loss of \$512,844 on the closing.

In 2013 the Company sold its 4892 Ashley Phosphate Road store to Wendcharles II, LLC a related company for \$630,000. The Company recognized a gain of \$399,724 on the sale.

In 2014 the Company closed its 194 Cannon Street restaurant and recognized a loss of \$176,415.

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 3—Acquisition Debt

At the closing of the purchase transaction, the Company and its affiliate, Wendcharles II, LLC, jointly obtained a \$3,500,000 loan from Bank of America, with interest at a floating rate, initially equal to the thirty-day adjusted LIBOR plus 250 basis points for the period commencing on the closing date until four quarterly financial reports have been submitted and reviewed in accordance with the loan agreement and, thereafter, equal to the thirty day adjusted LIBOR plus a margin based on the funded debt to earnings before interest, taxes depreciation and amortization (“EBITDA”) ratio. Based on the relative values of the leasehold interests acquired, \$1,800,000 and \$1,700,000, representing 51% and 49%, respectively, of the total principal amount, were recorded on the books of the Company and its affiliate, although they are jointly and severally liable for the loan.

A combined initial payment of interest only of \$7,277, based on LIBOR of 2.49%, set two business days before the closing date was due and paid on October 1, 2008. Beginning on November 1, 2008 and ending on August 1, 2015, monthly payments of interest and principal are due in an amount sufficient to amortize the loan over 13.5 years. LIBOR is adjusted on the first business day of each month. The loan matures on August 16, 2015. The loan was repaid in 2013.

On March 17, 2010, the Company borrowed \$250,000 from Wen-Restaurants LLC (a related company, see note 6C). Repayment terms were \$2,440 per month including interest at 3.25% per annum. In November 2013 the Company prepaid \$45,126 to reduce the loan balance to \$125,000. Terms were monthly payments of \$1,221 including interest of 3.25% for 120 months. The loan was repaid in 2014.

In October 2011 the Company borrowed \$120,000 from M&T Bank. Repayment terms are \$3,333 per month for 36 months plus interest at 3.25%. The loan was repaid in 2014.

In April 2012 the Company borrowed \$180,000 from Wendcapital LLC, a related party. Repayment terms are \$1,757 per month for 144 months at an interest rate of 6%. Additional interest may be charged if certain performance based sales are realized.

The future principal payments are as follows:

2015	\$ 12,394
2016	13,159
2017	13,970
2018	14,882
2019	15,746
Thereafter	80,210
	<u>\$150,361</u>

See independent accountants’ review report.



Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 3—Acquisition Debt—(Continued):

On June 27, 2013 the Company borrowed \$1,100,000 from M&T Bank. Repayment terms are approximately \$18,644 plus interest at 3% for 59 months. The loan was repaid in 2014.

The Company borrowed \$150,000 from M&T Bank in May of 2014 for equipment. Repayment terms are \$4,414 per month for 36 months including interest at 3.25%.

The future principal payments are as follows:

2015	\$ 48,986
2016	51,766
2017	21,065
	<u>\$121,817</u>

Note 4—Commitments and Contingencies

(A) Franchise Agreement Commitments:

The Company is the franchisee for the seven Wendy's restaurants it owns and operates. The franchise agreements obligate the Company to pay to Wendy's International a monthly royalty equal to 4% of the gross sales of each restaurant, or \$250, whichever is greater. The Company must also pay to Wendy's National Advertising Program 3% of the gross sales and spend not less than .75% of the gross sales of each restaurant for local and regional advertising.

(B) Minimum Operating Lease Commitments:

The lease for the restaurant located at 4113 Rivers Ave in North Charleston has a primary term that expires on March 31, 2025 and includes two five-year renewal options. The current annual rent for the lease is \$106,719 through March 31, 2015. At that time and on each April 1 thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1%.

The lease for the restaurant located at 343 Folly Road in Charleston has a primary term that expires on November 6, 2021 and includes two five-year renewal options. The annual rent is \$70,200 for all terms of the lease. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$589,488.

The lease for the restaurant located at 361 Hwy 17 Bypass in Mt Pleasant has a primary term that expires on November 6, 2021 and includes two five-year renewal options. The annual rent is \$55,333 for all terms of the lease. In addition the Company is required to pay percentage rent equal to 7% of gross sales in excess of \$750,000. In 2013 part of the land was condemned and the Company received \$181,061 in proceeds. The lease was amended to reflect this change. The Company recognized a gain of \$90,508.

The lease for the restaurant located at 935 Chuck Dawley Blvd in Mt Pleasant had a primary term that expired on September 9, 1996. The current term expires on September 9, 2016. The annual rent is \$97,020 for the remainder of the current term. In addition the Company is required to pay percentage rent equal to 6% of gross sales in excess of base rent.

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 4—Commitments and Contingencies—(Continued):

(B) Minimum Operating Lease Commitments—continued:

The lease for the restaurant located at 9145 University Blvd in North Charleston has a primary term that expires on March 31, 2025 and includes two five-year renewal options. The current annual rent for the lease is \$109,463 through March 31, 2015. At that time and on each April 1 thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1%.

The lease for the restaurant located at 596 Long Point Road in Mt Pleasant has a primary term that expires on March 31, 2025 and includes two five-year renewal options. The current annual rent for the lease is \$100,029 through March 31, 2015. At that time and on each April 1 thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1%

The lease for the restaurant located at 5275 International Blvd in North Charleston has a primary term that expires on April 30, 2027 and includes four five-year renewal options. The current annual rent for the lease is \$129,150 through June 30, 2018. At that time and on each five year anniversary thereafter, annual rent will be increased by the previous year's annual rent multiplied by 5%.

The Company is required to pay all realty taxes, insurance, routine maintenance and common charges for the above leases.

Rent expense was \$872,350 in 2014 and \$947,544 in 2013 including percentage including percentage rent of \$115,744 in 2014 and \$94,089 in 2013.

Future annual minimum rentals are as follows:

2015	\$ 667,914
2016	641,161
2017	577,250
2018	583,704
2019	590,191
Thereafter	<u>3,034,628</u>
	<u>\$6,094,848</u>

(C) Financial and Operational Advisory Services Agreement:

The Company has a financial and operational advisory services agreement with three of its corporate officers. The agreement provides for these officers to: Consult with and advise the Company on applicable financial and/or operational matters and if required by the Company's debt, lease or franchise agreements, to which they are signatories, to remain ready, willing and able to maintain such status for the benefit of the Company, except where such guarantees are not needed; and remain able to provide such additional personal guarantees as, within their sole discretion, may reasonably be necessary to maintain the business of the Company. The initial term expires December 2011, and is automatically renewable annually thereafter, as long as the Company remains in business. The agreement also provides for the reimbursement of reasonable expenses incurred by the individuals in fulfilling their duties. (See Note 6A).

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 5—Capitalization and Operating Agreement

(A) Capitalization:

The Company's initial capitalization consisted of 800 units, of which 42 and 32 were sold to two managing members at \$100 per unit, or \$ 7,400 in the aggregate, and 80 units were sold to the third managing member at \$125 per unit, or \$10,000 in the aggregate. Of the remaining 646 units, 67 were sold at \$100 per unit, or \$6,700 in the aggregate, and 579 units were sold at per unit contributions of \$4,700 totaling \$2,721,300. All contributions totaled \$2,745,400. (See Note 5B).

(B) Operating Agreement:

All purchasers of membership interests are parties to the Company's operating agreement which provides for the capitalization and operation of the Company, distributions to members and transfers of interests. Members' consents representing 75% of all membership interests are required for the following actions: Change in the operating agreement; voluntary dissolution; sale or exchange of substantially all assets; merger or consolidation; incurrence of debt or refinancing other than in the ordinary course of business or in connection with entering new or unrelated businesses; and removal of a manager, for cause. Members are not required to make up negative capital accounts. Distributions either from cash flow generated by operations or capital transactions (as defined) other than capital contributions are made at the sole discretion of the managers, acting unanimously. Managers are elected by the members. Outside liens against membership interests are prohibited. For permitted transfers of membership interests, book value is equal to assets less liabilities using the income tax method/accrual basis of accounting.

In 2014 the Company issued 700 new units for an aggregate capital contribution of \$1,400,000.

Members wishing to sell their interests shall submit their request in writing, together with appropriate documentation setting forth the terms of such sale, to the managing members, who within thirty days and at their sole discretion, shall approve or disapprove of such sale. If not approved, the managing members within fourteen additional days may elect to have the Company purchase the offered units at the stated terms. Such action by the managing members is to be by simple majority. If the managing members determine that the offered interests are not to be redeemed by the Company, then the interests shall be offered to the remaining members of the Company, pro-rata at the same offered terms, who will have 14 additional days to purchase the offered shares. If the interests are not purchased by the members, then they may be sold to the third-party purchaser at the offered terms, but the purchaser must become bound by the terms of the operating agreement. Membership interests may also be transferred to family members or trusts or by reason of death or incompetence.

See independent accountants' review report.

Wendcharles I, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 5—Capitalization and Operating Agreement—(Continued):

(B) Operating Agreement:

In the event of a termination of a member's interest by death, retirement, resignation, expulsion, bankruptcy, incompetence, or in the case of a member that is not a natural person—dissolution, the Company must be dissolved unless it is continued by the consent of all the remaining members. Non-consenting members are deemed to offer and authorized representatives or trustees of deceased or bankrupt members may offer the applicable membership interest, first to the Company, and then to the consenting (continuing) members. In such case, the offered interests must be purchased by either the Company or one or more of the consenting members. Such purchases, unless made by the Company, are to be made pro-rata to the existing interests of purchasing members, unless they agree otherwise or there is only one purchasing member.

In any event, all offered interests of non-consenting members or by the estate, trustee, etc. of deceased or bankrupt members, etc. must be purchased by the Company or one or more consenting members or the Company must be dissolved and liquidated.

Note 6—Related Party Transactions

(A) Financial and Operational Advisory Services:

The Company paid two of its three managing members and a third individual a total of \$43,200 in 2014 and \$42,000 in 2013 pursuant to a financial and operational advisory services agreement. (See Note 4C).

(B) Redemption of Membership Interest:

In October 2009 the Company redeemed one member's .125% membership interest for \$2,000.

(C) Note Payable:

In March 2012 the Company borrowed \$180,000 from Wendcapital, LLC. Both Companies have common owners; however they are not under common control.

Note 7—Pension Plan

The Company maintains a qualified cash or deferred compensation plan under section 401(K) of the Internal Revenue Code for all full-time employees meeting certain service requirements. Under the plan, employees may elect to defer up to (15%) of their salary, subject to Internal Revenue Service limits. A discretionary matching contribution may be made by the Company and added to each participant's account. Company contributions for the plan amounted to \$0 for 2014 and \$0 for 2013.

Note 8—Subsequent Event

Subsequent events have been evaluated through the date the financial statements were issued, as reflected on the independent accountants' review report.

See independent accountants' review report.

**VRONA & VAN SCHUYLER CPAS, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

WENDCHARLES II, LLC  
FINANCIAL STATEMENTS—INCOME TAX BASIS  
DECEMBER 28, 2014 and DECEMBER 29, 2013

Vrona & Van Schuyler CPAs, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS  
ADMIN@VRONAVANSCHUYLERCPA.COM  
WWW.VRONAVANSCHUYLERCPA.COM  
TEL: 516-670-9479 FAX: 516-670-9477

240 LONG BEACH ROAD  
ISLAND PARK, NY 11558-1541

232 MADISON AVE., 3RD FL  
NEW YORK, NY 10016-2901

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members  
Wendcharles II, LLC  
27 Central Avenue  
Cortland, New York

We have reviewed the accompanying statements of assets, liabilities and members' capital-income tax basis of Wendcharles II, LLC as of December 28, 2014 and December 29, 2013 and the related statements of revenues and expenses-income tax basis, changes in members' capital (deficit)-income tax basis and cash flows-income tax basis for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note 1.



CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2015

Wendcharles II, LLC  
 Statements of Assets, Liabilities and Members' Capital (Deficit)—Income Tax Basis  
 December 28, 2014 and December 29, 2013

	2014	2013
<b><u>ASSETS</u></b>		
Current assets:		
Cash (Note 1I)	\$ 930,804	\$ 664,589
Inventories—(Note 1C)	68,286	67,975
Prepaid expenses and other current assets	0	12,692
Total current assets	999,090	745,256
Property and equipment—(Notes 1D and 2)	936,819	822,347
Other assets:		
Goodwill, net of accumulated amortization of \$654,318 in 2014 and \$530,617 in 2013—(Note 1E)	1,201,197	1,324,898
Deposits	6,075	12,160
Total other assets	1,207,272	1,337,058
<b>TOTAL ASSETS</b>	<b>\$3,143,181</b>	<b>\$2,904,661</b>
<b><u>LIABILITIES AND MEMBERS' CAPITAL (DEFICIT)</u></b>		
Current liabilities:		
Current maturities of long-term debt—(Note 3)	\$ 67,085	\$ 116,686
Accounts payable, accrued expenses and taxes payable	869,140	788,274
Total current liabilities	936,225	904,960
Long-term debt, less current maturities—(Note 3)	485,166	586,765
Total liabilities	1,421,391	1,491,725
Commitments and contingencies—(Notes 3, 4, 5, 6 and 7)	—	—
Members' capital (deficit)—(Notes 1A, 5 and 6B)	1,721,790	1,412,936
<b>TOTAL LIABILITIES AND MEMBERS' CAPITAL (DEFICIT)</b>	<b>\$3,143,181</b>	<b>\$2,904,661</b>

See independent accountants' review report and notes to the financial statements.

Wendcharles II, LLC  
Statements of Revenues and Expenses—Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
Sales—net	\$12,534,562	\$11,343,824
Cost of sales—net	<u>3,801,897</u>	<u>3,398,564</u>
Gross profit	<u>8,732,665</u>	<u>7,945,260</u>
Labor expenses	3,536,837	3,325,730
Store operating and occupancy expenses	2,306,030	2,163,322
General and administrative expenses	573,813	568,320
Advertising expenses—(Note 4A)	600,619	553,192
Royalty expense—(Note 4A)	501,378	453,752
Depreciation and amortization—(Notes 1D, 1E and 1F)	511,231	501,894
Interest expense—(Note 3)	<u>75,801</u>	<u>58,147</u>
Total operating expenses	<u>8,105,709</u>	<u>7,624,357</u>
Operating income (loss)	626,956	320,903
Gain/(loss) on sale/(disposal) of assets	(36,120)	(68,592)
Workers' Compensation Refund	0	170,000
Other income	<u>14,458</u>	<u>24,369</u>
Excess (deficiency) of revenues over expenses—(Note 1G)	<u>\$ 605,294</u>	<u>\$ 446,680</u>

See independent accountants' review report and notes to the financial statements.



Wendcharles II, LLC  
Statements of Changes in Members' Capital (Deficit)—Income Tax Basis  
For the Years Ended December 28, 2014 and December 29, 2013

Members' capital, December 30, 2012	\$ (195,954)
Excess of revenues (deficit) over expenses for the period ended December 29, 2013	446,680
Distributions paid to members	(294,490)
Purchase of members' interest	(5,300)
Capital contribution from members	<u>1,462,000</u>
Members' capital, December 29, 2013	1,412,936
Excess of revenues (deficit) over expenses for the period ended December 28, 2014	605,294
Distributions paid to members	(293,940)
Purchase of members' interest	(2,500)
Members' capital, December 28, 2014	<u>\$1,721,790</u>

See independent accountants' review report and notes to the financial statements.

Wendcharles II, LLC  
 Statements of Cash Flows—Income Tax Basis  
 For the Years Ended December 28, 2014 and December 29, 2013

	2014	2013
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 605,294	\$ 446,680
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	511,231	501,894
(Gain)/loss on (sale)/disposal of assets	36,120	68,592
Increase (decrease) in cash attributed to changes in assets and liabilities:		
Decrease (increase) in inventories	(311)	(1,935)
Decrease (increase) in prepaid expenses and other current assets	12,692	(10,040)
Increase (decrease) in accounts payable, accrued expenses and taxes	80,866	103,839
Total adjustments	640,598	662,350
Net cash provided by operating activities	1,245,892	1,109,030
Cash flows from investing activities:		
Capital expenditures, tangible and intangible assets	(538,122)	(1,070,192)
Deposits (paid) returned	6,085	3,000
Net cash provided by (used in) investing activities	(532,037)	(1,067,192)
Cash flows from financing activities:		
Repayments of note payable	(418,920)	(1,391,154)
Members' distributions	(293,940)	(294,490)
Redemption of member's interest	(2,500)	(5,300)
Proceeds from loan	267,720	400,000
Capital contributions	0	1,462,000
Net cash provided by (used in) financing activities	(447,640)	171,056
Net increase (decrease) in cash	266,215	212,894
Cash, beginning of period	664,589	451,695
Cash, end of period	\$ 930,804	\$ 664,589
Supplemental Information:		
Interest paid during the year	\$ 77,214	\$ 57,402

See independent accountants' review report and notes to the financial statements.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies

(A) The Company:

Wendcharles II, LLC was formed on June 24, 2008 pursuant to the South Carolina Code of Laws to acquire, own and operate six existing Wendy's Old Fashioned Hamburger Restaurants in the Charleston, South Carolina metropolitan area. As part of the same overall transaction, another South Carolina limited liability company, Wendcharles I, LLC, affiliated with the Company by certain common management and ownership interests, acquired eleven other existing Wendy's Old Fashioned Hamburger Restaurants in and proximate to North Charleston. The restaurants were all acquired from one unrelated seller for an aggregate purchase price of \$5,760,000, less net adjustments to the Company of approximately \$14,000. The Company's recorded goodwill in the amount of approximately \$4,060,000. The purchase price was financed principally by a \$3,500,000 loan from Bank of America, with the balance provided by capital contributions of the members. The acquisition closed and restaurant operations commenced on September 16, 2008.

The leases for the six leasehold estates, all in South Carolina, were assigned to the Company from different lessors. Two locations each are in Goose Creek and Summerville and one each is in North Charleston and Moncks Corner as follows: Goose Creek: 101 Red Bank Road; and 601 St. James Avenue; Summerville: 740 North Main Street; and 10012 Dorchester Road; North Charleston: 7440 Northwoods Boulevard; and Moncks Corner: 515 North Highway 52.

The Company is to continue in perpetuity, except it is to be dissolved as a result of the sale of all business operations or the sale of all or substantially all of its assets, in each of such cases upon the receipt of the consideration therefor in cash or the reduction to cash of non-cash consideration, or upon the occurrence of certain events as set forth in the operating agreement. (See Note 5B).

On December 26, 2011 the Company purchased the assets for a restaurant located at Sam Rittenberg Boulevard in Charleston, North Carolina from Wendcharles I, LLC, a related party. The Company also assumed the lease for the property. (See Note 4B).

In 2013 the Company purchased the assets for a restaurant located at 4892 Ashley Phosphate Road restaurant in North Charleston, North Carolina from Wendcharles I, LLC, a related party. The Company also assumed the lease for the property. (See Notes 4B and 6C).

The Company currently operates eight restaurants, all of which are leased. (See Note 4B).

(B) Income Tax Basis of Accounting:

The Company is treated as a partnership for federal and South Carolina income tax purposes. The accompanying financial statements have been prepared on the basis of accounting used to prepare the Company's federal partnership return. Such other comprehensive basis of accounting differs in certain respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in accordance with generally accepted accounting principles.

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(C) Inventories:

Inventories represent food and supplies and are stated at cost.

(D) Property, Equipment and Depreciation:

Property and equipment are stated at cost. Depreciation is provided by application of the straight-line method over depreciable lives as follows:

Land improvements	15 to 39 years
Leasehold improvements	15 to 39 years
Restaurant equipment	5 to 7 years

If it had qualifying property placed in service during the year, the Company has taken additional depreciation deductions in accordance with the federal government's enactment of the Economic Stimulus Act of 2008, amended by the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

(E) Goodwill:

Goodwill, representing the excess of the purchase price over the fair value of the assets acquired, is amortized over fifteen years.

(F) Deferred Costs:

The Company capitalized the costs incurred in obtaining its financing and its leases. These costs are amortized over the life of the loan.

(G) Income Taxes:

The Company was organized as a Limited Liability Company under the laws of South Carolina and is not subject to any federal or state income tax. For federal and South Carolina income tax purposes, the Company is treated as a partnership. Accordingly, each member is required to report on his federal and applicable state income tax return his distributive share of all items of income, gain, loss, deduction, credit and tax preference of the Company for any taxable year, whether or not any cash distribution has been or will be made to such member.

The Company's tax returns are subject to examination by the Federal and State taxing authorities. The tax laws, rules and regulations governing these returns are complex, technical and subject to varying interpretations. If an examination required the Company to make adjustments, the profit or loss allocated to the members would be adjusted accordingly. Management believes the Company is no longer subject to tax examinations for the years prior to 2010.

Although income tax rules are used to determine the timing of the reporting of revenues and expenses, non-taxable revenues and non-deductible expenses are included in the determination of net income in the accompanying financial statements.

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 1—Summary of Significant Accounting Policies—(Continued):

(H) Fiscal Year:

The Company's annual accounting period is a fiscal year ending on the last Sunday of December.

(I) Cash:

The Company maintains its cash in various banks. The accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation, to a maximum of \$250,000. At any time during the year, the cash balance may exceed \$250,000.

(J) Use of Estimates:

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(K) Advertising:

The Company expenses all advertising costs when incurred.

(L) Sales Tax:

The Company collects sales tax and remits to the state of South Carolina. The liability is reflected in taxes payable on the balance sheet.

Note 2—Property and Equipment

Property and equipment consist of the following:

	2014	2013
Construction in progress	\$ 43,230	\$ 0
Land improvements	292,060	256,229
Leasehold improvements	1,078,699	935,949
Restaurant equipment	1,692,438	1,510,570
Total	3,106,427	2,702,748
Less: Accumulated depreciation	2,169,608	1,880,401
Property and equipment, net	<u>\$ 936,819</u>	<u>\$ 822,347</u>

Note 3—Acquisition Debt

At the closing of the purchase transaction, the Company and its affiliate, Wendcharles I, LLC, jointly obtained a \$3,500,000 loan from Bank of America, with interest at a floating rate, initially equal to the thirty-day adjusted LIBOR plus 250 basis points for the period commencing on the closing date until four quarterly financial reports have been submitted and reviewed in accordance with the loan agreement and, thereafter, equal to the thirty day adjusted LIBOR plus a margin based on the funded debt to earnings before interest, taxes depreciation and amortization ("EBITDA") ratio. Based on the relative values of the leasehold interests acquired, \$1,800,000 and \$1,700,000, representing 51% and 49%, respectively, of the total principal amount, were recorded on the books of the Company and its affiliate, although they are jointly and severally liable for the loan.

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 3—Acquisition Debt—(Continued):

Beginning on November 1, 2008 and ending on August 1, 2015, monthly payments of interest and principal were due in an amount sufficient to amortize the loan over 13.5 years. The loan was repaid in 2013.

In June 2013 the Company borrowed \$400,000 from M&T Bank to repay the remaining balance on the Bank of America acquisition loan. Repayment terms are \$6,780 per month plus interest at an initial rate of 3% for 60 months. The loan was repaid in 2014.

In October 2011 the Company borrowed \$50,000 from M&T Bank for restaurant equipment. Repayment terms are monthly payments of \$1,388 plus interest at 3.24% for 36 months. The loan was repaid in 2014.

In August and October 2012 the Company borrowed two \$180,000 notes from Wendcapital LLC for renovations. Each note has a repayment term of \$1,757 per month which includes interest at 6%. Each loan matures on August 1, 2024. Additional interest may be charged if certain performance based sales are realized. (See Note 6C).

The future annual principal payments are as follows:

2015	\$ 24,237
2016	25,732
2017	27,320
2018	29,006
2019	30,795
Thereafter	<u>172,542</u>
	<u>\$309,632</u>

In April 2014 the Company borrowed \$180,000 from Wendcapital II, LLC a related party. Repayment terms are \$1,998 per month which includes interest at a rate of 6% for 120 months. Additional interest may be charged if certain sales performance goals are met. (See Note 6C).

The future annual principal payments are as follows:

2015	\$ 14,101
2016	14,970
2017	15,894
2018	16,874
2019	17,915
Thereafter	<u>91,304</u>
Total	<u>\$171,058</u>

In June 2014 the Company borrowed \$87,720 from M&T Bank for equipment. Repayment terms are \$2,597 per month which includes interest at a rate of 4% for 36 months.

The future annual principal payments are as follows:

2015	\$28,747
2016	32,513
2017	10,301
Total	<u>\$71,561</u>

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 4—Commitments and Contingencies

(A) Franchise Agreement Commitments:

The Company is the franchisee for the eight Wendy's restaurants it owns and operates. The franchise agreements obligate the Company to pay to Wendy's International a monthly royalty equal to 4% of the gross sales of each restaurant, or \$250, whichever is greater. The Company must also pay to Wendy's National Advertising Program 3.25% of the gross sales and spend not less than .75% of the gross sales of each restaurant for local and regional advertising.

(B) Minimum Operating Lease Commitments:

The lease for the restaurant located at 101 Red Bank Road in Goose Creek has a primary term that expires on November 30, 2032 and includes two five-year renewal options. The annual rent for the lease is \$96,000. In addition the Company is required to pay percentage rent equal to 10% of gross sales in excess of \$1,150,000.

The lease for the restaurant located at 740 North Main Street in Summerville had a primary term that expired on June 20, 2004. The current term expires on June 20, 2019 and includes one remaining five-year renewal options. The annual rent is \$67,628 for all terms of the lease.

The lease for the restaurant located at 10012 Dorchester Road in Summerville had a primary term that expired on April 30, 1995. The current term expires on April 30, 2020. The current annual rent for the lease is \$56,012 through April 30, 2015. At that time and on each five year anniversary thereafter, annual rent will be increased by the previous year's annual rent multiplied by 8%. In addition the company is required to pay percentage rent equal to 6% of gross sales in excess of base rent.

The lease for the restaurant located at 7440 Northwoods Blvd in North Charleston has a primary term that expires on November 8, 2020 and includes two ten year renewal options. The current annual rent for the lease is \$123,237 through November 30, 2015. At that time and on each five year anniversary thereafter, annual rent will be increased by the previous year's annual rent multiplied by 5%. In addition the Company is required to pay percentage rent equal to 6% of gross sales in excess of base rent.

The lease for the restaurant located at 601 St. James Avenue in Goose Creek has a primary term that expires on March 31, 2025 and includes two five-year renewal options. The current annual rent for the lease is \$109,901 through March 31, 2015. At that time and on each April 1 thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1%.

The lease for the restaurant located at 515 North Highway 52 in Moncks Corner has a primary term that expires on November 30, 2025 and includes two five-year renewal options. The current annual rent for the lease is \$132,742. On each December 1 thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1.5%.

The lease for the restaurant located at 1721 Sam Rittenberg Boulevard in Charleston has a primary term that expires on November 6, 2021 and includes two five-year renewal options. The annual rent is \$76,920. In addition the Company is required to pay percentage rent equal to 7% of gross sales.

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 4—Commitments and Contingencies—(Continued):

(B) Minimum Operating Lease Commitments—continued:

The lease for the restaurant located at 4892 Ashley Phosphate Road in North Charleston has a primary term that expires on March 31, 2025 and includes two five year renewal options. The current annual rent is \$103,977 through April 1, 2015. At that time and every one year anniversary thereafter, annual rent will be increased by the previous year's annual rent multiplied by 1%.

The Company is required to pay all realty taxes, insurance, routine maintenance and common charges for the above leases. Rent expense was \$877,436 in 2014 and \$828,754 in 2013 including percentage rent of \$106,241 in 2014 and \$95,737 in 2013.

Future annual minimum rentals are as follows:

2015	\$ 771,590
2016	783,697
2017	787,878
2018	792,111
2019	760,723
Thereafter	<u>3,608,313</u>
	<u>\$7,504,312</u>

(C) Financial and Operational Advisory Services Agreement:

The Company has a financial and operational advisory services agreement with three of its corporate officers. The agreement provides for these officers to: Consult with and advise the Company on applicable financial and/or operational matters and if required by the Company's debt, lease or franchise agreements, to which they are signatories, to remain ready, willing and able to maintain such status for the benefit of the Company, except where such guarantees are not needed; and remain able to provide such additional personal guarantees as, within their sole discretion, may reasonably be necessary to maintain the business of the Company. The initial term expires December 2011, and is automatically renewable annually thereafter, as long as the Company remains in business. The agreement also provides for the reimbursement of reasonable expenses incurred by the individuals in fulfilling their duties. (See Note 6A).

Financial and operating advisory services fees totaled \$19,200 in 2014 and \$19,200 in 2013.

Note 5—Capitalization and Operating Agreement

(A) Capitalization:

The Company's initial capitalization consisted of 800 units, of which 42 and 32 were sold to two managing members at \$100 per unit, or \$7,400 in the aggregate, and 64 units were sold to the third managing member at \$156 per unit, or \$10,000 in the aggregate. Of the remaining 646 units, 83 were sold at \$100 per unit, or \$8,300 in the aggregate, and 579 units were sold at per unit contributions of \$2,300 totaling \$1,331,700. All contributions totaled \$1,357,400. (See Note 5B).

In March of 2013 the Company issued 795 additional units, of which 731 were sold to the members at \$2,000 per unit, or \$1,462,000 in the aggregate. 64 units were issued to its President at no cost.

See independent accountants' review report.



Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 5—Capitalization and Operating Agreement—(Continued):

(B) Operating Agreement:

All purchasers of membership interests are parties to the Company's operating agreement which provides for the capitalization and operation of the Company, distributions to members and transfers of interests. Members' consents representing 75% of all membership interests are required for the following actions: Change in the operating agreement; voluntary dissolution; sale or exchange of substantially all assets; merger or consolidation; incurrence of debt or refinancing other than in the ordinary course of business or in connection with entering new or unrelated businesses; and removal of a manager, for cause. Members are not required to make up negative capital accounts.

Distributions either from cash flow generated by operations or capital transactions (as defined) other than capital contributions are made at the sole discretion of the managers, acting unanimously. Managers are elected by the members. Outside liens against membership interests are prohibited. For permitted transfers of membership interests, book value is equal to assets less liabilities using the income tax method/accrual basis of accounting, except for transfers involving the interest owned by the Company's President, in which case a special valuation adjustment is required through August 2013.

Members wishing to sell their interests shall submit their request in writing, together with appropriate documentation setting forth the terms of such sale, to the managing members, who within thirty days and at their sole discretion, shall approve or disapprove of such sale. If not approved, the managing members within fourteen additional days may elect to have the Company purchase the offered units at the stated terms. Such action by the managing members is to be by simple majority. If the managing members determine that the offered interests are not to be redeemed by the Company, then the interests shall be offered to the remaining members of the Company, pro-rata at the same offered terms, who will have 14 additional days to purchase the offered shares. If the interests are not purchased by the members, then they may be sold to the third-party purchaser at the offered terms, but the purchaser must become bound by the terms of the operating agreement. Membership interests may also be transferred to family members or trusts or by reason of death or incompetence.

In the event of a termination of a member's interest by death, retirement, resignation, expulsion, bankruptcy, incompetence, or in the case of a member that is not a natural person—dissolution, the Company must be dissolved unless it is continued by the consent of all the remaining members. Non-consenting members are deemed to offer and authorized representatives or trustees of deceased or bankrupt members may offer the applicable membership interest, first to the Company, and then to the consenting (continuing) members. In such case, the offered interests must be purchased by either the Company or one or more of the consenting members. Such purchases, unless made by the Company, are to be made pro-rata to the existing interests of purchasing members, unless they agree otherwise or there is only one purchasing member.

In any event, all offered interests of non-consenting members or by the estate, trustee, etc. of deceased or bankrupt members, etc. must be purchased by the Company or one or more consenting members or the Company must be dissolved and liquidated.

See independent accountants' review report.

Wendcharles II, LLC  
Notes to the Financial Statements  
December 28, 2014 and December 29, 2013

Note 6—Related Party Transactions

(A) Financial and Operating Advisory Service Fees:

The Company paid two of its three managing members and a third individual a total of \$19,200 in 2014 and \$19,200 in 2013 pursuant to a financial and operational advisory services agreement. (See Note 4C).

(B) Other:

In March 2009 the Company redeemed one member's .13% membership interest for \$500.

In January 2010 the Company redeemed one member's .13% membership interest for \$1,500.

In December 2011 the Company redeemed one member's .13% membership interest for \$1,500.

In March 2013 the Company redeemed one member's .13% membership interest for \$3,300.

In April 2013 the Company redeemed one member's .13% membership interest for \$2,000.

In April 2014 the Company redeemed one member's .13% membership interest for \$2,500.

(C) The Company, Wendcapital, LLC, Wendcapital II, LLC and Wendcharles I, LLC have certain common equity interests; however, they are not under common control.

Note 7—Pension Plan

The Company maintains a qualified cash or deferred compensation plan under section 401(K) of the Internal Revenue Code for all full-time employees meeting certain service requirements. Under the plan, employees may elect to defer up to (15%) of their salary, subject to Internal Revenue Service limits. A discretionary matching contribution may be made by the Company and added to each participant's account. Company contributions for the plan amounted to \$5 for 2014 and \$13 for 2013.

Note 8—Subsequent Event

Subsequent events have been evaluated through the date the financial statements were issued, as reflected on the independent accountants' review report.

See independent accountants' review report.