

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2014

Commission File Number: 000-51823

AEI INCOME & GROWTH FUND 26 LLC  
(Exact name of registrant as specified in its charter)

State of Delaware

(State or other jurisdiction of  
incorporation or organization)

41-2173048

(I.R.S. Employer  
Identification No.)

30 East 7<sup>th</sup> Street, Suite

1300

St. Paul, Minnesota 55101

(Address of principal executive offices)

(651) 227-7333

(Registrant's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 for 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 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  
 Non-accelerated filer

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

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**AEI INCOME & GROWTH FUND 26 LLC  
BALANCE SHEET**

**ASSETS**

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>Current Assets:</b>		
Cash	\$ 1,967,956	\$ 306,395
<b>Real Estate Held for Investment:</b>		
Land	3,966,489	4,855,829
Buildings and Equipment	8,167,480	10,332,327
Acquired Intangible Lease Assets	257,767	257,767
Real Estate Investments, at cost	12,391,736	15,445,923
Accumulated Depreciation and Amortization	(2,297,276)	(2,658,316)
Real Estate Held for Investment, Net	10,094,460	12,787,607
Equity Method Investment	1,402,941	0
Total Real Estate	11,497,401	12,787,607
Total Assets	<u>\$ 13,465,357</u>	<u>\$ 13,094,002</u>

**LIABILITIES AND MEMBERS' EQUITY**

<b>Current Liabilities:</b>		
Payable to AEI Fund Management, Inc.	\$ 16,465	\$ 9,784
Distributions Payable	236,083	236,082
Unearned Rent	43,621	0
Total Current Liabilities	296,169	245,866
<b>Long-term Liabilities:</b>		
Acquired Below-Market Lease Intangibles, Net	76,515	81,168
<b>Members' Equity (Deficit):</b>		
Managing Members	5,960	(10,919)
Limited Members – 10,000,000 Units authorized; 1,776,128 and 1,780,725 Units issued and outstanding as of 9/30/14 and 12/31/13, respectively	13,086,713	12,777,887
Total Members' Equity	13,092,673	12,766,968
Total Liabilities and Members' Equity	<u>\$ 13,465,357</u>	<u>\$ 13,094,002</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENT OF INCOME**  
(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Rental Income</b>	\$ 284,900	\$ 301,970	\$ 894,468	\$ 905,548
<b>Expenses:</b>				
LLC Administration – Affiliates	36,648	35,142	109,869	108,031
LLC Administration and Property Management – Unrelated Parties	4,997	7,537	29,129	26,319
Depreciation and Amortization	102,405	109,620	321,645	328,860
<b>Total Expenses</b>	<b>144,050</b>	<b>152,299</b>	<b>460,643</b>	<b>463,210</b>
<b>Operating Income</b>	140,850	149,671	433,825	442,338
<b>Other Income:</b>				
Income from Equity Method Investment	630,566	0	630,566	0
Interest Income	194	156	551	480
<b>Total Other Income</b>	<b>630,760</b>	<b>156</b>	<b>631,117</b>	<b>480</b>
<b>Net Income</b>	<b>\$ 771,610</b>	<b>\$ 149,827</b>	<b>\$ 1,064,942</b>	<b>\$ 442,818</b>
<b>Net Income Allocated:</b>				
Managing Members	\$ 30,256	\$ 4,495	\$ 39,056	\$ 13,285
Limited Members	741,354	145,332	1,025,886	429,533
<b>Total</b>	<b>\$ 771,610</b>	<b>\$ 149,827</b>	<b>\$ 1,064,942</b>	<b>\$ 442,818</b>
<b>Net Income per LLC Unit</b>	<b>\$ .42</b>	<b>\$ .08</b>	<b>\$ .58</b>	<b>\$ .24</b>
<b>Weighted Average Units Outstanding – Basic and Diluted</b>	<b>1,776,128</b>	<b>1,781,725</b>	<b>1,777,660</b>	<b>1,785,458</b>

The accompanying Notes to Financial Statements are an integral part of this statement.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENT OF CASH FLOWS**

(unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 1,064,942	\$ 442,818
Adjustments to Reconcile Net Income		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	316,992	324,207
Income from Equity Method Investment	(630,566)	0
Increase (Decrease) in Payable to AEI Fund Management, Inc.	6,681	6,578
Increase (Decrease) in Unearned Rent	43,621	22,917
Total Adjustments	(263,272)	353,702
Net Cash Provided By Operating Activities	801,670	796,520
<b>Cash Flows from Investing Activities:</b>		
Cash Paid for Equity Method Investment	(42,273)	0
Proceeds from Equity Method Investment	1,641,400	0
Net Cash Provided By (Used For) Investing Activities	1,599,127	0
<b>Cash Flows from Financing Activities:</b>		
Distributions Paid to Members	(708,247)	(705,329)
Redemption Payments	(30,989)	(81,391)
Net Cash Used For Financing Activities	(739,236)	(786,720)
<b>Net Increase (Decrease) in Cash</b>	<b>1,661,561</b>	<b>9,800</b>
<b>Cash, beginning of period</b>	<b>306,395</b>	<b>311,084</b>
<b>Cash, end of period</b>	<b>\$ 1,967,956</b>	<b>\$ 320,884</b>
<b>Supplemental Disclosure of Non-Cash Investing Activities:</b>		
Contribution of Real Estate in Exchange for Equity Method Investment	\$ 2,371,502	\$ 0

The accompanying Notes to Financial Statements are an integral part of this statement.

**AEI INCOME & GROWTH FUND 26 LLC**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY (DEFICIT)**  
(unaudited)

	<u>Managing Members</u>	<u>Limited Members</u>	<u>Total</u>	<u>Limited Member Units Outstanding</u>
<b>Balance, December 31, 2012</b>	\$ 2,058	\$ 13,197,447	\$ 13,199,505	1,792,925.0
Distributions Declared	(21,247)	(686,997)	(708,244)	
Redemption Payments	(2,442)	(78,949)	(81,391)	(11,200.0)
Net Income	<u>13,285</u>	<u>429,533</u>	<u>442,818</u>	
<b>Balance, September 30, 2013</b>	<u>\$ (8,346)</u>	<u>\$ 12,861,034</u>	<u>\$ 12,852,688</u>	<u>1,781,725.0</u>
<b>Balance, December 31, 2013</b>	\$ (10,919)	\$ 12,777,887	\$ 12,766,968	1,780,725.0
Distributions Declared	(21,248)	(687,000)	(708,248)	
Redemption Payments	(929)	(30,060)	(30,989)	(4,597.1)
Net Income	<u>39,056</u>	<u>1,025,886</u>	<u>1,064,942</u>	
<b>Balance, September 30, 2014</b>	<u>\$ 5,960</u>	<u>\$ 13,086,713</u>	<u>\$ 13,092,673</u>	<u>1,776,127.9</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**  
(unaudited)

(1) The condensed statements included herein have been prepared by the registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of operations for the interim period, on a basis consistent with the annual audited statements. The adjustments made to these condensed statements consist only of normal recurring adjustments. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the registrant's latest annual report on Form 10-K.

**(2) Organization –**

AEI Income & Growth Fund 26 LLC (“Company”), a Limited Liability Company, was formed on March 14, 2005 to acquire and lease commercial properties to operating tenants. The Company's operations are managed by AEI Fund Management XXI, Inc. (“AFM”), the Managing Member. Robert P. Johnson, the President and sole director of AFM, serves as the Special Managing Member. AFM is a wholly owned subsidiary of AEI Capital Corporation of which Mr. Johnson is the majority shareholder. AEI Fund Management, Inc. (“AEI”), an affiliate of AFM, performs the administrative and operating functions for the Company.

The terms of the offering called for a subscription price of \$10 per LLC Unit, payable on acceptance of the offer. The Company commenced operations on April 3, 2006 when minimum subscriptions of 150,000 LLC Units (\$1,500,000) were accepted. The offering terminated October 19, 2007, when the extended offering period expired. The Company received subscriptions for 1,832,736 Units. Under the terms of the Operating Agreement, the Limited Members and Managing Members contributed funds of \$18,327,360 and \$1,000, respectively. The Company shall continue until December 31, 2055, unless dissolved, terminated and liquidated prior to that date.

During operations, any Net Cash Flow, as defined, which the Managing Members determine to distribute will be distributed 97% to the Limited Members and 3% to the Managing Members. Distributions to Limited Members will be made pro rata by Units.

Any Net Proceeds of Sale, as defined, from the sale or financing of properties which the Managing Members determine to distribute will, after provisions for debts and reserves, be paid in the following manner: (i) first, 99% to the Limited Members and 1% to the Managing Members until the Limited Members receive an amount equal to: (a) their Adjusted Capital Contribution plus (b) an amount equal to 6.5% of their Adjusted Capital Contribution per annum, cumulative but not compounded, to the extent not previously distributed from Net Cash Flow; (ii) any remaining balance will be distributed 90% to the Limited Members and 10% to the Managing Members. Distributions to the Limited Members will be made pro rata by Units.

**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**

**(2) Organization – (Continued)**

For tax purposes, profits from operations, other than profits attributable to the sale, exchange, financing, refinancing or other disposition of property, will be allocated 97% to the Limited Members and 3% to the Managing Members. Net losses from operations will be allocated 99% to the Limited Members and 1% to the Managing Members.

For tax purposes, profits arising from the sale, financing, or other disposition of property will be allocated in accordance with the Operating Agreement as follows: (i) first, to those Members with deficit balances in their capital accounts in an amount equal to the sum of such deficit balances; (ii) second, 99% to the Limited Members and 1% to the Managing Members until the aggregate balance in the Limited Members' capital accounts equals the sum of the Limited Members' Adjusted Capital Contributions plus an amount equal to 6.5% of their Adjusted Capital Contributions per annum, cumulative but not compounded, to the extent not previously allocated; (iii) third, the balance of any remaining gain will then be allocated 90% to the Limited Members and 10% to the Managing Members. Losses will be allocated 99% to the Limited Members and 1% to the Managing Members.

The Managing Members are not required to currently fund a deficit capital balance. Upon liquidation of the Company or withdrawal by a Managing Member, the Managing Members will contribute to the Company an amount equal to the lesser of the deficit balances in their capital accounts or 1.01% of the total capital contributions of the Limited Members over the amount previously contributed by the Managing Members.

**(3) Recently Adopted Accounting Standards -**

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This topic amends the requirements for reporting discontinued operations. The disposal of a component must represent a strategic shift that will have a major effect on the Company's operations and financial results in order to be reported as discontinued operations, and require certain additional interim and annual disclosures. The amendments in this ASU are effective for reporting periods beginning after December 15, 2014 with early adoption permitted. The Company has early adopted this standard effective January 1, 2014 and has applied the provisions prospectively. As a result, the Company anticipates that properties will not be considered discontinued operations when the properties are sold after January 1, 2014, with the exception of properties that were classified as Real Estate Held for Sale at December 31, 2013.



**AEI INCOME & GROWTH FUND 26 LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**

**(4) Equity Method Investment –**

On August 29, 2014, to facilitate the sale of its Applebee’s restaurant in Indianapolis, Indiana, the Company contributed the property via a limited liability company to AEI Net Lease Portfolio DST (“ANLP”), a Delaware statutory trust (“DST”), in exchange for 28.3% of the Class B ownership interests in ANLP. A second property owned by an affiliate of the Company, along with a third property owned jointly by two other affiliated entities, were also contributed to ANLP in exchange for 71.7% of the Class B ownership interests in ANLP. In addition, cash was contributed for working capital. A DST is a recognized mechanism for selling property to investors who are looking for replacement real estate to complete like-kind exchanges under Section 1031 of the Internal Revenue Code. As investors purchase Class A ownership interests in ANLP, the proceeds received will be used to redeem, on a one-for-one basis, the Class B ownership interests of the Company and affiliated entities. From August 29, 2014 to September 30, 2014, ANLP sold 45.737% of its Class A ownership interests to investors and redeemed 45.737% of the Class B ownership interests from the Company and affiliated entities. During October 2014, ANLP sold the remaining 54.263% of its Class A ownership interests to investors and redeemed 54.263% of the Class B ownership interests from the Company and affiliated entities.

The investment in ANLP is recorded using the equity method of accounting in the accompanying financial statements. Under the equity method, the investment in ANLP is stated at cost and adjusted for the Company’s share of net income or losses and reduced by proceeds received from the sale of the Class B ownership interests of ANLP as well as distributions from net rental income. As of September 30, 2014, the investment balance consists of the following:

Real Estate Contributed	\$	2,371,502
Cash Contributed		42,273
Net Income – Rental Activity		14,920
Net Income – Gain on Sale of Real Estate		615,646
Distributions from Net Rental Income		(14,920)
Proceeds from Sale of Class B Interests		<u>(1,626,480)</u>
Equity Method Investment	\$	<u><u>1,402,941</u></u>

**(5) Payable to AEI Fund Management, Inc. –**

AEI Fund Management, Inc. performs the administrative and operating functions for the Company. The payable to AEI Fund Management represents the balance due for those services. This balance is non-interest bearing and unsecured and is to be paid in the normal course of business.

**(6) Fair Value Measurements –**

As of September 30, 2014 and December 31, 2013, the Company had no assets or liabilities measured at fair value on a recurring basis or nonrecurring basis.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

This section contains "forward-looking statements" which represent management's expectations or beliefs concerning future events, including statements regarding anticipated application of cash, expected returns from rental income, growth in revenue, the sufficiency of cash to meet operating expenses, rates of distribution, and other matters. These, and other forward-looking statements, should be evaluated in the context of a number of factors that may affect the Company's financial condition and results of operations, including the following:

- Market and economic conditions which affect the value of the properties the Company owns and the cash from rental income such properties generate;
- the federal income tax consequences of rental income, deductions, gain on sales and other items and the effects of these consequences for Members;
- resolution by the Managing Members of conflicts with which they may be confronted;
- the success of the Managing Members of locating properties with favorable risk return characteristics;
- the effect of tenant defaults; and
- the condition of the industries in which the tenants of properties owned by the Company operate.

### **Application of Critical Accounting Policies**

The Company's financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP). Preparing the financial statements requires management to use judgment in the application of these accounting policies, including making estimates and assumptions. These judgments will affect the reported amounts of the Company's assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and will affect the reported amounts of revenue and expenses during the reporting periods. It is possible that the carrying amount of the Company's assets and liabilities, or the results of reported operations, will be affected if management's estimates or assumptions prove inaccurate.

Management of the Company evaluates the following accounting estimates on an ongoing basis, and has discussed the development and selection of these estimates and the management discussion and analysis disclosures regarding them with the managing member of the Company.

### ***Allocation of Purchase Price of Acquired Properties***

Upon acquisition of real properties, the Company records them in the financial statements at cost. The purchase price is allocated to tangible assets, consisting of land and building, and to identified intangible assets and liabilities, which may include the value of above market and below market leases and the value of in-place leases. The allocation of the purchase price is based upon the fair value of each component of the property. Although independent appraisals may be used to assist in the determination of fair value, in many cases these values will be based upon management's assessment of each property, the selling prices of comparable properties and the discounted value of cash flows from the asset.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)**

The fair values of above market and below market in-place leases will be recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) an estimate of fair market lease rates for the corresponding in-place leases measured over a period equal to the non-cancelable term of the lease including any bargain renewal periods. The above market and below market lease values will be capitalized as intangible lease assets or liabilities. Above market lease values will be amortized as an adjustment of rental income over the remaining term of the respective leases. Below market leases will be amortized as an adjustment of rental income over the remaining terms of the respective leases, including any bargain renewal periods. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of above market and below market in-place lease values relating to that lease would be recorded as an adjustment to rental income.

The fair values of in-place leases will include estimated direct costs associated with obtaining a new tenant, and opportunity costs associated with lost rentals which are avoided by acquiring an in-place lease. Direct costs associated with obtaining a new tenant may include commissions, tenant improvements, and other direct costs and are estimated, in part, by management's consideration of current market costs to execute a similar lease. These direct costs will be included in intangible lease assets on the balance sheet and will be amortized to expense over the remaining term of the respective leases. The value of opportunity costs will be calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These intangibles will be included in intangible lease assets on the balance sheet and will be amortized to expense over the remaining term of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts of in-place lease assets relating to that lease would be expensed.

The determination of the fair values of the assets and liabilities acquired will require the use of significant assumptions with regard to the current market rental rates, rental growth rates, discount and capitalization rates, interest rates and other variables. If management's estimates or assumptions prove inaccurate, the result would be an inaccurate allocation of purchase price, which could impact the amount of reported net income.

### ***Carrying Value of Properties***

Properties are carried at original cost, less accumulated depreciation and amortization. The Company tests long-lived assets for recoverability when events or changes in circumstances indicate that the carrying value may not be recoverable. For properties the Company will hold and operate, management determines whether impairment has occurred by comparing the property's probability-weighted future undiscounted cash flows to its current carrying value. For properties held for sale, management determines whether impairment has occurred by comparing the property's estimated fair value less cost to sell to its current carrying value. If the carrying value is greater than the net realizable value, an impairment loss is recorded to reduce the carrying value of the property to its net realizable value. Changes in these assumptions or analysis may cause material changes in the carrying value of the properties.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)**

### ***Allocation of Expenses***

AEI Fund Management, Inc. allocates expenses to each of the funds they manage primarily on the basis of the number of hours devoted by their employees to each fund's affairs. They also allocate expenses at the end of each month that are not directly related to a fund's operations based upon the number of investors in the fund and the fund's capitalization relative to other funds they manage. The Company reimburses these expenses subject to detailed limitations contained in the Operating Agreement.

### **Results of Operations**

For the nine months ended September 30, 2014 and 2013, the Company recognized rental income of \$894,468 and \$905,548, respectively. In 2014, rental income decreased due to the contribution of one property in 2014 to a DST, which was partially offset by rent increases on three properties. Based on the scheduled rent for the properties as of October 31, 2014, the Company expects to recognize rental income of approximately \$1,142,000 and \$992,000 in 2014 and 2015, respectively.

For the nine months ended September 30, 2014 and 2013, the Company incurred LLC administration expenses from affiliated parties of \$109,869 and \$108,031, respectively. These administration expenses include costs associated with the management of the properties, processing distributions, reporting requirements and communicating with the Limited Members. During the same periods, the Company incurred LLC administration and property management expenses from unrelated parties of \$29,129 and \$26,319, respectively. These expenses represent direct payments to third parties for legal and filing fees, direct administrative costs, outside audit costs, taxes, insurance and other property costs.

On August 29, 2014, to facilitate the sale of its Applebee's restaurant in Indianapolis, Indiana, the Company contributed the property via a limited liability company to AEI Net Lease Portfolio DST ("ANLP"), a Delaware statutory trust ("DST"), in exchange for 28.3% of the Class B ownership interests in ANLP. A second property owned by an affiliate of the Company, along with a third property owned jointly by two other affiliated entities, were also contributed to ANLP in exchange for 71.7% of the Class B ownership interests in ANLP. In addition, cash was contributed for working capital. A DST is a recognized mechanism for selling property to investors who are looking for replacement real estate to complete like-kind exchanges under Section 1031 of the Internal Revenue Code. As investors purchase Class A ownership interests in ANLP, the proceeds received will be used to redeem, on a one-for-one basis, the Class B ownership interests of the Company and affiliated entities. From August 29, 2014 to September 30, 2014, ANLP sold 45.737% of its Class A ownership interests to investors and redeemed 45.737% of the Class B ownership interests from the Company and affiliated entities. During October 2014, ANLP sold the remaining 54.263% of its Class A ownership interests to investors and redeemed 54.263% of the Class B ownership interests from the Company and affiliated entities.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)**

The investment in ANLP is recorded using the equity method of accounting in the accompanying financial statements. Under the equity method, the investment in ANLP is stated at cost and adjusted for the Company's share of net income or losses and reduced by proceeds received from the sale of the Class B ownership interests of ANLP as well as distributions from net rental income. For the nine months ended September 30, 2014, the Company's share of the net income of ANLP was \$630,566.

For the nine months ended September 30, 2014 and 2013, the Company recognized interest income of \$551 and \$480, respectively.

Management believes inflation has not significantly affected income from operations. Leases may contain rent increases, based on the increase in the Consumer Price Index over a specified period, which will result in an increase in rental income over the term of the leases. Inflation also may cause the real estate to appreciate in value. However, inflation and changing prices may have an adverse impact on the operating margins of the properties' tenants, which could impair their ability to pay rent and subsequently reduce the Net Cash Flow available for distributions.

### **Liquidity and Capital Resources**

During the nine months ended September 30, 2014, the Company's cash balances increased \$1,661,561 as a result of cash generated from operating activities in excess of distributions and redemption payments paid to the Members, and proceeds received from an equity method investment, which were partially offset by cash paid for an equity method investment. During the nine months ended September 30, 2013, the Company's cash balances increased \$9,800 as a result of cash generated from operating activities in excess of distributions and redemption payments paid to the Members.

Net cash provided by operating activities increased from \$796,520 in 2013 to \$801,670 in 2014 as a result of an increase in net timing differences in the collection of payments from the tenants and the payment of expenses, which were partially offset by a decrease in total rental and interest income in 2014 and an increase in LLC administration and property management expenses in 2014.

The major components of the Company's cash flow from investing activities are investments in real estate and proceeds from the sale of real estate, including distributions from an equity method investment. During the nine months ended September 30, 2014, the Company paid cash for an equity method investment of \$42,273. During the nine months ended September 30, 2014, the Company received proceeds from the equity method investment of \$1,641,400. All but a small portion of these proceeds were generated from the sale of the Applebee's restaurant as discussed above.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS. (Continued)**

The Company's primary use of cash flow, other than investment in real estate, is distribution and redemption payments to Members. The Company declares its regular quarterly distributions before the end of each quarter and pays the distribution in the first week after the end of each quarter. The Company attempts to maintain a stable distribution rate from quarter to quarter. Redemption payments are paid to redeeming Members on a semi-annual basis.

For the nine months ended September 30, 2014 and 2013, the Company declared distributions of \$708,248 and \$708,244, respectively. Pursuant to the Operating Agreement, distributions of Net Cash Flow were allocated 97% to the Limited Members and 3% to the Managing Members. The Limited Members received distributions of \$687,000 and \$686,997 and the Managing Members received distributions of \$21,248 and \$21,247 for the periods, respectively.

The Company may acquire Units from Limited Members who have tendered their Units to the Company. Such Units may be acquired at a discount. The Company will not be obligated to purchase in any year more than 2% of the total number of Units outstanding on January 1 of such year. In no event shall the Company be obligated to purchase Units if, in the sole discretion of the Managing Member, such purchase would impair the capital or operation of the Company.

On April 1, 2014, three Limited Members redeemed a total of 4,597.1 Units for \$30,060 in accordance with the Operating Agreement. On April 1, 2013, four Limited Members redeemed a total of 11,200.0 Units for \$78,949. The Company acquired these Units using Net Cash Flow from operations. The redemptions increase the remaining Limited Members' ownership interest in the Company. As a result of these redemption payments and pursuant to the Operating Agreement, the Managing Members received distributions of \$929 and \$2,442 in 2014 and 2013, respectively.

The continuing rent payments from the properties, together with cash generated from property sales, should be adequate to fund continuing distributions and meet other Company obligations on both a short-term and long-term basis.

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

As of September 30, 2014 and December 31, 2013, the Company had no material off-balance sheet arrangements that had or are reasonably likely to have current or future effects on its financial condition, results of operations, liquidity or capital resources.

### **ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not required for a smaller reporting company.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **(a) Disclosure Controls and Procedures.**

Under the supervision and with the participation of management, including its President and Chief Financial Officer, the Managing Member of the Company evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the President and Chief Financial Officer of the Managing Member concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to management, including the President and Chief Financial Officer of the Managing Member, in a manner that allows timely decisions regarding required disclosure.

#### **(b) Changes in Internal Control Over Financial Reporting.**

During the most recent period covered by this report, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

There are no material pending legal proceedings to which the Company is a party or of which the Company's property is subject.

### **ITEM 1A. RISK FACTORS.**

Not required for a smaller reporting company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES & USE OF PROCEEDS.**

(a) None.

(b) Not applicable.

(c) Pursuant to Section 7.7 of the Operating Agreement, each Limited Member has the right to present Units to the Company for purchase by submitting notice to the Managing Member during January or July of each year. The purchase price of the Units is equal to 85% of the net asset value per Unit, as of the first business day of January or July of each year, as determined by the Managing Member in accordance with the provisions of the Operating Agreement. The purchase price is equal to 100% of the net asset value per Unit in the case of Units of a deceased investor, who purchased the Units in the initial offering and who is a natural person, including Units held by an investor that is an IRA or other qualified plan for which the deceased person was the primary beneficiary, or Units held by an investor that is a grantor trust for which the deceased person was the grantor.

Units tendered to the Company during January and July are redeemed on April 1<sup>st</sup> and October 1<sup>st</sup>, respectively, of each year subject to the following limitations. The Company will not be obligated to purchase in any year more than 2% of the total number of Units outstanding on January 1 of such year. In no event shall the Company be obligated to purchase Units if, in the sole discretion of the Managing Member, such purchase would impair the capital or operation of the Company. During the period covered by this report, the Company did not purchase any Units.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

- 31.1 Certification of Chief Executive Officer of Managing Member pursuant to Rule 15d-14(a)(17 CFR 240.15d-14(a)) and Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer of Managing Member pursuant to Rule 15d-14(a)(17 CFR 240.15d-14(a)) and Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer of Managing Member pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



## SIGNATURES

Pursuant to the requirements 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.

Dated: November 12, 2014

AEI Income & Growth Fund 26  
LLC

By: AEI Fund Management  
XXI, Inc.

Its: Managing Member

By: /s/ ROBERT P  
JOHNSON

Robert P. Johnson  
President  
(Principal Executive  
Officer)

By: /s/ PATRICK W  
KEENE

Patrick W. Keene  
Chief Financial Officer  
(Principal Accounting  
Officer)

**CERTIFICATIONS**

I, Robert P. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AEI Income & Growth Fund 26 LLC;
2. Based on my knowledge, this 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2014

/s/ ROBERT P JOHNSON  
Robert P. Johnson, President  
AEI Fund Management XXI,  
Inc.  
Managing General Partner

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**CERTIFICATIONS**

I, Patrick W. Keene, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AEI Income & Growth Fund 26 LLC;
2. Based on my knowledge, this 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2014

/s/ PATRICK W KEENE  
Patrick W. Keene, Chief Financial  
Officer  
AEI Fund Management XXI, Inc.  
Managing General Partner

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**CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of AEI Income & Growth Fund 26 LLC (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert P. Johnson, President of AEI Fund Management XXI, Inc., the Managing Member of the Company, and Patrick W. Keene, Chief Financial Officer of AEI Fund Management XXI, Inc., each certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT P JOHNSON  
Robert P. Johnson, President  
AEI Fund Management XXI,  
Inc.  
Managing General Partner  
November 12, 2014

/s/ PATRICK W KEENE  
Patrick W. Keene, Chief  
Financial Officer  
AEI Fund Management XXI,  
Inc.  
Managing General Partner  
November 12, 2014

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