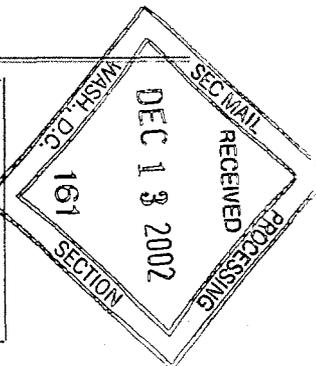


SEC 1972 (6-02) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

**ATTENTION**  
Failure to file notice in the appropriate states will not result in a loss of the federal exemption. Conversely, failure to file the appropriate federal notice will not result in a loss of an available state exemption state exemption unless such exemption is predicated on the filing of a federal notice.



1211279

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

OMB APPROVAL
OMB Number: 3235-0076
Expires: May 31, 2005
Estimated average burden hours per response... 1



02066926

FORM D

NOTICE OF SALE OF SECURITIES  
PURSUANT TO REGULATION D,  
SECTION 4(6), AND/OR  
UNIFORM LIMITED OFFERING EXEMPTION

PROCESSED

DEC 20 2002

THOMSON FINANCIAL

SEC USE ONLY	
Prefix	Serial
DATE RECEIVED	

Name of Offering ([ ] check if this is an amendment and name has changed, and indicate change.)

Filing Under (Check box(es) that apply): [ ] Rule 504 [ ] Rule 505 [x] Rule 506 [ ] Section 4(6) [ ] ULOE

Type of Filing: [x] New Filing [ ] Amendment

A. BASIC IDENTIFICATION DATA

1. Enter the information requested about the issuer

Name of Issuer ([ ] check if this is an amendment and name has changed, and indicate change:)

Palisades Regional Investment Fund, LLC

Address of Executive Offices (Number and Street, City, State, Zip Code) Telephone Number (Including Area Code)

640 Palisade Avenue, Englewood Cliffs, NJ 07632 (201) 894-5000

Address of Principal Business Operations (Number and Street, City, State, Zip Code) Telephone Number

Same

(Including Area Code)  
(if different from Executive Offices)

Brief Description of Business Investment Fund

Type of Business Organization

corporation  limited partnership, already formed  other (please specify): limited liability company  
 business trust  limited partnership, to be formed

Month Year

Actual or Estimated Date of Incorporation or Organization: [0] 9 [0] 2  Actual  Estimated

Jurisdiction of Incorporation or Organization: (Enter two-letter U.S. Postal Service abbreviation for State:  
CN for Canada; FN for other foreign jurisdiction) [N] [T]

**GENERAL INSTRUCTIONS**

**Federal:**

*Who Must File:* All issuers making an offering of securities in reliance on an exemption under Regulation D or Section 4(6), 17 CFR 230.501 et seq. or 15 U.S.C. 77d(6).

*When to File:* A notice must be filed no later than 15 days after the first sale of securities in the offering. A notice is deemed filed with the U.S. Securities and Exchange Commission (SEC) on the earlier of the date it is received by the SEC at the address given below or, if received at that address after the date on which it is due, on the date it was mailed by United States registered or certified mail to that address.

*Where to File:* U.S. Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

*Copies Required:* Five (5) copies of this notice must be filed with the SEC, one of which must be manually signed. Any copies not manually signed must be photocopies of manually signed copy or bear typed or printed signatures.

*Information Required:* A new filing must contain all information requested. Amendments need only report the name of the issuer and offering, any changes thereto, the information requested in Part C, and any material changes from the information previously supplied in Parts A and B. Part E and the Appendix need not be filed with the SEC.

*Filing Fee:* There is no federal filing fee.

**State:**

This notice shall be used to indicate reliance on the Uniform Limited Offering Exemption (ULOE) for sales of securities in those states that have adopted ULOE and that have adopted this form. Issuers relying on ULOE must file a separate notice with the Securities Administrator in each state where sales are to be, or have been made. If a state requires the payment of a fee as a precondition to the claim for the exemption, a fee in the proper amount shall accompany this form. This notice shall be filed in the appropriate states in accordance with state law. The Appendix in the notice constitutes a part of this notice and must be completed.

**A. BASIC IDENTIFICATION DATA**

2. Enter the information requested for the following:

- Each promoter of the issuer, if the issuer has been organized within the past five years;

- Each beneficial owner having the power to vote or dispose, or direct the vote or disposition of, 10% or more of a class of equity securities of the issuer;
- Each executive officer and director of corporate issuers and of corporate general and managing partners of partnership issuers; and
- Each general and managing partner of partnership issuers.

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Palisades Fund Management, LLC

Business or Residence Address (Number and Street, City, State, Zip Code)  
640 Palisade Avenue, Englewood Cliffs, NJ 07632

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Procida, William

Business or Residence Address (Number and Street, City, State, Zip Code)  
640 Palisade Avenue, Englewood Cliffs, NJ 07632

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Zurlini, Mark

Business or Residence Address (Number and Street, City, State, Zip Code)  
640 Palisade Avenue, Englewood Cliffs, NJ 07632

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply:  Promoter  Beneficial Owner  Executive Officer  Director  General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

(Use blank sheet, or copy and use additional copies of this sheet, as necessary.)

**B. INFORMATION ABOUT OFFERING**

1. Has the issuer sold, or does the issuer intend to sell, to non-accredited investors in this offering?..... Yes No

Answer also in Appendix, Column 2, if filing under ULOE.

2. What is the minimum investment that will be accepted from any individual?..... \$250,000

3. Does the offering permit joint ownership of a single unit?..... Yes No

4. Enter the information requested for each person who has been or will be paid or given, directly or indirectly, any commission or similar remuneration for solicitation of purchasers in connection with sales of securities in the offering. If a person to be listed is an associated person or agent of a broker or dealer registered with the SEC and/or with a state or states, list the name of the broker or dealer. If more than five (5) persons to be listed are associated persons of such a broker or dealer, you may set forth the information for that broker or dealer only.

Not Applicable

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

None

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) .....  All States

[AL]	[AK]	[AZ]	[AR]	[CA]	[CO]	<input checked="" type="checkbox"/> [CT]	[DE]	[DC]	<input checked="" type="checkbox"/> [FL]	[GA]	[HI]	[ID]
[IL]	[IN]	[IA]	[KS]	[KY]	[LA]	[ME]	[MD]	[MA]	[MI]	[MN]	[MS]	[MO]
[MT]	[NE]	[NV]	[NH]	<input checked="" type="checkbox"/> [NJ]	[NM]	<input checked="" type="checkbox"/> [NY]	[NC]	[ND]	[OH]	[OK]	[OR]	<input checked="" type="checkbox"/> [PA]
[RI]	[SC]	[SD]	[TN]	[TX]	[UT]	[VT]	[VA]	[WA]	[WV]	<input checked="" type="checkbox"/> [WI]	[WY]	[PR]

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) ..... [ ] All States

[AL]	[AK]	[AZ]	[AR]	[CA]	[CO]	[CT]	[DE]	[DC]	[FL]	[GA]	[HI]	[ID]
[IL]	[IN]	[IA]	[KS]	[KY]	[LA]	[ME]	[MD]	[MA]	[MI]	[MN]	[MS]	[MO]
[MT]	[NE]	[NV]	[NH]	[NJ]	[NM]	[NY]	[NC]	[ND]	[OH]	[OK]	[OR]	[PA]
[RI]	[SC]	[SD]	[TN]	[TX]	[UT]	[VT]	[VA]	[WA]	[WV]	[WI]	[WY]	[PR]

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) ..... [ ] All States

[AL]	[AK]	[AZ]	[AR]	[CA]	[CO]	[CT]	[DE]	[DC]	[FL]	[GA]	[HI]	[ID]
[IL]	[IN]	[IA]	[KS]	[KY]	[LA]	[ME]	[MD]	[MA]	[MI]	[MN]	[MS]	[MO]
[MT]	[NE]	[NV]	[NH]	[NJ]	[NM]	[NY]	[NC]	[ND]	[OH]	[OK]	[OR]	[PA]
[RI]	[SC]	[SD]	[TN]	[TX]	[UT]	[VT]	[VA]	[WA]	[WV]	[WI]	[WY]	[PR]

(Use blank sheet, or copy and use additional copies of this sheet, as necessary.)

**C. OFFERING PRICE, NUMBER OF INVESTORS, EXPENSES AND USE OF PROCEEDS**

1. Enter the aggregate offering price of securities included in this offering and the total amount already sold. Enter "0" if answer is "none" or "zero." If the transaction is an exchange offering, check this box " and indicate in the columns below the amounts of the securities offered for exchange and already exchanged.

Type of Security	Aggregate Offering Price	Amount Already Sold
Debt .....	\$ _____	\$ _____
Equity .....	\$ _____	\$ _____
<input type="checkbox"/> Common <input type="checkbox"/> Preferred		
Convertible Securities (including warrants) .....	\$ _____	\$ _____
Partnership Interests .....	\$ _____	\$ _____
Other (Specify <u>Units of Membership Interest</u> ) .....	\$ 25,000,000	\$ 0
Total .....	\$ 25,000,000	\$ 0

Answer also in Appendix, Column 3, if filing under ULOE.

2. Enter the number of accredited and non-accredited investors who have purchased securities in this offering and the aggregate dollar amounts of their purchases. For offerings under Rule 504, indicate the number of persons who have purchased securities and the aggregate dollar amount of their purchases on the total lines. Enter "0" if answer is "none" or "zero."

	Number Investors	Aggregate Dollar Amount of Purchases
Accredited Investors .....	0	\$ 0
Non-accredited Investors .....	0	\$ 0
Total (for filings under Rule 504 only) .....	0	\$ 0

Answer also in Appendix, Column 4, if filing under ULOE.

3. If this filing is for an offering under Rule 504 or 505, enter the information requested for all securities sold by the issuer, to date, in offerings of the types indicated, the twelve (12) months prior to the first sale of securities in this offering. Classify securities by type listed in Part C-Question 1.

Type of offering	Type of Security	Dollar Amount Sold
Rule 505 .....	_____	\$ _____
<u>Regulation A</u> .....	_____	\$ _____
Rule 504 .....	_____	\$ _____
Total .....	_____	\$ _____

4. a. Furnish a statement of all expenses in connection with the issuance and distribution of the securities in this offering. Exclude amounts relating solely to organization expenses of the issuer. The information may be given as subject to future contingencies. If the amount of an expenditure is not known, furnish an estimate and check the box to the left of the estimate.

Transfer Agent's Fees .....	<input type="checkbox"/> \$ 0
Printing and Engraving Costs .....	<input type="checkbox"/> \$ 0
Legal Fees .....	<input checked="" type="checkbox"/> \$ 50,000
Accounting Fees .....	<input checked="" type="checkbox"/> \$ 25,000
Engineering Fees .....	<input type="checkbox"/> \$
Sales Commissions (specify finders' fees separately) .....	<input type="checkbox"/> \$
Other Expenses (identify) <u>printing, mailing, other</u> .....	<input type="checkbox"/> \$ 25,000
Total .....	<input checked="" type="checkbox"/> \$ 100,000

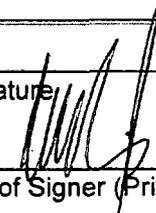
b. Enter the difference between the aggregate offering price given in response to Part C - Question 1 and total expenses furnished in response to Part C - Question 4.a. This difference is the "adjusted gross proceeds to the issuer." ..... \$ 24,900,000

5. Indicate below the amount of the adjusted gross proceeds to the issuer used or proposed to be used for each of the purposes shown. If the amount for any purpose is not known, furnish an estimate and check the box to the left of the estimate. The total of the payments listed must equal the adjusted gross proceeds to the issuer set forth in response to Part C - Question 4.b above.

	Payments to Officers, Directors, & Affiliates	Payments To Others
Salaries and fees .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Purchase of real estate .....	<input type="checkbox"/> \$ 0	<input checked="" type="checkbox"/> \$ 10,000,000
Purchase, rental or leasing and installation of machinery and equipment .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Construction or leasing of plant buildings and facilities.....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Acquisition of other businesses (including the value of securities involved in this offering that may be used in exchange for the assets or securities of another issuer pursuant to a merger) .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Repayment of indebtedness .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Working capital .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 0
Other (specify): <u>loans to third parties, loan purchases and participations</u> .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 14,900,000
Column Totals .....	<input type="checkbox"/> \$ 0	<input type="checkbox"/> \$ 24,900,000
Total Payments Listed (column totals added) .....	<input checked="" type="checkbox"/> \$ 24,900,000	

**D. FEDERAL SIGNATURE**

The issuer has duly caused this notice to be signed by the undersigned duly authorized person. If this notice is filed under Rule 505, the following signature constitutes an undertaking by the issuer to furnish to the U.S. Securities and Exchange Commission, upon written request of its staff, the information furnished by the issuer to any non-accredited investor pursuant to paragraph (b)(2) of Rule 502.

Issuer (Print or Type) Palisades Regional Investment Fund, LLC	Signature 	Date 12/6/02
Name of Signer (Print or Type) By: Palisades Fund Management, LLC By: William Procida	Title of Signer (Print or Type) Manager	

**ATTENTION**  
**Intentional misstatements or omissions of fact constitute federal criminal violations. (See 18 U.S.C. 1001.)**

**E. STATE SIGNATURE**

1. Is any party described in 17 CFR 230.262 presently subject to any of the disqualification provisions of such rule? ..... Yes No

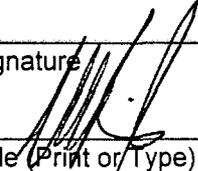
See Appendix, Column 5, for state response.

2. The undersigned issuer hereby undertakes to furnish to any state administrator of any state in which this notice is filed, a notice on Form D (17 CFR 239,500) at such times as required by state law.

3. The undersigned issuer hereby undertakes to furnish to the state administrators, upon written request, information furnished by the issuer to offerees.

4. The undersigned issuer represents that the issuer is familiar with the conditions that must be satisfied to be entitled to the Uniform limited Offering Exemption (ULOE) of the state in which this notice is filed and understands that the issuer claiming the availability of this exemption has the burden of establishing that these conditions have been satisfied.

The issuer has read this notification and knows the contents to be true and has duly caused this notice to be signed on its behalf by the undersigned duly authorized person.

Issuer (Print or Type) Palisades Regional Investment Fund, LLC	Signature 	Date 12/6/02
Name of Signer (Print or Type) By: Palisades Fund Management, LLC, Fund Manager By: William Procida, Manager	Title (Print or Type) Manager	

*Instruction:*

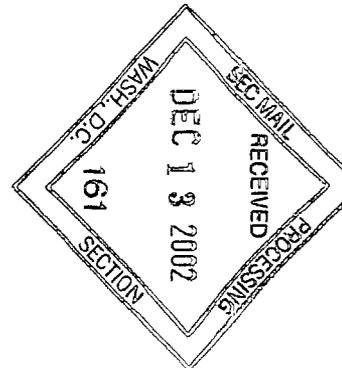
Print the name and title of the signing representative under his signature for the state portion of this form. One copy of every notice on Form D must be manually signed. Any copies not manually signed must be photocopies of the manually signed copy or bear typed or printed signatures.

**APPENDIX**

Offeree Name: \_\_\_\_\_  
Memorandum No.: \_\_\_\_\_

# PALISADES FINANCIAL, LLC

CONFIDENTIAL  
PRIVATE PLACEMENT MEMORANDUM



## PALISADES REGIONAL INVESTMENT FUND A LIMITED LIABILITY COMPANY

PRIVATE PLACEMENT OF 100 UNITS OF MEMBERSHIP INTERESTS  
\$250,000 PER UNIT  
MINIMUM INVESTMENT – ONE UNIT  
(SUBJECT TO THE RIGHT OF THE FUND MANAGER TO  
ACCEPT SUBSCRIPTIONS FOR FRACTIONAL UNITS)

THIS OFFERING IS AVAILABLE TO “ACCREDITED INVESTORS” ONLY

AS OF NOVEMBER 30, 2002

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## **PALISADES REGIONAL INVESTMENT FUND, LLC**

This Confidential Offering Memorandum is distributed in connection with the private offering of Units of membership interests (the "Membership Interests") in the Palisades Regional Investment Fund, LLC, a New Jersey limited liability company (the "Company" or the "Fund"). The Fund Manager is Palisades Fund Management, LLC, a New Jersey limited liability company and affiliate of Palisades Financial, LLC ("Palisades Financial").

This offering is only being made to "accredited investors" within the meaning of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), who, upon admission to the Company, will become members of the Company (the "Members"). Each investor must acquire at least one (1) whole Unit for a purchase price of \$250,000, although the Fund Manager may permit the purchase of fractional Units in its sole discretion. The Company is seeking commitments to purchase Units of no more than \$25 million, at which time the Fund will permanently close to new investors. There is no minimum amount of subscriptions that the Company must receive as a requirement to close. The Fund offering will remain open until November 1, 2003. During the offering period, investors will be admitted to the Fund on the first business day of each month. The Fund Manager may accept or reject subscriptions for Membership Interests, in whole or in part, in the Fund Manager's sole discretion.

The Fund's investment objective is to generate net income and capital appreciation from investments in real estate and loans secured by real estate and other assets. Investments will be located in the Northeast regional corridor, although the Fund on a selective basis may invest in real estate assets in other regions of the United States. These investments may take the form of direct investments in real estate, either alone or through joint ventures with third parties, or through the making of loans originated by the Fund, loans acquired from other lenders or through participations in loans originated by other lenders. All such loans will be secured by collateral which may consist of first or second mortgages, the pledge of equity interests in companies owning real estate (including stock, partnership interests and limited liability company interests), or liens on other collateral, including but not limited to equipment, accounts receivable and inventory.

The Fund Manager and its Investment Committee (defined below) will make all investment decisions for the Company.

## **INVESTOR NOTICES**

**AS WITH ANY INVESTMENT, AN INVESTMENT IN THE FUND INVOLVES SUBSTANTIAL RISKS. SEE "RISK FACTORS". POTENTIAL INVESTORS SHOULD THOROUGHLY CONSIDER THIS MEMORANDUM AND THEIR PERSONAL TAX, FINANCIAL AND OTHER CIRCUMSTANCES PRIOR TO PURCHASING UNITS. THE PURCHASE OF UNITS IS SUITABLE ONLY FOR INVESTORS OF SUBSTANTIAL FINANCIAL MEANS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT AND WHO UNDERSTAND AND CAN AFFORD THE HIGH FINANCIAL AND OTHER RISKS OF SUCH AN INVESTMENT, INCLUDING THE RISK OF LOSING THEIR ENTIRE INVESTMENT. THERE WILL BE NO MARKET FOR THE RESALE OF UNITS. THE UNITS MAY NOT BE TRANSFERRED WITHOUT THE CONSENT OF THE FUND MANAGER (EXCEPT AS OTHERWISE PROVIDED IN THE OPERATING AGREEMENT), AND AN OPINION OF COUNSEL THAT SUCH TRANSFER COMPLIES WITH APPLICABLE FEDERAL AND STATE SECURITY LAWS.**

**THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY THE UNITS OF MEMBERSHIP INTERESTS IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. THE MEMBERSHIP INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE MEMBERSHIP INTERESTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES REGULATORY AUTHORITY OF ANY STATE OR BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS ANY AUTHORITY OR COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

**THE UNITS WILL BE OFFERED PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 506 OF REGULATION D ("REGULATION D") AS PROMULGATED BY THE SEC PURSUANT TO THE SECURITIES ACT.**

**THIS MEMORANDUM IS PROVIDED FOR ASSISTANCE ONLY AND IS NOT INTENDED TO BE AND MUST NOT BE TAKEN SOLELY AS THE BASIS FOR AN INVESTMENT DECISION. EACH RECIPIENT OF THIS MEMORANDUM SHOULD MAKE SUCH INVESTIGATIONS AS IT DEEMS NECESSARY TO ARRIVE AT AN INDEPENDENT EVALUATION OF AN INVESTMENT IN THE MEMBERSHIP INTERESTS OFFERED HEREBY, AND SHOULD CONSULT HIS OR HER OWN LEGAL, FINANCIAL AND ACCOUNTING ADVISORS TO**

DETERMINE THE MERITS AND RISKS OF SUCH AN INVESTMENT. THIS MEMORANDUM IS FOR THE CONFIDENTIAL USE OF ONLY THOSE PERSONS TO WHOM IT IS TRANSMITTED BY THE FUND MANAGER IN CONNECTION WITH THIS PRIVATE PLACEMENT AND IS NOT TO BE REPRODUCED OR USED FOR ANY OTHER PURPOSE. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THAT WHICH IS CONTAINED IN THIS MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

EACH OFFEREE OF THE UNITS IS INVITED TO ASK QUESTIONS OF THE FUND MANAGER CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING AND TO OBTAIN ANY ADDITIONAL INFORMATION NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION IN THIS MEMORANDUM THAT IS MATERIAL TO THE OFFERING MADE HEREBY. THE OBLIGATIONS OF THE FUND MANAGER AND THE MEMBERS ARE SET FORTH IN AND WILL BE GOVERNED BY THE FUND'S OPERATING AGREEMENT AND SUBSCRIPTION AGREEMENT, FORMS OF WHICH ARE ATTACHED HERETO AS EXHIBITS A AND B, RESPECTIVELY. ALL OF THE STATEMENTS AND INFORMATION CONTAINED HEREIN ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THESE AGREEMENTS. ALL TIME SENSITIVE REPRESENTATIONS AND REFERENCES ARE MADE AS OF NOVEMBER 30, 2002 UNLESS EXPRESSLY INDICATED. THE DELIVERY OF THIS PRIVATE PLACEMENT MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO NOVEMBER 30, 2002 UNLESS OTHERWISE EXPRESSLY INDICATED.

NO FORECASTS HAVE BEEN PROVIDED AND ANY REPRESENTATION TO THE CONTRARY AND ANY PREDICTION, WRITTEN OR ORAL, AS TO THE AMOUNT OR CERTAINTY OF ANY PRESENT OR FUTURE CASH BENEFIT OR TAX CONSEQUENCE WHICH MAY FLOW FROM AN INVESTMENT IN THIS FUND IS NOT PERMITTED.

EXCEPT FOR CERTAIN SPECIFIED INVESTMENTS THAT ARE DESCRIBED IN APPENDIX B TO THIS MEMORANDUM, WHICH WILL BE ACQUIRED FROM THE FUND'S INITIAL MEMBER, THE FUND'S INVESTMENTS HAVE NOT BEEN IDENTIFIED. ACCORDINGLY, PROSPECTIVE INVESTORS WILL NOT HAVE THE OPPORTUNITY TO EVALUATE THE PROPERTIES AND OTHER ASSETS IN WHICH THE FUND WILL INVEST. SEE *RISK FACTORS* AND *INVESTMENT OBJECTIVES AND POLICIES*. IN ADDITION, THERE ARE RISKS ASSOCIATED WITH THE OWNERSHIP AND OPERATION OF REAL ESTATE AND REAL ESTATE-RELATED ASSETS INCLUDING CERTAIN TAX RISKS (SEE *RISK FACTORS*) AND POTENTIAL CONFLICTS OF INTEREST INVOLVING THE FUND MANAGER.

**NOTICE TO NEW JERSEY OFFEREES**

NEITHER THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY NOR THE BUREAU OF SECURITIES OF THE STATE OF NEW JERSEY HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**NOTICE TO FLORIDA OFFEREES**

THE SECURITIES IN THIS CONFIDENTIAL MEMORANDUM HAVE NOT BEEN REGISTERED IN THE STATE OF FLORIDA. PURSUANT TO THE FLORIDA SECURITIES ACT, EACH PERSON WHO ACCEPTS THIS OFFER TO PURCHASE SECURITIES HAS THE RIGHT TO VOID HIS ACCEPTANCE WITHOUT INCURRING ANY LIABILITY TO THE COMPANY, FUND MANAGER OR ANY OTHER PERSON WITHIN THREE DAYS, IN WHICH CASE ALL FUNDS WILL BE REFUNDED WITHOUT INTEREST OR DEDUCTION AS REQUIRED BY SECTION 517.061(11)(A)(5), FLA. STAT. EACH PERSON ENTITLED TO EXERCISE THE RIGHT TO WITHDRAW GRANTED BY SECTION 517.061(11)(a)(5) WHO WISHES TO EXERCISE SUCH RIGHT MUST, WITHIN THREE DAYS AFTER MAKING PAYMENT FOR A UNIT NOTIFY IN WRITING OR CALL WILLIAM PROCIDA, 640 PALISADES AVENUE, ENGLEWOOD CLIFFS, NEW JERSEY 07632. SUCH NOTICE MUST BE GIVEN ON OR PRIOR TO THE AFOREMENTIONED THIRD DAY. IF YOU ARE SENDING A LETTER, IT IS PRUDENT TO SEND IT BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ENSURE THAT IT IS RECEIVED AND ALSO TO EVIDENCE THE TIME WHEN IT WAS MAILED. SHOULD YOU MAKE THIS REQUEST ORALLY (IN PERSON OR BY TELEPHONE TO WILLIAM PROCIDA AT (201) 894-5000 YOU SHOULD ASK FOR WRITTEN CONFIRMATION THAT YOUR REQUEST HAS BEEN RECEIVED.

**NOTICE TO CONNECTICUT OFFEREES**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSIONER OF THE STATE OF CONNECTICUT NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**NOTICE TO NEW YORK RESIDENTS**

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**NOTICE TO WISCONSIN RESIDENTS**

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE

OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

## OVERVIEW OF THE PALISADES REGIONAL INVESTMENT FUND

The information contained in this Memorandum should be read in conjunction with the more detailed information included in the Operating Agreement of the Fund, a copy of which is attached as Exhibit A hereto.

- The Fund is a New Jersey limited liability company closed-end real estate fund managed by Palisades Fund Management, LLC (the "Fund Manager"), a New Jersey limited liability company and affiliate of Palisades Financial. The Fund was formerly known as Madison Investment Group, LLC ("Madison Investment"). The Fund Manager is based in Englewood Cliffs, New Jersey.
- The Fund is offering up to 100 Units of Membership Interests at a price of \$250,000 per Unit, for an aggregate offering of up to \$25 million. An investor must purchase at least one Unit, although the Fund Manager reserves the right to accept subscriptions for fractional Units. The Fund will accept no additional members when the aggregate subscriptions total \$25 million.
- This offering will remain open until November 1, 2003. During the offering period, investors will be admitted to the Fund on the first business day of each month. Any profits and losses of the Fund and distributions to Members will be allocated among investors on a monthly basis based on their respective percentage interests in the Fund during each such month. Investments of the Fund will be valued on a monthly basis in accordance with the valuation policies of the Fund.
- The principals of Palisades Financial, and members of the Fund's management team have invested \$1,350,000 in the Fund.
- All real estate investment opportunities presented to Palisades Financial and its principals will be brought to the Fund for consideration. Until the Fund is fully invested or at any time that the Fund has cash available for investment, Palisades Financial, the principals of Palisades Financial and the Fund Manager will only make real estate investments through the Fund, thereby minimizing any conflicts of interest and further focusing the efforts of the Fund Manager in evaluating investment opportunities. However, after the Fund's three year investment period following the closing of the Fund, or if (i) the Fund Manager decides not to make an investment presented to it because it does not meet the Fund's investment criteria, and (ii) the approval of the Fund's Advisory Committee has been obtained, Palisades Financial, the Fund Manager or any of their principals may invest or participate in any such real estate investment.
- The Fund's existing investments are reflected in its unaudited Balance Sheet dated November 30, 2002 included with this Memorandum as Appendix B. All of such investments are performing loans and the Fund has no knowledge of any material

adverse changes with respect to the financial condition of any obligor with respect to such loans or in the value of the real estate collateral serving as security therefor. From time to time during the offering period, the Fund will provide an updated unaudited Balance Sheet to reflect new investments and developments with respect to the Fund's portfolio for distribution to potential investors and existing Members of the Fund.

- The Fund's investment strategy will focus on real estate transactions of \$500,000 to \$5,000,000, principally in the Northeast corridor, although the Fund may make smaller investments in New York City, Bergen and Hudson counties in New Jersey and Rockland County in New York. The Fund will invest directly in real estate alone or through joint ventures with third parties. It will also make loans the Fund Manager has originated or through loans it purchases from or participates in with other lenders. All loans will be secured by first or second mortgages on real estate, pledges of equity interests in companies owning real estate (including stock, partnership interests and limited liability company interests) or liens on other collateral, including but not limited to equipment, accounts receivable and inventory. Some loans may take the form of debtor-in-possession financing to companies undergoing reorganization through bankruptcy proceedings, provided that in the Fund Manager's judgment the value of the collateral is adequate to secure the loan. The Fund may also acquire "non-performing" loans with respect to which the borrower has ceased making payments of principal and interest or has been unable to refinance at maturity. Typically these loans are "over-leveraged" and cash flow is inadequate to service the debt. The Fund would purchase these loans at a discount from face value, and generally will either foreclose on the real estate securing these loans or restructure the loans with the borrower to create a loan with adequate cash flow to service the debt represented by the discounted loan purchase price.
- Three years after the closing of the offering, the Fund Manager will cease making any new investments on behalf of the Fund (other than investments of cash in short term investments) and will begin to liquidate the Fund's investments and distribute the proceeds to the Fund's Members. The Fund Manager will complete the liquidation of the Fund no later than five years after the closing of the offering and terminate the Fund; provided that The Fund Manager may extend for an additional year the date by which it must have completed the liquidation of and terminated the Fund. Notwithstanding the foregoing, the Fund Manager, in its sole discretion, at any time after one (1) year from the closing of the Offering, may liquidate the Fund's investments, distribute the net proceeds therefrom and terminate the Fund.
- The maximum amount of leverage to be utilized is 70% of the value of the Fund's investment portfolio, which will be determined at the time that the Fund incurs any debt.

- The Fund will generally seek an annualized, pre-tax return on the Member's investments of at least 15%, assuming a holding period of three to five years. Investors should bear in mind that these are target returns, and it is not possible to predict actual results. Past performance is not necessarily indicative of future results, and an investor could lose money on an investment in the Fund.
- The majority of the compensation to the Fund Manager is incentive or performance based, and is earned only after a 10% annual return to the Fund's Members has been achieved. The Fund Manager will receive compensation equal to 2% of the value of the Fund's portion of each transaction in which the Fund invests ("Origination Compensation"), and annual compensation of 3% of the Member's capital ("Asset Management Compensation"). The Asset Management Compensation will be paid quarterly from the Fund's available cash. From these fees it will pay for all overhead and personnel expenses. Aside from reimbursable expenses associated with third-party expenses, other than the Origination Compensation and the Asset Management Compensation, the Fund Manager will not receive any annual distributions until the other Members have received the annual cumulative 10% return referred to below.
- Allocations of Profits and Losses; Cash Distributions.

During the three year period after the closing of the Fund (the "Investment Period"), the Fund's profits and losses will be allocated as follows:

- **Initially**, profits and losses will be allocated to the Members monthly on a pro rata basis in accordance with each Member's percentage interest in the Fund for such month until a preferred cumulative annual return of 10% on each Member's initial capital contribution has been reached.
- **Thereafter**, 75% of profits will be allocated to the Members and 25% to the Fund Manager as a performance fee to compensate it for the yields on and capital appreciation of the Fund's investments, until a 20% annualized return on each Member's initial capital contribution has been reached.
- **Thereafter**, after the 20% annual return has been realized, 50% of remaining profits will be allocated to the Members and 50% to the Fund Manager as a performance fee.
- The Fund Manager will not receive a performance fee in any year until each Member has been paid a cumulative 10% annualized return on his initial capital contribution. Upon liquidation of the Fund, to the extent not previously paid, the Fund Manager will

assess the performance fee based on each Member's cumulative return.

- No other fees will be paid at any time to the Fund Manager, other than the Origination Compensation and Asset Management Compensation.

The Fund Manager, in its discretion, may make distributions of available cash to the Members in accordance with the foregoing allocations; provided that to the extent of available cash, on a quarterly basis, the Fund Manager will pay the quarterly portion of the 10% cumulative annual return on each Member's initial capital contribution. However, it is anticipated that during the Investment Period, after the Members have been paid their quarterly portion of the 10% cumulative annual return on their initial capital contribution, the Fund Manager may reinvest all or a portion of any remaining available cash, whether received from property income, sales or refinancings, in new Permitted Investments.

After the end of the Investment Period, the Fund's available cash from the liquidation of its investments, after expenses and reserves, will be distributed to the Members, after the payment of the Fund Manager's performance fee, on a pro rata basis in accordance with their percentage interests in the Fund. The Fund Manager's performance fee will be calculated on a cumulative basis in accordance with the allocation of profits and losses described above.

If upon liquidation of the Fund, the Members have not received a 10% cumulative annual return on their contributed capital, plus a return of all such capital, then the Fund Manager will be obligated to contribute to the Fund for distribution to the Members, up to the extent of any performance fees it has been paid, that amount which will result in the aggregate payment to each Member of an amount equal to a 10% annualized return on each Member's contributed capital (plus a return of all contributed capital).

- The Fund will incur offering costs, organization expenses, including legal, accounting and other expenses, which will be paid for from the proceeds of the offering. It is anticipated that the Fund's third party offering and organizational expenses will not exceed \$100,000.
- The Fund's capital which has not been invested will be deposited with an FDIC insured banking institution.

## WHY INVEST WITH PALISADES FINANCIAL, LLC?

- The Fund Manager is a subsidiary of Palisades Financial, LLC (“Palisades Financial”). For those unfamiliar with Palisades Financial we invite you to take the time and investigate the skills, experience and reputation of Palisades Financial. Palisades Financial hosts a website at [www.palfi.net](http://www.palfi.net), which it updates regularly. The website contains a comprehensive review of the company, its principals, and its investment history.
- Palisades Financial is a real estate investment banking and advisory firm, whose principals have more than two decades of investing and real estate advisory experience. Palisades Financial (formally William Procida Incorporated) originated in 1995. Principals of Palisades Financial have a long history of achieving profitable returns on investments for itself and others. See Appendix A
- For third parties, Palisades Financial and its predecessor have originated and provided advisory services on investments of over \$225 million. For its own account, Palisades Financial, its predecessor and principals of the Fund Manager have completed investments of over \$5 million. All of these investments have achieved annualized returns ranging from 15% to 35% or more. For a listing of all of these investments and the returns achieved, see Appendix A. **THESE RETURNS DO NOT REPRESENT THE RETURNS THAT MAY BE EARNED BY AN INVESTOR IN THE FUND. THERE IS NO CERTAINTY THAT THE PERFORMANCE OF THE FUND’S ASSETS WILL REACH THESE LEVELS OF RETURN.**
- The principals of the Fund Manager are lifelong residents of Northern New Jersey and New York City with extensive experience investing in the northeast corridor. Through 20 years of involvement in these real estate markets, the principals of Palisades Financial and the Fund Manager have developed an extensive referral network that has produced “Below the Radar” transactions and investment opportunities that were relationship driven, thus avoiding the usual bidding wars for investments that would have increased the cost of and decreased the return on such investments.
- The Fund Manager offers a multi-faceted compliment of investment professionals who are fully familiar with real estate development, lending practices, property repositioning, debt purchases, workouts, bankruptcy, marketing, and environmental issues.
- The Fund Manager will devote its energies to identifying and acquiring investments that will produce future income streams and capital appreciation. These will include the origination and acquisition of debt instruments secured in

whole or in part by real property or by equity interests in companies owning real estate.

- Palisades Financial has relationships with other many local lenders, financial institutions and individuals, that can be tapped for investment opportunities and joint venture possibilities.

## **WHY INVEST NOW IN THE PALISADES REGIONAL INVESTMENT FUND?**

- **The current economic climate presents an asset-based investment opportunity that we have not seen in years.** The longest economic expansion in America's history has now come to an end. The Palisades Regional Investment Fund provides a vehicle to participate in traditional real estate investments, as well as value added, distressed and turnaround real estate investments.
- **The stock market no longer offers the comfort of low-risk, short term gains that many investors have come to expect.** Recently, the stock market has not been kind to the short-term investor, giving back most or all of the gains made in the previous bull market. Stocks and mutual funds no longer offer the types of returns that today's investors have come to expect.
- **Real estate provides a unique investment alternative.** The historic nature of real estate cycles, marked by "Hyper Peaks" (indicated by excessive appreciation and skyrocketing purchase prices and rental values) followed by "Hyper Valleys" (evidenced by a receding markets with diminishing capital resources) make this an excellent time to invest. The ready investor can capitalize on the gap between the perceived value of available assets and their intrinsic worth. The Fund Manager believes that the current economic climate will produce these types of investment opportunities.
- **Many of the acquisitions and loans implemented throughout the Hyper Peak and Hyper Valley are undercapitalized, over-leveraged, and unable to meet their debt servicing obligations.** These factors produce "distressed" asset investment opportunities for those with liquidity. (Of course, good investment opportunities will present themselves in any market, resulting from the mistakes of inexperienced investors.) Part of the Fund Manager's focus will be on identifying these opportunities, and capitalizing as lenders and sellers are forced to restructure, recapitalize or dispose of their investments.
- **Targeted Investments.** Regardless of the investment climate, the Fund Manger's investment approach will target opportunistic investments, such as properties available at prices that are at a material discount to their value or properties with value-added potential through redevelopment or rehabilitation. Loans and

acquisitions acquired in part with mortgage financing will be made only where the Fund Manager has concluded that the collateral value comfortably exceeds the value of the property or the loan amount.

- **By focusing on local opportunities, individual investors will be able to achieve a level of familiarity with the Fund's assets that other investments cannot offer.** The Fund will concentrate on identifying investments in the tri-state New York metropolitan region. The geographic proximity of these investments will allow each investor to visit properties owned by the Fund.
- **Because of the relatively small size of the Fund it will be able to make investments that would be considered too small for larger funds or financial institutions.** The Fund Manager believes that the Fund's size will enhance its ability Fund to be selective in its investments and permit it to focus on investments with higher yields than those available to larger funds or institutions. Because of its size, the Fund will also be able to react quickly to investment opportunities thereby avoiding undue competition for investments that would result in higher costs and lower yields.
- **Risk Management is given the highest priority.** The Fund Manager respects the reason why all investors place capital – to achieve maximized returns while minimizing risk and preserving capital. Risk levels must be balanced in accordance with many factors, including the return sought, the location of the investment, the type of investment, pertinent market factors, availability of financing terms, and short and long-term goals. The Fund Manager will minimize risk through intensive research done prior to acquiring assets, and by diversifying the location and type of assets to be acquired.
- **The Fund Manager will focus on investments in specific areas.** The Fund Manager will invest only in those markets with which it is familiar. This approach is the key to our success, as buying, selling, developing and lending must be timed to anticipate changes in the cyclical undulations of a particular marketplace.

## THE FUND MANAGER

- **General**

The Fund Manager is a New Jersey limited liability company and subsidiary of Palisades Financial. Palisades Financial is an established real estate investment banking and advisory firm formerly known as William Procida Incorporated, based in Englewood Cliffs, New Jersey. Palisades Financial, its predecessor and its principals have completed in excess of \$1 billion of transactions in varied capacities as asset manager, investment banker, real estate broker, development manager, advisor and principal. The transactions have ranged from relatively small bridge loans of \$100,000 to construction and/or permanent financing of large tract developments requiring \$150 million of funding.

The Fund Manager will draw on its and Palisades Financial's principals' experience in the real estate, financing and brokerage arenas. In real estate, the principals of Palisades Financial and the Fund Manager have provided services in development management, asset management, real estate advising and consulting, workouts, joint ventures, due diligence and project review. Financing expertise has been developed through financial structuring and placement, structured and conventional funding, construction and permanent loans, equity financing, mezzanine and bridge loans, and debtor in possession investing. The Fund Manager will also have the specialized brokerage knowledge gained through Palisades Financial's principals' proficiency with site selection, property sales, valuation opinions, marketing strategies and placement of debt instruments.

Through their many years in the business, the principals of Palisades Financial and the Fund Manager have cultivated relationships with local owner/operators, commercial bankers, investment bankers, insurance and financial service companies, investment and leasing brokers, real estate and bankruptcy attorneys, title insurance executives, receivers, trustees, loan servers and city, state and federal authorities. Through Palisades Financial, the Fund Manager will concentrate its resources and explore its network in seeking high-quality investment opportunities.

Palisades Financial and the Fund Manager have trained in-house teams of specialists to identify investment opportunities, research acquisition, holding and exit strategies, and analyze risk considerations. Palisades Financial through the Fund Manager will devote its substantial resources to evaluating each potential investment, and will employ outside experts when the circumstances dictate.

- **Management of the Fund; Investment and Advisory Committees**

Subject to certain major decisions as described herein, the Fund Manager will, directly or through its Investment Committee, have complete discretion over management of the Fund.

The Investment Committee of the Fund Manager will initially have three members, each having one vote. The members will be William Procida, Mark Zurlini and Jim Runsdorf. The Investment Committee will make decisions regarding investment strategy, annual budgets, acquisitions, disposition, financing and policy matters. At the sole discretion of the Fund Manager, the Investment Committee may be expanded.

An Advisory Committee to the Fund Manager of three or more persons will be formed. It will consist of industry professionals and a Member appointed by the Fund Manager. The Fund will reimburse each member of the Advisory Committee for reasonable out of pocket expenses incurred in serving on the Advisory Committee.

The Fund Manager will meet semi-annually with the Advisory Committee to review all aspects of the Fund. The votes, recommendations and advice of the Advisory Committee will be non-binding on the Fund Manager. The Fund Manager will submit a written request to the Advisory Committee for its review and approval or rejection of any matter the Fund Manager reasonably believes might be deemed to involve a conflict of interest for the Fund Manager or any of its employees or affiliates. In any case where the Fund Manager has requested a formal vote of the Advisory Committee, such vote shall be binding on the Fund Manager.

- **Fund Manager Team Biographies**

**William “Billy” Procida** is the Chairman of Palisades Financial and a principal of the Fund Manager. After completing high school in Tenafly, New Jersey, he joined Procida Construction Corporation in 1980. In 1981, at the age of 19, he became responsible for client development, estimating, buy out and project supervision for three gut renovation projects in Manhattan which were 1674 Broadway, 181 Hudson Street, and 67 Hudson Street. These and other projects for which he was responsible, included apartments, offices and retail space totaling over 100,000 square feet.

In 1982, he founded and became the CEO of Procida Development Corporation (“PDC”). PDC’s first project was the White Beach Condominiums, which, among its achievements, was the first Dockominium in New York City. He raised all the equity and construction financing for the \$10 million project, as well as performing as the builder and developer. This was the first major luxury

development in the Bronx in over a decade and won an award from the AIA for its design.

In 1985, he merged Procida Development Corporation with Procida Construction Corporation. In partnership with his brother, he directed the Procida Companies and increased revenues from \$1 million in 1981 to over \$40 million in 1994.

He was responsible for all real estate development and financing activities, which in aggregate totaled \$250 million. Projects included new construction and renovations of residential and commercial properties. He also personally guaranteed construction loans and credit facilities that totaled over \$100 million, all of which were repaid in full.

In 1990, he took a one-year leave of absence to become a Vice President at the Trump Organization. He acted on behalf of and reported directly to Donald Trump. He traveled to Japan, Hong Kong and Europe to meet with principals who expressed interest in participating in and/or acquiring assets of the Trump Organization.

In 1991 he rejoined the Procida Organization as Co-President. During this period the firm completed over \$300 million of construction and development work and the firm grew to over 100 employees with four divisions in Construction, Development, Real Estate Brokerage and Mortgage Brokerage.

In 1994, he sold his interest in Procida Construction and formed WPI. WPI has provided Real Estate Development, Real Estate Finance and Construction Consulting Services in New York and New Jersey. To date Palisades Financial, formerly WPI, has completed over \$1 billion in transactions.

He has been honored by many prestigious Real Estate organizations including the Mid Bronx Desperado's "Business Man of The Year" Award in 1988, the American Jewish Congress "Horace M. Kallen Award" for outstanding community service in 1989, the NAHB3 Multi-Housing Division and Multi-Housing News "Pillar of the Industry Award" for Best Affordable Project in the United States in 1994, The Mortgage Bankers Association "Man of the Year" award in 1995 and the Associated Builders and Owners of Greater NY "Developer of the Year Award" in 1994, whose previous recipients include Donald Trump and Samuel LeFrack.

He has lectured on the subject of Real Estate at Yale University, Columbia University, New York University, The 300 Club of Japan, the Association of Real Estate Women Press Corporation, the Conference on Affordable Housing and the "National Housing Conference" in Washington, D.C.

He has appeared in articles in New York Times, Construction News, Westchester Gannett, Multi Housing News, Bergen Record, Crain's Now York Business, Real Estate Weekly, Architectural Record, New York Post, Der Spiegel, New York Daily News, New York Real Estate Journal, New York Magazine, Newark Star Ledger, Amsterdam News and Real Estate New Jersey.

He has served on the Boards of St. Augustine School of the Arts, the YMCA, Bronx Borough President, the Throgs Neck Merchants Association (Co-Founder), the International Business Affairs (Committee Chairman), the Bathgate Industrial Park Local Bronx Chamber of Commerce (Vice President), and the Development Corp. (Chairman)

He has been highlighted on the British Broadcasting Corporation for "Our Man in the Bronx" with Clive Davis, the NBC Nightly News - New Years Eve Broadcast about the rebirth of the Bronx, WWRL New York's Gospel Station "Smart Business Report", the WOR Ernst & Young Business Report and has had numerous interviews on Bloomberg Radio and 1010 Wins News.

He is a licensed Real Estate Broker in the State of New York and a member of the Mortgage Bankers Association. He now resides in Northern Bergen County, New Jersey with his wife Barbara and three children. He has been a member of the Knickerbocker Country Club where he can be found playing golf on the weekends. "Billy" as he is known to friends and associates plays electric guitar as a hobby often sitting in with Bob Weir, formerly of the Grateful Dead, and he plays regularly in a "home town" Blues Band.

**Mark Zurlini** is the President of Palisades Financial and a principal of the Fund Manager.

In 1986, he completed Chase Manhattan Bank's Management Training Program, and in 1986 he joined Moresmere Federal Savings & Loan Association as a Loan Officer for Commercial Real Estate. He was responsible for originating and underwriting loans of \$1 million to \$10 million in the tri-state area of all asset classes, including both construction and permanent real estate loans. In 1991, he joined First Fidelity Bank as Vice President where he became one of the group's top producers, handling large scale projects with select clientele in New York and New Jersey. In his tenure as a lender, Mark has closed loans in excess of \$1 billion in loans.

In 1998, he joined WPI and reunited with Mr. Procida to effectively combine their respective expertise in finance and development. His exceptional technical skills and attention to detail have proven valuable in the analysis of investment opportunities. He has a profound understanding of the investment banking process garnered over his eighteen years of commercial real estate finance experience.

He graduated from Rutgers University with a BA in Accounting and Economics.

He is presently a member of the Advisory Board of Interchange Bank, is a licensed New Jersey real estate broker and is a licensed New York real estate salesperson. He resides with his wife, Polly, and three children in Northern Bergen County, New Jersey. He enjoys playing golf and coaching his children's athletic teams.

**Jim H. Runsdorf** is a principal of the Fund Manager. He has over 18 years of experience in the acquisition, development and financing of industrial, retail and office properties. He began his real estate career in 1985 while working for Hartz Mountain Real Estate as an assistant to the Vice President. He then joined the New Jersey division of SBWE, Inc. where he specialized in commercial property transactions, including identification and analysis of potential markets for site acquisitions, the evaluation of physical plants, and the preparation of feasibility studies for both institutional and non-institutional clients.

In 1994, he joined Canyon Capital Realty Advisors LLC. Where he was responsible for the strategic planning and oversight of the New York office. He was effective in utilizing Canyon's \$2.8 billion dollar balance sheet to originate joint venture transactions with local owners/operators, source mezzanine and bridge financing transactions and structure opportunistic acquisitions, developments and other off balance sheet transactions. Additionally, he has been a principal in entities owning over 1.5 million square feet of properties.

He joined the Palisades Regional Investment Fund LLC., in the fall of 2003.

He graduated from Tulane University and received his Masters in Real Estate from New York University. He is an active member of numerous professional and charitable organizations.

**David McLain** is Senior Director of Palisades Financial and a principal of the Fund Manager. He has 19 years of experience as a commercial real estate professional in the structured finance, acquisition and portfolio management arenas. He has participated in transactions valued in excess of \$1 billion.

Prior to joining Palisades Investment Financial, LLC, he gained vast experience as Vice President of Wafra Investment Advisory Group, Inc., which invested funds for the government of Kuwait. Through his twelve years with Wafra, he formed, invested and managed five real estate funds that invested over \$400 million of capital. He was responsible for closing no less than 30 transactions involving 3.2 million square feet of retail, industrial and office properties and 2,000 apartment units. These deals were structured as mezzanine/equity financing, joint venture and/or direct ownership. He has also negotiated and placed in excess of \$250

million of third party debt with lenders such as Bear Sterns, Lehman Brothers, Cigna, Freddie Mac and Sun Life.

Prior to Wafra, he was a Senior Analyst with Marathon Oil Company for six years. He was involved with numerous corporate real estate projects including a hotel and major office tower. In addition, he was Marathon's financial representative in reviewing international joint venture projects.

He has a B.A. in Economics from Wittenberg College and an MBA from Miami University. He is a member of his town's zoning board and has served on numerous condo boards. He and his family reside in Bergen County and are members of Knickerbocker Country Club.

**Richard M. Hecker** is a Senior Director and Director of Business Development for Palisades Financial and a principal of the Fund Manager. His extensive background includes over 15 years in the real estate industry in all capacities of sales, management and development. Through a combination of experience and execution, he has become a driving force in shaping the direction and success of Palisades Financial.

He has a B.A. in Social Studies from Ohio State University. He is currently a member of the Board of Directors of the J.C.C. on the Palisades in Tenafly, New Jersey. He is an avid golfer and is a High School and College Basketball referee. He and his family reside in Bergen County.

## **THE INVESTMENT PROCESS AND ASSET MANAGEMENT**

- **General**

The Fund Manager is responsible for identifying and reviewing investment opportunities, researching and performing due diligence on potential investments and formulating, and analyzing risk considerations. Intrinsic to the process is the Fund Manager's in-house asset management capabilities.

- **Sources of Investment Opportunities**

We will look for investment opportunities which are driven by some event, some peculiarity in the market or human error. Investment opportunities will be identified through Palisades Financial's network of real estate and business contacts. Palisades Financial and its principals have been active real estate investors and venture capitalists. The firm receives numerous investment proposals annually.

All real estate investment opportunities presented to Palisades Financial and its principals will be brought to the Fund for consideration. Until the Fund is fully invested or at any time that the Fund has cash available for investment, Palisades Financial, the principals of Palisades Financial and the Fund Manager will only make real estate investments through the Fund, thereby minimizing any conflicts of interest and further focusing the efforts of the Fund Manager in evaluating investment opportunities. However, after the Fund's three year investment period following the closing of the Fund, or if (i) the Fund Manager decides not to make an investment presented to it because it does not meet the Fund's investment criteria, and (ii) the approval of the Fund's Advisory Committee has been obtained, Palisades Financial, the Fund Manager or any of their principals may invest or participate in any such real estate investments.

- **"Under the Radar" Investment Opportunities**

Palisades Financial and its principals have originated many "Under the Radar" investments during the last decade. The Fund Manager's existing referral infrastructure will provide a stream of investment possibilities for consideration before other investors even become aware of their availability.

- **Identifying Appropriate Investments**

The Fund Manager will utilize Palisades Financial's market experience and instincts, risk analysis and research expertise in identifying, considering and structuring each potential transaction. In identifying potential investments, the Fund Manager will look for real property acquisitions where competition is reduced either by time constraints or by the complexity of the transaction. The

Fund may participate in bankruptcy auctions and in direct negotiations with bankruptcy trustees, property receivers and lenders where the assurance of a closing in a time sensitive matter is more important than pricing.

The Fund Manager will also seek properties or loan purchases which are available at "distressed" prices for some financial or other reason. The Fund Manager will consider markets that may be out of favor with other investors, but which exhibit steady growth prospects. The Fund Manager believes that these types of investments will offer above-market returns, with manageable and appropriate levels of risk to the Fund.

Investments in loans, whether directly originated, or through purchases from participations with other lenders, will be secured by real estate, equity interests in companies owning real estate or other collateral including equipment, accounts receivable and inventory. However, greater emphasis will be placed upon the ability of the borrower to service the interest and principal payments on the loan and the value of the collateral as compared to the loan amount. In addition, consideration will be given to the background of each borrower and its principals and their credit history.

### **The Target Areas**

Historically, the New York/New Jersey real estate market has consistently outperformed the rest of the country and the Fund Manager believes that this trend will continue. The substantial revitalization in the New York Financial District, Times Square and Harlem, as well as New Jersey's development in Bergen County, Jersey City and Hoboken lend support to this view. The Fund will target all areas of New Jersey, the five Boroughs of New York City, and Long Island, Westchester, Rockland and Orange Counties. Also, the Fund will explore opportunities in other parts of the Northeast corridor, including Connecticut and Philadelphia and its suburbs. While the Fund Manager reserves the right to invest elsewhere, the Fund will focus primarily on these target areas to maximize returns while minimizing risks. Additionally, investing in the local market ensures the highest level of control and management.

Within the target areas, the Fund will concentrate on equity and debt investments in a variety of real estate categories. These include residential properties of 10 to 100 living units, and office buildings, retail developments, industrial complexes and mixed-use properties with 10,000 to 100,000 rentable square feet. Raw land will be considered only if it is zoned as of right, or is contracted for subject to approvals and in accordance with the guidelines outlined herein.

- **Concentration Limits**

The Fund Manager will endeavor to limit each investment to not more than 20% of the Fund's capital and to limit specific types of real estate investments to not more than 50% of the Fund's capital. Under certain circumstances, these limits may be exceeded if in the Fund Manager's judgment it is in the Fund's interest consistent with its objectives to make such an investment. The Fund Manager will also seek to balance the Fund's investments equally between direct investments in real estate owned, debt instruments (loans) either originated or purchase, and joint ventures and participations.

- **Investment Due Diligence**

Each potential investment will be reviewed initially by the Fund Manager, and its research and investment teams. If the investment meets the Fund's basic criteria, it will receive further scrutiny, and an investment return sensitivity analysis conducted (cash flow modeling with pro-forma income and expense statements). If additional interest is generated, physical site inspections will be conducted (environmental, structural and geotechnical) and extensive due diligence performed. This will include review of all pertinent documentation, including (when applicable) leases, tenant credit analysis (financial and default risk), pertinent loan documents, guarantees, deeds, surveys, financial statements, contracts, and the like. Only at that point, if the investment has been approved by the Fund Manager will an offer be submitted.

- **Asset Management**

The Fund Manager's in-house management team will manage all debt instruments and collateralized loans. The cash flow and expenses of each property securing a loan will be monitored, as well as occupancy and rental rates. The Fund Manager will conduct regular inspections of properties serving as collateral for loans to ensure that the condition and value of the collateral is maintained.

For real property owned by the Fund, professional property managers will be retained on a local basis for each of the real estate investments. The property managers will communicate directly with an assigned member of the management team, who will apprise the Fund Manager of the day-to-day operation of the property. Weekly staff meetings will be designed to introduce new opportunities, review deals in progress and review existing investments. The asset management team will seek to maximize net operating income, thereby increasing the long-term capital value of the asset.

In addition, an in-house market analysis will be prepared monthly for each asset by the asset management staff. The analyses will monitor each asset's competition, and general market conditions in the relevant market area. This

focused proprietary information should allow the Fund Manager to refine its understating of the potential performance of proposed investments, operational changes that may improve the performance of the assets, and the timing of asset sales.

- **Valuation Policies**

The assets of the Fund will be valued on a monthly basis by the Fund Manager. In making such valuations, the Fund Manager may rely upon and utilize broker opinions, independent appraisers and other resources to the extent that the Fund Manager deems it appropriate.

- **Disposition of Assets**

The overriding objective of the Fund is to dispose of assets once the perceived value of the asset has been maximized and after tax value has been maximized. The Fund Manager's ongoing market research and professional contacts will identify the opportune time to seek buyers willing to purchase Fund assets at peak prices. Risk/reward analyses will help determine the proper time to turn over investments for the highest immediate yield. This research will mimic the Fund Manager's investment research, but with an eye toward disposition rather than acquisition. Alternatively, the strongest real estate acquisitions may be refinanced when stabilized to return capital to the Fund or to restate investment objectives as long-term, with investor approval.

- **Investor Interaction**

The Fund will have an independent accountant to provide audited annual statements. We will also provide investors with a quarterly update of transactions completed and an annual valuation of all of the Fund's investments. The investors will all have daily access to the Fund Manager and will be regularly informed as to the Fund's positions and value. Annual meetings with the Investors and Fund Manager will be held each year.

## RISK FACTORS

An investment in the Fund is subject to a number of risks and considerations, including, but not limited to, the following:

- **Unspecified Use of Proceeds.** The Fund is newly formed and has no operating history. Except for the existing investments reflected on the Fund's balance sheet included with this Memorandum as Appendix B, the proceeds of this Offering are intended to be invested in assets which, as of the date of this Memorandum, have not been identified by the Fund. Investors in the Fund will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments in which the proceeds will be invested prior to their binding subscription, and thus will be dependant upon the judgment and ability of the Fund Manager in investing and managing the Fund's capital. No assurance can be given that the Fund will be successful in obtaining suitable investments or that, if the investments are made, the objectives of the Fund will be achieved.
- **Conflicts of Interest.** Because the Fund Manager will receive incentive based fees, the Fund Manager may have a conflict of interest between its responsibilities to manage the Fund for the benefit of the Members and its interest in maximizing the fees which the Fund Manager will receive. For example, the allocation of carried interests (performance and origination compensation) to the Fund Manager may create an incentive for the Fund Manager to engage in more speculative investing than might be the case were only a percentage-of-income fee payable to the Fund Manager. This risk is minimized by the investment by the principals of Palisades Financial and members of the Fund's management team of \$1,350,000 in the Fund and the agreement of Palisades Financial and its principals to conduct, except in limited circumstances described under "Overview of the Palisades Regional Investment Fund" above, their investing activity solely through the Fund. Also, the Fund Manager will establish a Board of Advisors. The Board of Advisors will advise the Fund Manager and address issues involving conflicts of interest.
- **Size of Fund; Limited Diversification.** The Fund will seek subscriptions from Investors aggregating \$25 million. There is, however, no minimum amount of subscriptions required. It is impossible to predict the actual size of the Fund. The investment performance of the Fund and its ability to diversify its investments could be adversely affected by the amount of capital available to the Fund.
- **Economic Risks.** The Fund will be subject to all the risks inherit in investing in real estate and mortgages, which risks may be increased if the investment is leveraged. These risks may include, without limitation, general and local economic and social conditions, neighborhood values, the financial resources of tenants, vacancies, rent strikes, changes in tax, zoning, building, environmental

and other applicable laws, federal and local rent control laws, real property tax, real property tax rates, changes in interest rates and the availability of mortgage funds which may render the sale of properties difficult or unattractive. Such risks also include fluctuations in occupancy rates, rent schedules and operating expenses, which could adversely affect the value of the properties. There can be no assurance of profitable operations for any real property or the repayment of any debt investment made by the Fund. Accordingly, the Fund's investment objective may not be realized. The cost of operating a property may exceed the rental income thereof, and the Fund may have to advance funds to protect an equity investment or forego the receipt of interest income on debt investments, or may be required to dispose of investments on disadvantageous terms if necessary to raise needed funds. Moreover, while the Fund Manager generally intends to purchase or cause to be purchased insurance to cover casualty losses and general liability, such insurance may not be available or may be available only at prohibitive costs to cover losses from ongoing operations and other risks such as earthquake, flood or environmental contamination.

- **Leverage.** Some or all of the Fund's investments may not be made on all-cash basis. The Fund may incur short and long term financing secured by individual assets as deemed appropriate by the Fund Manager. Such borrowing reduces the need for equity capital, but it also increases the exposure to losses. Principal and interest payments on such indebtedness will generally be required regardless of income from the Fund's properties. If mortgage or other loan payments are not paid when due, the Fund may sustain a loss on its investments as a result of foreclosure.
- **Taxable Income in Excess of Distributions.** It is possible that proceeds of sales and other income from the Fund's investments may be applied for other Fund purposes, and therefore will not be distributed. If so, unless the Fund Manager determines to make tax distributions to the Members from other sources, MEMBERS MAY BECOME LIABLE FOR FEDERAL AND STATE INCOME TAXES ON COMPANY INCOME EVEN THOUGH THEY HAVE RECEIVED NO DISTRIBUTIONS FROM THE FUND WITH WHICH TO PAY SUCH TAXES.
- **Borrower Defaults.** Because some of the loans that the Fund may make, participate in or purchase may involve distressed or troubled borrowers, these loans will exhibit a greater risk than in conventional loans that the borrower will be unable to service the loan, even if restructured, or repay it at maturity. In such instances the Fund may be forced to foreclose on the real estate and other collateral securing the loan. In making these investments, the Fund will seek to insure that the value of the real estate and other collateral securing these loans will be sufficient to pay off any of these loans once in default. However, it is possible that the proceeds received in selling such collateral may be insufficient to recover

the entire amount of the Fund's investment or generate net proceeds that would result in the level of return that the Fund typically seeks on its investments.

- **Restrictions on Transfer and Redemption; Lack of Liquidity.** The transfer of interests by a Member is subject to the consent of the Fund Manager, which consent may be withheld in its sole and absolute discretion. The Fund Manager also has the right to decline in its sole and absolute discretion whether a transferee or assignee of interests will become a substituted Member entitled to all of the rights of the transferring or assigning Member under the Fund's Operating Agreement. There is no right of withdrawal or redemption of Units from the Fund and none is expected to develop.
- **Impact of Government Regulation.** Government authorities at all levels are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions, environmental protection and safety and other matters affecting the ownership, use and operation of real property. Regulations may be promulgated which could have the effect of restricting or curtailing usages of existing structures, or requiring that such structures be renovated or altered in some manner. The enforcement of such regulations could have the effect of increasing the expenses, and lowering the income or rate of return, as well as adversely affecting the value, of any of the Fund's investments.
- **Environmental Risks.** Certain federal and state laws and regulations impose strict liability, often regardless of fault, on various parties (jointly and severally), including owners and operators, associated with real estate affected by a release of a regulated environmental contaminant, including oil. To minimize the risk of such liability, prior to acquiring any property, the Fund will generally employ, or cause to be employed, an environmental engineering consultant to inspect each property so as to assure the Fund that the risk of regulated environmental contaminants being present at such property is minimal. Additionally, the Fund may seek to purchase appropriate insurance to protect the Fund from such risks. Nevertheless, it is possible that the engineer's inspection could overlook certain areas of a property which are contaminated with regulated environmental contaminants, that the Fund could be subject to strict liability because of the presence of such hazards, or that insurance may not be available or at a cost which is higher than the Fund Manager believes appropriate.
- **Limited Obligations and Liability of the Fund Manager; Removal of the Fund Manager.** The Fund's operating agreement provides that the Fund Manager is liable to the Fund only if it has been found guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of its duties. The Fund Manager may be removed for "good cause" by a vote of the Members holding in excess of 75% of the Membership Interests.

- **Investments in Joint Ventures or Other Entities.** The Fund may acquire controlling and non-controlling interests in joint ventures, participations or other entities that own or invest in, directly or indirectly, income producing properties and assets. Such investments, under certain circumstances, may involve risks not present in direct property investments, including, for example, the possibility that one or more of the Fund's co-ventures or partners may be in a position to take action contrary to the Fund's objectives. It may also be difficult for the Fund to liquidate its interest in a fund, joint venture, loan participation or other entity.
- **No Assurance of Distributions.** An investment in the Fund should be viewed as illiquid. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investments. Prior to such time, there often will be no current return on the Fund's investments.
- **Dependence on Fund Manager.** The Fund will be solely dependent upon the activities of the Fund Manager and, in particular, Palisades Financial and its principals. The loss of any of the principals of the Fund Manager could have a significant adverse effect on the business of the Fund.
- **Interest of Fund Manager.** Because the percentage of profits allocated to the Fund Manager is not based on any capital contributions of the Fund Manager to the Fund, the Fund Manager may have an incentive to make investments that are more speculative than if the Fund Manager received allocations on a basis identical to that of the Members or was compensated on a basis not tied to the performance of the Fund.
- **Non-Participation in Management.** Members will have no right or power to participate in the management of the Fund. All aspects of management of the Fund are entrusted to the Fund Manager.

## **OTHER ASPECTS OF PALISADES REGIONAL INVESTMENT FUND**

### **Transfer of Interests and Withdrawal**

Except in certain limited instances described in the Operating Agreement (transfers to a spouse or child, upon death or for limited estate planning reasons), a Member may not sell, assign, or transfer any interest in the Fund without the prior written consent of the Fund Manager, which the Fund Manager may withhold in its sole discretion. A Member may not demand the redemption of the Member's Units in the Fund. The Membership Interests will not be registered under the Securities Act or any state securities law, and therefore are subject to further restrictions on transfer in accordance with such laws. Further, a Member may not withdraw any amount from the Fund.

### **Reports**

On a semi-annual basis, each Member will be furnished unaudited financial statements of the Fund which shall reflect, among other things, the Fund Manager's calculation of net proceeds from refinances, sales and other Fund transactions, and a determination of cash available for distribution to Members after taking into account all fees and expenses of the Fund including, those payable to the Fund Manager. Members will also receive descriptive information regarding each of the Investments on a semi-annual basis. The Fund will furnish audited financial statements annually to all Members which sets forth the foregoing information for the fiscal year.

### **Indemnification**

The Fund Manager and its Members, employees, officers, directors, agents and other affiliates, and any other person who serves at the request of the Fund Manager on behalf of the Fund as an officer, director, partner, employee or agent of any other entity (in each case, an "Indemnitee") will not be liable to the Fund or to the Members for (i) any act performed or omission made by it in the absence of its own fraud, willful or criminal misconduct or gross negligence or (ii) losses due to the negligence of brokers or other agents of the Fund. The Fund will indemnify each Indemnitee for any loss, damage, or expense incurred by such Indemnitee on behalf of the Fund or in furtherance of the interests of the Fund or otherwise arising out of, or in connection with, the Fund, except for losses arising from such Indemnitee's own fraud, willful or criminal misconduct or gross negligence. The Fund may purchase, at its expense, insurance to insure the Fund Manager or any other Indemnitee against liability for any breach or alleged breach of their fiduciary responsibilities.

### **Removal of Fund Manager**

The Fund Manager may be removed for cause with the approval of 75% of the Membership Interests of the Members. In the event of a removal for “good cause”, the Fund Manager will not be entitled to the payment of any earned but unpaid carried interest in the Fund.

### **Counsel for the Fund**

Cole, Schotz, Meisel, Forman & Leonard, P.A.  
Court Plaza North  
25 Main Street, P.O. Box 800  
Hackensack, New Jersey 07602-0800

### **Auditors to the Fund**

Eisner LLP  
750 Third Avenue  
New York, NY 10017-2703

## **LIMITATIONS ON TRANSFERABILITY: SUITABILITY REQUIREMENTS**

### **Units of Membership**

The Units of Membership Interests offered hereby are being offered only to “accredited investors” meeting the suitability standards set forth herein. The term “accredited investor” includes (i) any natural person whose individual net worth or joint net worth with such person’s spouse exceeds \$1 million; (ii) any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with such person’s spouse in excess of \$300,000 in each of such years, and has a reasonable expectation of reaching the same income level in the current year; and (iii) any entity in which all of the equity owners are accredited investors or any other person, including an institution, that is a Qualified Institutional Buyer as defined in Rule 144A under the Securities Act of 1933, as amended.

Each prospective investor will be required to represent in the Subscription Agreement that (i) the Units of Membership Interests he or she acquires are being acquired for investment purposes only, and not with a view to resale or distribution; (ii) such investor’s overall commitment to investments which are not readily marketable is reasonable in relation to its net worth; (iii) such investor is willing and able to bear the economic risk of its investment in the Fund, has no need for liquidity with respect thereto and is able to sustain a significant or complete loss of his or her investment; (iv) such investor has read this Memorandum for purposes of evaluating the risks of investing in the Fund; and (v) such investor has substantial experience in making investment decisions.

The Units of Membership Interests have not been registered under the Securities Act and therefore cannot be transferred unless subsequently registered under the Securities Act or an exemption from such registration is available. It is not anticipated that any such registration will ever be in effect and there can be no assurance that certain exemptions provided by rules promulgated under the Securities Act will be available. In addition, the Operating Agreement contains prohibitions on the transfer of limits of Membership Interests, except in limited circumstances, without the Fund Manager’s consent. Accordingly, each prospective investor electing to acquire Units of Membership must bear the economic risk of its investment for an indefinite period of time.

## **TAX CONSIDERATIONS**

This section briefly summarizes certain U.S. federal income tax considerations relating to an investment of the Fund. It is not exhaustive of all possible tax considerations and does not address any state, local or foreign tax considerations or investments by tax-exempt entities or non-U.S. investors, nor does it discuss all of the aspects of federal income taxation that may be relevant to investors in light of their particular circumstances. In addition, an investment in the Fund will vary according to the tax consequences of the individual circumstances of each investor. Investors are, therefore, strongly urged to consult their own tax advisors regarding the tax consequences of an investment in the Fund.

The following discussion is based upon existing Code sections, the Treasury Regulations promulgated thereunder (the "Regulations"), current administrative positions of the IRS, and existing judicial decisions, any of which could be changed at any time. Such changes could adversely affect the tax consequences of investing in the Fund. We will not seek a ruling from the IRS with respect to any of the matters discussed below. Thus, there can be no assurance that the conclusions reached in the following discussion will not be challenged by the IRS or will be sustained by a court if so challenged.

### **Classification of the Fund as a Partnership**

The Fund will be organized as a New Jersey limited liability company and will be classified as a partnership for federal income tax purposes. As such, the Fund will not generally be subject to federal income tax at the entity level. In determining his or her federal income tax liability, each Investor will be required to take into account his or her allocable share of the Fund's tax items (consisting of income, gains, losses, deduction and credits), regardless of whether cash distributions are made. The Fund tax items generally will be allocated to investors in accordance with the manner in which available cash is to be distributed.

**MEMBERS MAY BECOME LIABLE FOR FEDERAL AND STATE INCOME TAXES ON THE FUND'S INCOME EVEN THOUGH THEY HAVE RECEIVED NO DISTRIBUTIONS FROM THE FUND WITH WHICH TO PAY THE TAXES.**

### **Treatment of Fund as a an "Investment Fund" or Engaged in a "Trade or Business"**

Depending on the nature and mix of the Fund's investments, the Fund may either be treated as an "investment" fund or engaged in a "trade or business."

If treated as an investment fund, the Fund's Members should benefit from lower long-term capital gains rates (20%) to the extent the Fund has gains from the sale

of long-term property. Interest income will be taxable at ordinary income rates (approximately 39%). The Fund's annual expenses will be considered investment expenses and thus subject to the 2% and 3% of adjusted gross income minimums for miscellaneous itemized deductions. For individuals that are subject to the Alternative Minimum Tax, these expenses will not be deductible. Further, any losses generated by the Fund will be considered capital losses, which are only deductible against other capital gains, plus an amount of up to \$3,000 per year.

If the Fund is treated as a trade or business, all of the income and expenses will be considered ordinary and taxable at the ordinary income tax rates. Any losses will be treated as ordinary, as well. If the Fund generates net taxable income, that income will be sourced to the state where the income is generated and possibly subject to state withholding. Further, losses may be subject to the passive activity rules (i.e., losses are only deductible against other passive income activities).

The Fund's intent is to be treated as an "investment fund." However, because of the number of loans that the Fund may make, the Fund may be deemed to be in the business of making loans and therefore deemed engaged in a "trade or business."

### **Annual Tax Filings**

Even though the Fund will not be subject to federal income tax, the Fund will be required to file an annual federal income tax information return, which may be audited by the IRS. Investors generally will be required to treat "partnership items" of the Fund in a manner consistent with that shown on the Fund's information return. William Procida Incorporated generally will have responsibility for any tax administrative proceedings at the Fund level and will have the authority to act for the Fund and its investors in such proceedings. If William Procida Incorporated seeks judicial review of a deficiency assessment relating to the Fund, investors would be bound by the outcome of any judicial proceedings (and would be entitled to receive notice of, and to participate in, such proceedings under certain circumstances).

## **State and Local Tax Considerations**

Investors should also consider the potential state and local income tax consequences of an investment in the Fund. An investor may be required to report his or her share of the net income and gain of the Fund for state and local tax purposes in the jurisdiction where the income is deemed to be sourced, as well as in the investor's state of residence. Certain states may require the Fund to withhold state taxes on Fund income attributable to such state. State and local tax laws may treat specific items differently from federal law. Each investor should consult a tax advisor with respect to the possible effect of state and local taxes on an investment in the Fund.

New Jersey has recently enacted legislature that will require any "pass-through" entities with more than three partners or members, such as the Fund, to pay a tax of \$150 per partner or member, if the entity derives any income from New Jersey sources. The Fund will have New Jersey source income and accordingly will be subject to this tax.

## SUBSCRIPTION PROCEDURES

To subscribe for Membership Interests in the Fund, an investor must furnish to the Fund Manager the following: (1) one completed copy of the Subscription Agreement, executed by the subscriber's on the Signature Page and Power of Attorney, in the form attached hereto; and (2) two separate completed, executed copies of the Signature Page and Power of Attorney. Completed and executed Subscription Agreements, and the Signature Page and Power of Attorney should be delivered by overnight courier or telecopy (with originals mailed) to the attention of William Procida, c/o Palisades Fund Management, LLC, 640 Palisade Avenue, Englewood Cliffs, New Jersey. The Fund Manager may accept or reject subscriptions for Membership Interests, in whole or in part, in the Fund Manager's sole discretion.

Payment instructions for the subscriber's investment in the Fund will be forwarded to each subscriber separately by the Fund Manager following acceptance of the subscriber's subscription. Subscriptions will not be effective, and subscribers will not become Members, unless and until accepted by the Fund Manager.

Up to \$25 million of Membership Interests are being privately offered for sale by the Fund. If the offering of Membership Interests is oversubscribed, each prospective investor will be allocated Units by the Fund Manager in its sole discretion.

The Fund Manager will contact each interested subscriber as to whether its subscription has been accepted, the number of Units allocated to such subscriber, and instructions for payment of such subscriber's Capital Contribution.

All subscriptions are irrevocable. The Fund Manager, in its sole discretion at any time, may withdraw and terminate this offering in whole or in part or in respect of any particular jurisdiction if any such offering would adversely affect the Fund. Subscriptions will be accepted in accordance with the eligibility criteria set forth in this Private Placement Memorandum and the Subscription Agreement.

## Appendix A

### PALISADES FINANCIAL PERFORMANCE HISTORY

The annualized returns shown in this Appendix A do not represent returns to investors but are the returns earned by individual assets or real estate transactions in which William Procida Incorporated, the predecessor to Palisades Financial, Palisades Financial, or principals of the Fund Manager invested as principal or originated on behalf of third parties. These returns do not give effect to any fees or other expenses that may have been incurred, which would decrease the indicated returns.

The Fund's actual results may differ materially from those presented in this Appendix A and the Private Placement Memorandum. Past performance is not necessarily indicative of future results.

**APPENDIX A**

**PALISADES FINANCIAL PERFORMANCE HISTORY (1)**

<b>Project</b>	<b>Date of Investment</b>	<b>Invested Amount <sup>(2)</sup></b>	<b>Net Proceeds <sup>(2)</sup></b>	<b>Time (months)</b>	<b>Annualized Return</b>	<b>Transaction Type</b>
147 Woodport Road, Sparta, NJ	2002	248,300	159,700	4	193%	Debt & Fee Purchase
Countryside Estates, Upper Saucon, PA	2002	350,000	150,000	4	129%	Debt & Fee Purchase
Phylco, Ltd, Paterson, NJ	2002	450,000	58,000	5	31%	2nd Mortgages
W. 87th Street, NY, NY	2001	150,000	27,000	12	18%	1st Priority Lien
10 Nauset Avenue, Ridgewood, NJ	2000	25,000	3,800	12	15%	2nd Mortgage
Peak Performance, Palisades Park, NJ	2000	100,000	12,000	6	24%	Bridge Loan
NY Country Club, New Hempstead, NY	2000	100,000	55,000	3	220%	Stand-By
214 44th St., Union City, NJ	2000	110,000	18,000	12	16%	1st Mortgage
County Road, Cresskill, NJ	2000	150,000	11,300	6	15%	2nd Mortgage
Hardenburgh Avenue, Demarest, NJ	2000	200,000	900,000	24	225%	Fee Purchase
Lincoln Avenue, Cliffside Park, NJ	2000	300,000	1,050,000	30	140%	Fee Purchase
250 E. 30th Street, NY, NY	2000	400,000	200,000	6	100%	Bridge Loan
231 Farnum St., Edgewater Park, NJ	1999	150,000	15,000	3	40%	Debt Buy
Fort Lee, NJ	1999	250,000	18,800	6	15%	2nd Mortgage
Taggart Marriot Industrial, Columbus, OH	1998	198,000	133,000	11	89%	Direct Ownership
325 Morrow Street, Englewood, NJ	1998	200,000	40,000	12	20%	2nd Mortgage
CTCII - Deerwood Park, Jacksonville, FL	1997	284,000	2,613,000	60	142%	Direct Ownership
1800 Walt Whitman Blvd., Long Island, NY	1995	2,600,000	433,000	4	54%	Direct Ownership
<b>Total</b>		<b>\$6,265,300</b>	<b>\$5,897,600</b>			

(1) - Transactions completed by Palisades Financial, LLC, its predecessor, William Procida Incorporated and certain principals of the Fund Manager

(2) - All figures are management prepared and rounded to the nearest \$100

## APPENDIX A

### WPI Transactions Completed for Third Party Clients (amounts stated in \$000's)

	<u>Date of Investment</u>	<u>Invested Amount</u>	<u>Est./Realized Income &amp; Sales Proceeds</u>	<u>Time (months)</u>	<u>Annualized Return</u>
<b>Canyon &amp; Affiliates (DIP, Bridge Loans &amp; Equity)</b>					
Mrs. Smith's Pies, Pottstown, PA	2001	\$6,500	\$8,450	24	15%
Route 17 North, Paramus, NJ	1999	2,619	2,945	5	30%
Fairchild, Long Island, NY	1999	3,224	3,860	11	22%
Roseland, NJ	1999	9,251	10,381	7	22%
West Shore, Staten Island, NY	1999	-	250	1	*
130 Monarch Avenue, Carlstadt, NJ	1999	1,800	2,484	20	23%
Cineplex Odeon, NY, NY	1998	19,673	21,319	4	25%
Burlington Square, Burlington, VT	1997	9,500	12,000	12	27%
Studio City Associates, Los Angeles, CA	1997	3,432	8,142	46	36%
<b>Total Canyon &amp; Affiliates</b>		<b>\$55,999</b>	<b>\$69,831</b>		
<b>Strategic Resources Corp. (Debt Buys)</b>					
Southport, Cape Cod, MA	1999	\$25,000	\$50,000	24	50%
Seacourt Pavilion, Toms River, NJ	1999	25,000	30,000	12	20%
Wise County Virginia, WV	1999	5,500	6,000	1	*
Danbury Hilton Hotel, Danbury, CT	1999	14,500	15,000	1	*
West Shore Plaza, Staten Island, NY	1998	15,000	25,000	12	60%
Northvale Offices, Northvale, NJ	1998	1,000	1,500	6	100%
Gertz Plaza, Queens, NY	1998	12,000	15,000	12	20%
Ridge Plaza, Jefferson Twp., NJ	1998	1,500	3,000	24	50%
Hudson Street, NY, NY	1997	5,000	16,000	12	300%
Halvajian Portfolio, NJ	1997	30,000	50,000	24	30%
21 Astor, NY, NY	1997	-	500	1	*
<b>Total SRC</b>		<b>\$134,500</b>	<b>\$212,000</b>		
<b>Lend Lease (Mezzanine Loans)</b>					
Cambridge Crossings, Clifton, NJ	2001	\$15,000	\$22,500	24	25%
717 Partners, LLC, NY, NY	2000	14,000	19,670	18	27%
Cambridge Heights on Terrace Lake, Butler, NJ	2000	7,500	10,312	18	25%
Cambridge Heights at Nutley, Nutley, NJ	1999	10,000	13,750	18	25%
<b>Total Lend Lease</b>		<b>\$46,500</b>	<b>\$66,232</b>		
<b>Grand Total</b>		<b>\$236,999</b>	<b>\$348,063</b>		

## APPENDIX B

PALISADES REGIONAL INVESTMENT FUND, LLC  
UNAUDITED BALANCE SHEET  
November 30, 2002

### ASSETS

Assets:

Cash		\$	136,919
Loan Positions			
Dagwood Properties, LLC	\$	800,000	
7777 West Side Ave. Assoc., LLC		700,000	
Red Devil, Inc.		550,000	
MBH Solutions		500,000	
Metropolitan Place		300,000	
David N. Deutsch		<u>150,000</u>	
Total Loan Positions		\$	3,000,000
Property Ownership			
No positions at this time		\$	-
Accrued Interest & Fees			
Metropolitan Place		\$	15,000
Total Assets		\$	<u>3,151,919</u>

### LIABILITIES & CAPITAL

Liabilities:

Due to/from Members	\$	3,100,000	
Deferred Revenue Interest - MBH Solutions		17,500	
Asset Management Fee Payable - Fund Manager		<u>12,963</u>	
Total Liabilities		\$	3,130,463

Capital:

Net Income/(Loss)	\$	<u>21,456</u>	
Total Capital		\$	<u>21,456</u>
Total Liabilities & Capital		\$	<u>3,151,919</u>

EXHIBIT A

**OPERATING AGREEMENT  
OF  
PALISADES REGIONAL INVESTMENT FUND, LLC**

**OCTOBER 1, 2002**

**THIS OPERATING AGREEMENT** (the "Agreement") as of October 1, 2002, of PALISADES REGIONAL INVESTMENT FUND, LLC, is by and among the Persons who from time to time hereafter execute a counterpart of this Agreement and are admitted in accordance with the provisions hereof, as Members.

**WITNESSETH:**

WHEREAS, the parties hereto wish, by execution and delivery of this Agreement or counterpart pages hereto, to become members ("Members") of Palisades Regional Investment Fund, LLC, a New Jersey limited liability company (the "Fund") which has been formed pursuant to the New Jersey Limited Liability Company Act, N.J.S.A. 42:2B-1 et. seq. (as from time to time amended and including any successor statute of similar import, the "Act").

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

**ARTICLE I**  
**Defined Terms, Etc.**

1.1 Capitalized Terms. Capitalized Terms not otherwise defined herein shall have the meanings set forth in Appendix A hereto.

1.2 Additional Definitions. In addition to the preceding defined terms, other terms used in this Agreement shall have the respective meanings therein defined.

1.3 Accounting. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made and all financial statements and certificates and reports as to financial matters required to be delivered hereunder shall (except for the absence of footnotes in the case of unaudited financial statements) be prepared in conformity with United States generally accepted accounting principles.

**ARTICLE II**  
**Members of Fund; Term**

2.1 Members of Fund. The parties to this Agreement agree to become Members of the Fund for the purposes set forth in this Agreement pursuant to the provisions of the Act.

2.2 Certificate of Formation. The Fund Manager has caused a Certificate of Formation to be duly filed with the Secretary of State of the State of New Jersey to form the Fund (and an amendment thereto changing the name of the Fund from "Madison

Investment Group, LLC” to “Palisades Regional Investment Fund, LLC”) which reflects the terms hereof as and to the extent required under the Act (the “Certificate of Formation”). The Fund Manager shall cause to be promptly filed or recorded with the proper offices in the State of New Jersey and in each jurisdiction in which the Fund does business and, if necessary or desirable, cause to be published, such certificates or amended certificates, if any, as are required or permitted by the Act, any fictitious name act, any act relating to qualification to do business or similar statute or any rule or regulation in effect in any jurisdiction. In addition, the Fund Manager shall cause to be promptly filed or recorded such amended certificates or additional certificates or instruments of whatever nature as may from time to time be required by or desirable under such acts, statutes, rules or regulations to permit the continued existence and operation of the Fund. Unless otherwise required by law, the Members agree that the Fund Manager shall not be required to deliver or mail to the Members a copy of the Certificate of Formation and each amendment thereto that is filed with the office of the Secretary of State of the State of New Jersey or in any other jurisdiction. A schedule of the name and the business or residence address and the Capital Contribution of each Member shall be maintained by the Fund Manager (the “Member Schedule”) and made available to the Members upon request. Each Member shall promptly notify the Fund of any change in its address.

2.3 Term; Investment Period. (a) The Fund shall commence on the filing of the Certificate of Formation in accordance with the Act and shall continue until such time as all of the Fund’s investments have been sold and the proceeds thereof, subject to any reserves established by the Fund Manager, distributed to the Members or sooner terminated pursuant to the provisions hereof; provided, however, that, except as provided in this Agreement, no Member shall file for, pursue, seek or take any action causing the dissolution or termination of the Fund or any partition of the assets of the Fund.

(b) On the date which is three years after the Fund closes to new investors, the Fund Manager will cease making new investments of the Fund’s cash available for investment in Permitted Investments (other than investments of cash in short term money market type investments). The Fund Manager will then begin to liquidate the Fund’s investments and distribute the proceeds to the Fund’s Members. The Fund Manager will complete the liquidation of the Fund not later than five years after the Fund closes to new investors; provided, that the Fund Manager in its sole discretion may extend for an additional one year period the date by which the Fund must be liquidated. Notwithstanding the foregoing, the Fund Manager, in its sole discretion, at any time after one year after the Fund closes to new investors, may liquidate the Fund’s investments, distribute the net proceeds therefrom to the Members and terminate the Fund.

## ARTICLE III

### Name and Place of Business

3.1 Name. The business of the Fund shall be conducted under the name “Palisades Regional Investment Fund, LLC”; provided, that such name shall be subject to change, from time to time, as the Fund Manager may in its sole discretion determine. The Fund Manager shall, as promptly as practicable, give notice to Members of any change in the name of the Fund.

3.2 Principal Place of Business. The principal place of business of the Fund shall be 640 Palisade Avenue, Englewood Cliffs, New Jersey 07632, or such other place within the United States as the Fund Manager shall determine. The Fund Manager shall notify the Members of any change of the principal place of business of the Fund. The Fund may maintain such other office or offices for the transaction of business at such other locations within the United States as the Fund Manager may deem advisable.

3.3 Registered Office. The address of the registered office of the Fund is c/o Palisades Financial, LLC, 640 Palisade Avenue, Englewood Cliffs, New Jersey 07632. The registered office of the Fund may be changed by the Fund Manager to any other location in the United States, in which event written notice thereof shall be given by the Fund Manager to all the other Members.

3.4 Agent for Service of Process. The name and address of the agent for service of process on the Fund is Mr. Mark Zurlini, c/o Palisades Financial, LLC, 640 Palisade Avenue, Englewood Cliffs, New Jersey 07632.

## ARTICLE IV

### Purposes and Powers

4.1 Purposes. The business of the Fund is to generate net income and capital appreciation from investments in real estate and loans secured by real estate and other assets. As such, the Fund shall purchase, manage, hold, own and invest in Permitted Investments. Except as expressly permitted by this Agreement, the Fund shall engage in no activities other than those described in this Section 4.1 and the rest of this Agreement.

4.2 Powers. The Fund shall have all such powers and authorities as are necessary, appropriate or incident to the furtherance of the purposes and the business of the Fund, including, without limitation, the following powers and authorities:

(a) to own, lease, license or otherwise obtain the use of any and all property necessary, appropriate or incident to the furtherance of the purposes of the Fund

and to enter into, make and perform all such contracts, agreements and other undertakings as may be necessary or appropriate to conduct the Fund's business;

(b) to apply for, obtain, or maintain all licenses, permits or other approvals necessary or desirable to the conduct of the Fund's business;

(c) to invest in Permitted Investments primarily (but not exclusively) in New York, New Jersey, Pennsylvania and Connecticut;

(d) To incur indebtedness in connection with the acquisition of Permitted Investments and for working capital purposes in such amounts and on such terms as the Fund Manager deems appropriate; provided that on a portfolio wide basis the Fund Manager will limit the amount of such indebtedness to not more than seventy (70%) percent of the value of the Fund's investment portfolio, determined by the Fund Manager in its sole discretion at the time any such indebtedness is incurred;

(e) to sell participations in loans held or originated by Fund;

(f) to have and maintain one or more offices within or without the State of New Jersey, in the United States;

(g) to open, maintain and close bank accounts (in the name of the Fund only) and to draw checks and other orders for the payment of money;

(h) to employ and dismiss from employment any and all employees, agents or independent contractors;

(i) to sue and to defend suits, to prosecute, settle or compromise claims against others, to compromise, settle or accept judgments or claims against the Fund and to execute all documents and make any representations, admissions and waivers in connection therewith;

(j) to enter into, make and perform all such contracts, agreements and other undertakings, including indemnity agreements, as may be necessary or advisable or incident to the carrying out of the foregoing purposes; and

(k) to take such other actions as the Fund Manager may deem necessary or advisable in connection with the foregoing, including the retention of agents, independent contractors, attorneys, accountants and other experts selected by the Fund Manager.

The Fund shall have all lawful powers and authorities necessary, suitable or convenient for the furtherance of the aforesaid purposes, and, without limiting the foregoing, the Fund may carry out its objectives and accomplish its purposes as principal or agent, directly or indirectly through Subsidiaries or Affiliates of the Fund, alone or

with associates, or as a member or as a participant in any firm, association, trust, company or other entity. Although the Fund may engage in any or all of the above activities, the Fund need not engage in any one or more of them. The Members, the officers of the Fund and any other Person or Persons shall not have the power or authority to act for or on behalf of the Fund except as expressly provided in this Agreement.

#### 4.3 Investment Policies and Limitations.

(a) Palisades Fund Management, LLC shall act as the sole Fund Manager for the Fund. In such capacity, the Fund Manager shall be solely responsible for the operation of the Fund in all respects, and shall make all investment decisions on its behalf.

(b) To minimize risk, the Fund shall endeavor, but shall not be obligated to, abide by the following guidelines: (1) no single investment will comprise more than twenty (20%) percent of the Fund's assets (as calculated at the time of such investment); (2) no more than fifty (50%) percent of the Fund's assets will be invested in one city, one asset class or consist of or be secured by one type of real estate; and (3) a balance will be sought among investments in fee purchases, debt instruments, either originated or purchased, joint ventures and loan participations, and current pay and accruing loans.

(c) The Fund will endeavor, but shall not be obligated to, limit its investments to fee ownership of or loans secured by residential properties of 10 to 100 living units, office buildings, retail developments, industrial complexes and mixed-use properties with 10,000 to 100,000 rentable square feet. Raw land will be considered only if it is zoned as of right, or is contracted for subject to approvals.

4.4 Advisory Committee. As soon as practicable after the date hereof, the Fund Manager shall form the Advisory Committee. The Fund Manager will meet semi-annually with the Advisory Committee to review all aspects of the business and investments of the Fund. The votes, recommendations and advice of the Advisory Committee shall be non-binding on the Fund Manager. The Fund Manager will submit a written request to the Advisory Committee for its review and approval or rejection of any matter the Fund Manager reasonably believes might be deemed to involve a conflict of interest for the Fund Manager or any of its employees or affiliates. To the extent that the Fund maintains any "directors or officers" insurance for the benefit of the Advisory Committee members, the cost thereof shall be borne by the Fund.

4.5 Compliance with Laws. The Fund will be operated at all times in a manner which is consistent in all material respects with applicable federal, state, local or foreign laws, rules and regulations.

## ARTICLE V

### Capital Contributions; Capital Accounts

#### 5.1 Issuance of Units.

(a) Each Member shall execute a counterpart of this Agreement (or signature page attached to the Subscription Agreement) and shall be bound by the provisions hereof. The amounts contributed to the Fund in accordance with this Section 5.1 shall constitute 100% of each Member's Capital Contribution to the Fund. At the sole discretion of the Fund Manager, the Fund will permit additional Capital Contributions after Members submit their initial contributions.

(b) Upon the admission of any Member pursuant to this Section, the Fund Manager shall amend the Member Schedule and shall upon request provide a copy of such amended Member Schedule to the Members to reflect such admission or amendment. The Fund Manager shall, as part of its year-end reporting requirements, furnish to each Member a copy of the amended Member Schedule. Each Member, by its execution hereof, hereby agrees to and approves any admission of a Person as a Member pursuant to the provisions of this Section and any such amendment to this Agreement or the Certificate of Formation.

(c) The initial Members of the Fund acknowledge that the Company intends to commence a private offering of additional Units of the Fund to private investors. Pursuant to such offering up to 100 Units (inclusive of the Units of the initial Members) may be issued. Each Unit offered shall be offered for sale at a purchase price of \$250,000 per Unit; provided that in the Fund Manager's sole discretion, the Fund Manager may issue fractional Units.

(d) During the Admission Period, investors will only be admitted to the Fund on the first Business Day of each month. Each Member shall, on admission to the Fund, contribute to the capital of the Fund (i) an amount in cash equal to 100% of its Capital Contribution, or (ii) at the Fund Manager's sole and unreviewable discretion, equity positions or interests in other investments to the extent of capital invested therein with values equivalent to \$250,000 per Unit or a portion thereof. The Fund Manager shall not issue Units in the Fund nor admit additional Members pursuant to this Section 5.1(d) after the Final Admission Date.

(e) For tax, distribution and financial reporting purposes, each Member shall be deemed to have been admitted to the Fund as of the date upon which the Fund Manager accepted such Member's Capital Contribution; provided, however, that such admission date must in all events occur before the Final Admission Date.

5.2 Capital Accounts. A separate Capital Account will be maintained for each Member.

(a) Each member's Capital Account will be increased by:

(i) The amount of money contributed by Members to the Fund;

(ii) The fair market value of property contributed to the Member by the Fund (net of liabilities secured by such distributed property that such Member is considered to assume or take subject to under Section 752 of the Code);

(iii) Allocations to the Member of net profits; and

(iv) Allocations to the Member as provided in Section 7.2 hereof or otherwise by Regulation Section 1.704-1(b)(2)(iv).

(b) Each Member's Capital Account will be decreased by:

(i) The amount of money distributed to or on behalf of the Member by the Fund;

(ii) The fair market value of property distributed to the Member by the Fund (net of liabilities secured by such distributed property that such Member is considered to assume or take subject to under Section 752 of the Code);

(iii) Allocations to the Member of net losses; and

(iv) Allocations to the Member as provided in Section 7.2 hereof or otherwise by Regulation Section 1.704-1(b)(2)(iv).

(c) In the event of a permitted sale or exchange of Membership Interests in the Fund, the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Membership Interests in accordance with Regulation Section 1.704-1(b)(2)(iv).

(d) The manner in which Capital Accounts are to be maintained pursuant to this Section 5.2 is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If in the Fund Manager's opinion, the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this Section 5.2 should be modified to comply with Section 704(b) of the Code and the Regulations thereunder, then notwithstanding anything to the contrary contained in the preceding provisions of this Section 5.2, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Members.

(e) No Member with a negative balance in its Capital Account shall have any obligation to the Fund or the other Members to restore such negative balance.

## ARTICLE VI

### Allocations of Profits and Losses; Distributions; Compensation of Fund Manager

#### 6.1 Allocation of Profits and Losses; Distributions.

(a) During the Investment Period, profits and losses of the Fund shall be allocated as follows:

(i) Initially, profits and losses will be allocated to the Members monthly on a pro rata basis in accordance with each Member's Percentage Interest in the Fund for such month until a preferred cumulative annual return of 10% on each Member's initial Capital Contribution has been reached;

(ii) Thereafter, 75% of profits and losses of the Fund will be allocated to the Members (which shall be distributed in proportion to their respective Percentage Interests) and 25% to the Fund Manager as a performance fee to compensate it for the yields obtained on and capital appreciation of the Fund's investments; until a 20% annualized return on each Member's initial Capital Contribution has been reached.

(iii) After the 20% annual return has been realized by the Members, 50% of profits and losses of the Fund will be allocated to the Members and 50% to the Fund Manager as a performance fee.

The Fund Manager will not receive a performance fee in any year until each Member has been paid a cumulative 10% annualized return on his initial capital contribution. Upon liquidation of the Fund, to the extent not previously paid, the Fund Manager will assess the performance fee based on each Member's cumulative return.

The Fund Manager, in its discretion, may make distributions of Available Cash to the Members in accordance with the foregoing allocations; provided that to the extent of Available Cash, on a quarterly basis, the Fund Manager will pay the quarterly portion of the 10% cumulative annual return on each Member's initial Capital Contribution. However, it is anticipated that during the Investment Period, after the Members have been paid their quarterly portion of the 10% cumulative annual return on their initial Capital Contribution, the Fund Manager may reinvest all or a portion of any remaining Available Cash, whether received from property income, sales or refinancings, in new Permitted Investments.

After the end of the Investment Period, the Fund's Available Cash from the liquidation of its investments, after expenses and reserves, will be distributed to the Members, after the

payment of the Fund Manager's performance fee, on a pro rata basis in accordance with their Percentage Interests in the Fund. The Fund Manager's performance fee will be calculated on a cumulative basis in accordance with the allocation of profits and losses described above.

(b) If upon liquidation of the Fund, the Members have not received a 10% cumulative annual return on their Capital Contribution, plus a return of such Capital Contribution, then the Fund Manager will be obligated to contribute to the Fund for distribution to the Members, up to the extent of any performance fees it has been paid, that amount which will result in the aggregate payment to each Member of an amount equal to a 10% annualized return on each Member's Capital Contribution (plus a return of such Capital Contribution).

(c) Distribution for Taxes. Subject to the preceding Section 6.1(a), the Fund Manager will endeavor, but shall not be obligated, to distribute Available Cash annually to Members in accordance with each Member's Percentage Interests to enable the Members to pay taxes on the taxable income of the Fund allocated to them pursuant to this Agreement. Notwithstanding the foregoing sentence, the Fund Manager shall have the right, in its sole and absolute discretion, to refrain from distributing Available Cash so that such Available Cash may be reinvested in Permitted Investments.

(d) Net Profits and losses of the Fund will be determined on the accrual basis of accounting generally using generally accepted accounting principles as a guideline and will be deemed to include net unrealized profits or losses on investment positions as of the end of each fiscal period.

6.2 Origination Compensation to Fund Manager. As compensation to the Fund Manager for identifying and originating proposals for investments by the Fund, meeting with potential borrowers and sellers, identifying and dealing with issues arising with respect to potential investments, supervising third party professional with respect to new investments and all other underwriting and transactional issues involved with each new investment by the Fund, the Fund Manager shall receive compensation at the time of each new investment by the Fund equal to two (2%) percent of the value of the Fund's portion of the transaction in which the Fund invests. Notwithstanding the foregoing, if an Affiliate of the Fund Manager, such as Palisades Financial, originates an investment for a third party for which such Affiliate receives an origination fee or similar compensation, and the Fund participates in such investment, the Fund Manager will waive the origination compensation described in this Section 6.2

6.3 Compensation for Asset Management. As compensation to the Fund Manager for managing the day-to-day operations of the Fund and each of its investments, supervising projects in which the Fund has invested, monitoring the performance of each investment, inspecting properties with respect to each investment, determining and

executing exit strategies with respect to the Fund's investments, overseeing the Fund's accounting, preparing property reports, calculating the amount of distributions payable to Members and addressing any other issues arising with respect to the Fund's investments, the Fund Manager shall receive annual compensation, payable quarterly, equal to three (3%) percent of each Member's Capital Account (the "Asset Management Compensation"). The Asset Management Compensation shall only be paid to the extent that the Fund has Available Cash, and any Asset Management Compensation not paid when due shall accrue and be paid at such time that the Fund has Available Cash to make payment.

6.4 Distributions In-Kind. Except as provided in Section 14, the Fund may not make distributions of its assets, other than cash and Cash Equivalents of the Fund, to the Members without Supermajority Consent.

6.5 No Restoration of Funds. Except as provided in Section 11.2, no Member shall be required to restore to the Fund any funds properly distributed pursuant to this Agreement, unless required by law.

6.6 No Other Distributions. Except as provided in this Agreement, no Member shall have any right to receive distributions from the Fund.

6.7 Special Allocations. With respect to any existing investments contributed to the Fund by a Member as a Capital Contribution, any accrued interest, proceeds, profits or losses with respect to such investment paid or allocable to the period prior to the contribution of such investment to the Fund, shall accrue to the benefit of and to the extent of any Available Cash shall be payable to the contributing Member.

6.8 Valuation of Fund's Investments. The Fund Manager will value the Fund's investments on a monthly basis. In making such valuation, the Fund Manager may rely upon and utilize broker opinions, independent appraisers and other resources to the extent that the Fund Manager deems it appropriate.

## **ARTICLE VII**

### **Taxation of Fund; Allocations**

7.1 Taxation As Partnership. The Fund shall elect to be taxed as a partnership under the relevant provisions of the Code, or such other provisions of federal, state and local law as may hereafter be applicable to such election. The Members will authorize the filing of such election and appropriate consents with the appropriate office of the Internal Revenue Service and appropriate state and local governmental agencies. Such other action shall be taken as may be deemed necessary or advisable by counsel to the Fund to effect such election.

7.2 Allocations of Income and Losses for Tax Purposes.

(a) Ordinary Deductions and Ordinary Income. For Federal income tax purposes, all items of deduction and losses other than realized capital losses, and all items of income other than realized capital gains, shall be allocated, in accordance with Section 704(b) of the Code in accordance with the manner in which such items of deduction or income affected the amounts which were either deducted from or added to the Capital Accounts of the Members.

(b) Capital Gains and Losses. For Federal income tax purposes, capital gains and capital losses recognized in any fiscal period (short and long-term, as the case may be) shall be allocated, in accordance with Section 704(b) of the Code, as amended in accordance with the manner in which the increase or decrease in the value of the Fund's assets giving rise to such gains or losses was added to or deducted from the Capital Accounts of the Members in such fiscal period and prior fiscal periods.

(c) Withholding Taxes. Any taxes, fees or other charges the Fund is required to withhold under applicable law with respect to any Member, shall be withheld by the Fund (and paid to the appropriate governmental authorities) and shall be deducted from the Capital Account of such Member as of the last day of the fiscal period with respect to which such amount is required to be withheld.

(d) If the Fund elects under Section 754 of the Code, all adjustments to the bases (or carrying values) of Fund assets made pursuant to Section 743 of the Code shall not be reflected in the Members' Capital Accounts, but adjustments pursuant to Section 734 of the Code (to the extent not previously reflected in the Members' Capital Accounts) shall (i) be reflected in the Capital Account of the Member receiving such distribution in the case of a distribution in liquidation of such Member's interest in the Fund, and (ii) otherwise be reflected in the Capital Accounts of the remaining Members in the manner in which the unrealized income and gain that is displaced by such adjustments would have been shared had the property been sold at its carrying value immediately before such adjustments, except as otherwise provided by Reg. § 1.704-1(b)(2)(iv)(m).

(e) If any interest in the Fund is Transferred in accordance with the terms of this Agreement, the Transferee shall succeed to the portion of the Capital Account of the Transferor attributable to the Transferred interest.

(f) Immediately before the liquidation of the Fund (within the meaning of Reg. § 1.704-1(b)(2)(ii)(g)), the Capital Accounts of all Members and the carrying values of all Fund properties shall, unless the Members otherwise agree, be increased or decreased (consistent with the provisions hereof) to reflect any unrealized gain or loss attributable to each Fund property, as if such unrealized gain or loss had been recognized upon an actual sale of each Fund property for its fair market value immediately before

such event and had been allocated to the Members at such time pursuant to this Section 7.2.

(g). Except as otherwise provided in this Agreement, whenever it is necessary to determine the Capital Account of any Member, the Capital Account of such Member shall be determined after giving effect to all allocations pursuant to this Section 7.2 and Section 6.1 and all distributions made prior to the time as of which such determination is to be made.

### 7.3 Operating Rules.

(a) For purposes of determining the taxable income or losses or any other items allocable to any period, such items shall be determined on a daily, monthly or other basis, as reasonably determined by the Fund Manager, using a method consistent with any method permissible under Section 706 of the Code and the Regulations thereunder.

(b) Any allocation of profits, losses, items of income, gain, deduction, loss and Section 705(a)(2)(B) Expenditures shall be made after giving effect to (i) any prior allocations and any portion of a current allocation of higher priority, and (ii) any prior contributions and distributions, provided that such allocations are consistent with Section 7.2.

7.4 Modifications to Preserve Economic Effect. The Members intend that allocations of tax items corresponding to allocations under this Section 7 be respected as having substantial economic effect under the Code and regulations thereunder. If at any time it appears, as reasonably determined by the Tax Matters Member, that such result would not be achieved, the Members agree to amend the provisions of this Section 7 to the extent and in such manner as may be necessary to achieve such result, provided that such amendments shall not affect the amounts distributable to any Member pursuant to Sections 6.1 and 7.2.

## ARTICLE VIII

### Management of the Fund

8.1 Management. Except as otherwise provided in this Agreement, the business and affairs of the Fund shall be managed by the Fund Manager who shall be the Manager of the Fund.

### 8.2 Fund Manager.

(a) The Fund engages the Fund Manager to provide management services to the Fund. The Fund Manager shall be responsible for (i) the day-to-day

business operations of the Fund; (ii) preparing and filing tax returns and other regulatory applications and other filings for and on behalf of the Fund; and (iii) maintaining books and records for the Fund. Except as otherwise provided in this Agreement, the Fund Manager shall have the sole and exclusive power and authority to exercise on behalf of the Fund the powers set forth in Section 4.2 hereof so as to conduct and operate the Fund's business. Actions taken by the Fund Manager within the scope of its authority as herein provided shall constitute approval of, or action by, the Fund and shall be binding on the Members.

(b) Without limiting the generality of the foregoing, the Fund Manager shall, subject to the provisions of Sections 4.2, 4.3 and 4.4 hereof, have the sole and exclusive power and authority to take the following actions, on behalf of the Fund:

- (i) establishing and implementing operating policy decisions, for and on behalf of the Fund;
- (ii) hiring accountants, for and on behalf of the Fund;
- (iii) hiring lawyers for and on behalf of the Fund;
- (iv) hiring, firing and supervision of employees for and on behalf of the Fund;
- (v) paying the fees provided for in this Section 8.2;
- (vi) collecting all revenues for and on behalf of the Fund;
- (vii) making distributions to the Members in conformance with this Agreement; and
- (viii) selecting Permitted Investments and determining the terms of any such investment.

(c) (i) The Fund Manager shall bear its own overhead expenses and personnel costs.

(ii) All other operating expenses of the Fund including without limitation expenditures on account of bookkeeping, appraisals, insurance expense, accounting fees, legal fees, architect fees, engineering fees and other fees and expenses incurred in underwriting and managing Permitted Investments shall be paid directly by the Fund.

(d) The Fund shall pay or shall reimburse the Fund Manager for the actual cost incurred by it with respect to any and all costs and expenses incurred in connection with the origination, purchase, holding, sale or exchange of Permitted

Investments and taxes on investments, brokerage fees, taxes applicable to the Fund on account of its operations, insurance expense, fees incurred in connection with the maintenance of bank or custodian accounts, the preparation of annual financial statements and quarterly reports to be delivered to the Members, the filings referred to in Section 8.2(c) hereof, auditing and accounting fees and expenses, compliance with the registration requirements under the Securities Act or any state securities or "blue sky" laws, either in respect of the sale of interests in the Fund or in respect of the purchase, sale (or proposed sale) or exchange of Permitted Investments by the Fund or the distribution of Available Cash to the Members to the extent permitted hereunder, as well as any legal or accounting (or, in the case of the purchase, sale, exchange or distribution of Permitted Investments, any placement agent, broker's or finder's) fees or expenses incurred in connection with any of the foregoing. The Fund shall also pay directly or reimburse the Fund Manager, and its Affiliates for any expenses that are not normal operating expenses, including, without limitation, fees of independent consultants, appraisers and investment advisers and expenses incurred in investigating and evaluating investment opportunities and managing investments of the Fund and all legal fees and expenses incurred in prosecuting or defending administrative or legal proceedings brought by or against the Fund. Without limitation, the Fund will reimburse the Fund Manager for all expenses incurred by or on behalf of the Fund Manager in connection with the organization of the Fund, the offering and sale of interests therein and other operating expenses of the Fund Manager incurred in connection therewith, including, without limitation, legal fees and expenses of counsel to the Fund Manager up to the sum of \$100,000.00.

(e) The Fund Manager shall also establish an Investment Committee. The Investment Committee of the Fund Manager will initially have three members, each having one vote. The initial members will be William Procida, Mark Zurlini and Jim Runsdorf. The Investment Committee will make decisions regarding investment strategy, annual budgets, acquisitions, disposition, financing and policy matters. At the sole discretion of the Fund Manager, the size and members of the Investment Committee may be changed.

(f) Except to the extent set forth in the last paragraph of Section 6.1(b), the Fund Manager shall not guaranty or be responsible for a guaranteed return of capital to the Members. The Fund Manager shall be liable to the Fund only if it or its Members or employees have been adjudicated guilty of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of its duties (any of the foregoing so adjudicated shall constitute "Good Cause").

(g) The Fund Manager may be terminated from its position with the Fund by Supermajority Consent of the Members for Good Cause. If such removal is made with Good Cause, the Fund Manager shall not be entitled to the payment of any earned but unpaid carried interest in the Fund but shall be entitled to any Asset

Management Compensation and Origination Compensation earned but unpaid to date of removal.

8.3 Consents. Unless otherwise stated herein, whenever the consent or agreement of the Members is required under this Agreement, such consent or agreement shall be obtained by a majority vote of the Members (or such greater percentage as may be provided for in the applicable clause of this Agreement) voting in accordance with their respective Percentage Interests.

## **ARTICLE IX**

### **Exclusive Investment Vehicle; Other Business**

9.1 The Fund Manager. Until such time as the Fund is fully invested or at any time that the Fund has cash available for investment, Palisades Financial, the principals of Palisades Financial and the Fund Manager, covenant that they shall bring every real estate investment opportunity made available to them to the Fund for consideration and will make all of their real estate investments or other investments that would constitute Permitted Investments through the Fund (other than investments in residential real estate for personal use or acquisitions of real property with respect to like-kind tax free exchanges involving real property currently held). However, after the Fund's three year investment period following the closing of the Fund, or if (i) the Fund Manager decides not to make an investment presented to it because it does not meet the Fund's investment criteria, and (ii) the approval of the Fund's Advisory Committee has been obtained, Palisades Financial, the Fund Manager or any of their principals may invest or participate in any such real estate investment. The Fund Manager and its Affiliates shall devote an appropriate portion of their business time to the business of the Fund. Palisades Financial, the Fund Manager and their respective principals may engage in real estate brokerage, real estate advisory activities, real estate correspondence activities and other business activities that do not conflict with the activities of the Fund.

9.2 The Members. Nothing contained in this Agreement shall serve to limit the Members (other than the Fund Manager) from engaging in any business including those directly competitive with the business of the Fund.

## **ARTICLE X**

### **Transfer of Member Units**

10.1 Transfers by the Fund Manager. If the Fund Manager holds any Units in the Fund, it may Transfer some or all of its Units in the Fund to any of its Affiliates officers, members or employees.

10.2 Effect of Permitted Transfer. Upon a Transfer by the Fund Manager, the Transferee shall become a Member.

10.3 Transfers by Members.

(a) Any Member or its Legal Representative may at any time or times Transfer any or all of the Units held by such Member to any person who is a "*Permissible Transferee*" with respect to the Transferor. Without the consent of the Fund Manager, which may be withheld in the Fund's Manager's sole discretion, a Member may not otherwise transfer any Units held by such Member. "*Permissible Transferee*" with respect to the Transferor means:

(i) any trust for the benefit of the Transferor or any member of the Transferors immediate family;

(ii) a spouse (including a widow or widower) or a child (including stepchildren or adoptive children) of a Transferor; and

(iii) any Affiliate of the Transferor.

(b) Subject to the provisions of Section 10.3(a), no Member shall transfer any Units or interest therein except in accordance with the terms of this Agreement, and all applicable laws, rules and regulations, and no Transfer of a Unit or any interest therein shall be valid unless:

(i) such Transfer is made in accordance with the terms of this Agreement;

(ii) the Transferee of such Units shall have delivered to the Fund a written acknowledgement that the Units to be transferred are subject to this Agreement and that such Person and such Person's successors in interest are bound hereby; and

(iii) such Transfer shall be made pursuant to an effective registration statement under the Securities Act or an exemption from the registration requirements thereof, and in accordance with applicable state law; and prior to any such transfer the Member proposing to make such transfer shall give the Fund, at such Member's own cost and expense, a notice describing the manner and circumstances of the proposed Transfer and, if requested by the Fund, a written opinion in form and substance reasonably satisfactory to the Fund, to the effect that the proposed Transfer may be effected without registration under the Securities Act of 1933, as amended (the "Securities Act"), or any applicable state securities or "Blue Sky" laws (including any investment suitability standards) applicable to the Fund.

(c) Notwithstanding the foregoing, no Transfer of any Units may be made if counsel to the Fund shall be of the opinion that such Transfer (i) may not be effected without the registration of such Units under the Securities Act, or (ii) would be in violation of any such state securities or "Blue Sky" laws.

10.4 Restrictions Following Transfer. If any party hereto (the "*Initial Transferor*") transfers Units to a Permissible Transferee pursuant to Section 10.1 or 10.3, the Permissible Transferee shall hold the Transferred Units subject to this Agreement and to all of the rights, obligations and restrictions provided herein and shall be deemed a party hereto, provided that the Permissible Transferee shall not thereafter Transfer any Units pursuant to Section 10.1 or 10.3 other than to a Person who is a Permissible Transferee of the Initial Transferor. Every Permissible Transferee to whom Units are transferred pursuant to Section 10.1 or 10.3 shall observe and comply with this Agreement and with all obligations and restrictions imposed hereby and, upon demand made at any time by the Fund Manager, shall execute an appropriate instrument to that effect. Prompt notice of any Transfer pursuant to Section 10.1 or 10.3 shall be given by the Transferor and Transferee to the Fund Manager.

## ARTICLE XI

### Members

11.1 No Right to Manage. Subject to the terms and conditions set forth in this Agreement, no Member or its Legal Representative, including, but not limited to, representatives of a Member (should it dissolve or should an Event of Bankruptcy for such Member occur or upon the death or incompetence of a Member) shall have any right to take part in the management of the business or affairs of the Fund or any right or authority to act for or bind the Fund and shall have only the rights and powers granted to such Member hereunder.

11.2 Liability of Members. Subject to the provisions of the Act and this Section 11.2, the Members shall not be liable to creditors of the Fund for the repayment, satisfaction and discharge of any debts, liabilities and obligations of the Fund in excess of the amount of their respective Capital Accounts. If a Member receives a distribution at a time when the liabilities of the Fund exceed the fair value of its assets, such Member shall be liable to the Fund for the amount of such distribution for a period of three years from the date thereof unless an action to recover the distribution from the Member is commenced prior to the expiration of the three year period and an adjudication of liability against the Fund Manager is made in the said action.

11.3 Form of Distribution. The Members shall have no right to demand or receive property other than cash, except as provided for in this Agreement.

11.4 Cooperation. The Members shall furnish the Fund Manager with such information as it may from time to time reasonably request, and shall otherwise cooperate to enable the Fund Manager and the Fund to comply with applicable laws (including federal and state securities laws) in the conduct of the Fund's business.

## ARTICLE XII

### Withdrawal; Redemptions

#### 12.1 Limitations on Withdrawal.

No Member shall have any right to withdraw from the Fund at any time except as provided in this Section 12; provided, however, that this Section 12 shall not prevent the substitution of a Member in the place and stead of another Member if the applicable terms and conditions of Sections 10, 12 or 13 hereof are complied with.

12.2 Events of Withdrawal. For purposes of this Agreement, an "Event of Withdrawal" with respect to a Member shall mean:

- (a) the occurrence of an Event of Bankruptcy;
- (b) if such Person is a natural person, the occurrence of (i) his death, or (ii) the entry by a court of competent jurisdiction adjudicating him or her as incompetent; or
- (c) if such Person is a corporation, partnership or other entity, the filing of a certificate of dissolution (or its equivalent) for such corporation, partnership or other entity, as the case may be, or the revocation of its charter or certificate (or equivalent document).

12.3 Withdrawal of a Member. Upon any Event of Withdrawal with respect to a Member (the "Withdrawing Member"), the Legal Representatives of the Withdrawing Member shall be admitted to the Fund as a substitute Member, with the same rights in respect of distributions and allocations of income, gain, loss, deduction or credit as the Withdrawing Member.

12.4 No Redemptions. A Member shall have no right to demand or require the Fund to redeem any Units in the Fund.

## ARTICLE XIII

### Substitution and Admission of Members

13.1 Certain Transferees – Members. Any Transferee of Units from a Member or from the Fund Manager if such Person elects not to be admitted as a Fund Manager

pursuant to Section 13.1 hereof, if such Transfer complies with Article 10, may be admitted as a substitute or additional Member only upon such Transferee having agreed to be bound by the terms and conditions of this Agreement by executing a counterpart hereof. Whether or not such a counterpart is executed, such Transferee shall be deemed to have agreed to hold such Units subject to the terms and conditions of this Agreement. If a Transferee is admitted as Substitute Member, the Transferor Member shall be released from all obligations pursuant to this Agreement.

13.2 Admission of Additional Fund Managers. Subject to Section 13.1 hereof, the Fund may admit additional Fund Managers only upon the satisfactory completion of the following:

- (a) such admission of an additional Fund Manager shall have been consented to by Supermajority Consent of the Members;
- (b) such additional Fund Manager shall have agreed to be bound by the terms and conditions of this Agreement by executing a counterpart hereof; and
- (c) if necessary, an amendment to the Certificate of Formation evidencing the admission of an additional Member shall have been filed.

13.3 Admission of Additional Members. Subject to Section 13.2 hereof, other than as provided in Sections 12.3 and 12.4 hereof, the Fund may, during the Admission Period, admit additional Members only upon satisfactory completion of the following:

- (a) such admission of an additional Member, and the Units to be issued to such additional Member, shall have been consented to by the Fund Manager, and
- (b) such additional Member shall have agreed to be bound by the terms and conditions of this Agreement by executing a counterpart hereof.

13.4 Certain Amendments. In the event there is more than one Fund Manager, this Agreement shall be amended (i) to provide for modifications resulting from any Transfer of Units in the Fund permitted hereunder, and (ii) to provide that all decisions hereunder by the Fund Managers shall require the unanimous consent of all of the Fund Managers.

## ARTICLE XIV

### Dissolution and Liquidation

14.1 Events of Dissolution. An Event of Withdrawal with respect to a Member shall not dissolve the Fund. The Fund shall be dissolved upon the earliest to occur of the following:

- (a) the expiration of the term of the Fund;
- (b) the consent of the Fund Manager and the Supermajority Consent of Members;
- (c) an Event of Withdrawal with respect to any Fund Manager if, upon the occurrence of such event there is no remaining Fund Manager unless a new Fund Manager is admitted with the Supermajority Consent of the Members (not including the withdrawn Fund Manager) within 90 days;
- (d) the Supermajority Consent of Members following the Fund Manager's material breach of any term or condition of, or nonfulfillment of any material obligation arising under or pursuant to this Agreement or its gross negligence or willful misconduct in connection with the business of the Fund; or
- (e) the sale, exchange, liquidation or other disposition of all of the Fund's Permitted Investments and the winding up of the Fund's affairs.

#### 14.2 Liquidation.

- (a) If the Fund is dissolved, the Fund Manager (or any liquidator appointed by the Fund Manager) shall promptly file any notice, publish any advertisement or take any other action required under applicable law to effect such dissolution, commence to wind up the affairs of the Fund, liquidate the assets of the Fund by converting the same to cash and shall apply and distribute the proceeds of such liquidation and any undistributed cash (including any cash returned by the Fund Manager pursuant to Section 6.1(b)) solely in accordance with the terms hereof and in the following order of priority:
  - (i) first, to the payment of all debts and obligations of the Fund (including any debts of the Fund to a Member) and the expenses of liquidation; provided, that, in lieu of prior payment of certain debts and obligations, the Fund Manager (or any liquidator appointed by the Fund Manager) may establish a reasonable reserve for payment of such debts and obligations (which may reflect the unrealized portion of any installment obligations owed to the Fund) and such reserve if remaining after payment of such debts and obligations shall be distributed to the Members as soon as practicable; and
  - (ii) second, all remaining cash shall be distributed to the Members in accordance with their Capital Account balances after giving effect to all distributions and allocations for all periods, including any performance fees and other compensation owed to the Fund Manager; provided, that if the Fund Manager (or any liquidator appointed by the Fund Manager) shall determine that it is not feasible to liquidate all or part of the assets of the Fund for cash or that an immediate sale for cash of all or part of such assets would cause an undue loss to the Members, the Fund Manager

shall distribute such assets in a manner to which all Members agree, or if there is no such agreement with respect to some or all of such assets, (i) the Fund Manager (or any liquidator appointed by the Fund Manager) shall cause the fair market value of such assets not so distributed to be determined by independent appraisal, (ii) such assets shall be distributed in kind pro rata as to each such asset in accordance with the principles of this Section 14.2 (as if such assets were cash) on the basis of the fair market value thereof and (iii) any Member entitled to any interest in such assets shall receive such interest therein as a tenant-in-common with all other Members so entitled.

14.3 Statement of Liquidation. The Members shall be furnished with a statement prepared by, or under the supervision of, the Fund Manager (or any liquidator appointed by Fund Manager) and the Fund's Accountants, which shall set forth the assets and liabilities of the Fund as of the date of complete liquidation. Upon dissolution and liquidation of the Fund, the Fund Manager (or such liquidator) shall execute, acknowledge and cause to be filed any notice or certificate required by law to reflect the termination of the Fund.

## **ARTICLE XV**

### **Tax Matters**

15.1 Tax Policy; Tax Returns. The Tax Matters Member shall cause to be prepared and filed, at the cost and expense of the Fund, all necessary Fund tax returns, and the Members (and their Affiliates) shall give reasonable prior notice to the Fund Manager if they do not intend to prepare their tax returns consistently with such Fund tax returns.

15.2 Taxable Year. The taxable year of the Fund shall be the calendar year.

15.3 Tax Elections. All tax elections required or permitted to be made under the Code and any applicable state, local or foreign tax law shall be made as reasonably determined by the Tax Matters Member. Any decision with respect to the treatment of Fund transactions on the Fund's federal, state, local or foreign tax returns shall be made in a manner reasonably designed to take deductions, losses and credits into account in the earliest permissible period and to take income and gain into account in the latest permissible period, as reasonably determined by the Tax Matters Member.

15.4 Designation of Tax Matters Member.

(a) William Procida Incorporated shall act as "Tax Matters Member" of the Fund within the meaning of Section 6231 of the Code. Each Member, by the execution of this Agreement, consents to such designation. If William Procida Incorporated ceases to be a Member, a new Tax Matters Member shall be selected in a manner consistent with Section 6231 of the Code and the regulations thereunder.

(b) To the extent and in the manner provided by applicable law and regulations, the Tax Matters Member shall furnish the name, address, profits interest and taxpayer identification number of each Member, including any substitute or additional Member, to the Internal Revenue Service, and shall keep each Member informed of any administrative and judicial proceedings for the adjustment at the Fund level of any item required to be taken into account by a Member for federal income tax purposes (such an administrative proceeding referred to hereinafter as a "tax audit" and such a judicial proceeding referred to hereinafter as "judicial review"). If the Tax Matters Member, on behalf of the Fund, receives a notice with respect to a tax audit from the Internal Revenue Service, the Tax Matters Member shall promptly forward a copy of such notice to the Members or former Members who hold or held interests in the Fund for any taxable year to which the notice relates.

(c) The Tax Matters Member is hereby authorized and required to represent the Fund in connection with all examinations of the affairs of the Fund by any federal, state, local or foreign tax authorities, including any resulting administrative and judicial proceedings.

(d) The Tax Matters Member shall have all rights and obligations with respect to state, local and foreign taxes similar to those granted pursuant to this Section 15.4 for federal income tax purposes as provided under law.

(e) The Tax Matters Member shall have the discretion and power to select and retain tax counsel and accountants to advise and represent the Fund in connection with any tax matters. The Tax Matters Member shall be reimbursed by the Fund for any expenses incurred while acting in its capacity as Tax Matters Member.

(f) Nothing in Section 15.3 hereof or this Section 15.4 is intended to authorize the Tax Matters Member to take any action that is left to the determination of an individual Member under Sections 6222 through 6233 of the Code.

## **ARTICLE XVI**

### **Books of Account; Reports**

16.1 **Books of Account.** The Fund Manager shall keep, or cause to be kept, accurate and complete records and books of account of all transactions of the Fund. The Fund books and records shall be kept in accordance with generally accepted accounting principles applicable thereto, shall be maintained at the principal place of business of the Fund and shall be available for inspection and examination, for a proper purpose and at reasonable times during usual business hours, by the Members, or their duly authorized representatives. Except as otherwise expressly provided in this Agreement (and in connection with a tax audit), such information shall not be disclosed by the Members to third parties and shall be used by them for Fund purposes only. The Fund Manager shall

maintain financial and accounting controls which are prudent for a business such as the business of the Fund.

#### 16.2 Reports to Members.

(a) The books of account and records of the Fund shall be audited as of the end of each Fiscal Year by independent certified public accountants selected by the Fund Manager (the "Fund's Accountants").

(b) Within 120 days after the end of each Fiscal Year, the Fund's Accountants shall prepare and mail to each Member a report including the audited financial statements of the Fund for the prior Fiscal Year which sets forth the quarterly information (set forth below) for the Fiscal Year.

(c) Within 120 days after the end of each Fiscal Year, the Fund Manager will prepare and mail to each Member a valuation of the Fund's assets.

(d) Within 60 days of the end of each fiscal quarter the Fund Manager shall cause to be prepared and mailed to the Members unaudited financial statements of the Fund which shall reflect, among other things, the Fund Manager's calculation of net proceeds from refinancings, sales, and other Fund transactions and a determination of Available Cash for distribution to Members after taking into account origination fees and expenses of the Fund. Members will also receive descriptive information regarding each of the Permitted Investments on a quarterly basis.

(e) As promptly as practicable after the end of each Fiscal Year the Fund Manager shall cause to be prepared and mailed to the Members annual tax information necessary for the completion of the Members' individual tax returns.

### ARTICLE XVII

#### Indemnification

##### 17.1 Breach.

(a) The Fund Manager, its officers, employees, agents, partners and other Affiliates, and any other Person who serves at the request of the Fund Manager on behalf of the Fund as an officer, director, partner, employee, member, or agent of any other entity (in each case, an "Indemnitee") will not be liable to the Fund or to the Members for any act performed or omission made by it (if the Indemnitee determined in good faith that such action or omission was in the best interests of the Fund) in the absence of its own fraud, willful misconduct or gross negligence, or losses due to the negligence of brokers or agents of the Fund.

(b) The Fund will indemnify each Indemnatee for any loss, damage or expense incurred by such Indemnatee (including reasonable attorney's fees and expenses) on behalf of the Fund or in furtherance of the interests of the Members or otherwise arising out of or in connection with the Fund, except for losses arising from such Indemnatee's own fraud, willful misconduct or gross negligence. During the pendency of any litigation or other proceeding for which an Indemnatee has claimed rights of indemnification hereunder, the Fund shall advance to such Indemnatee all reasonable attorneys' fees and expenses incurred by such Indemnatee in connection therewith, which advances shall be credited towards the indemnification payments otherwise owing to such Indemnatee if it is determined by a court of competent jurisdiction that such Indemnatee was entitled to indemnification hereunder and which shall be returned to the Fund by such Indemnatee, on demand, if it is determined by a court of competent jurisdiction that such Indemnatee was not entitled to indemnification hereunder.

## ARTICLE XVIII

### Representations and Warranties

18.1 Representations and Warranties. Each Member hereby makes the following representations and warranties to the Fund and the other Members:

(a) The making and performance of this Agreement by such Member does not and will not in any material respect violate any law, rules, regulations, or orders to which such Member is subject; or result in a breach of, or constitute a default under any indenture or other agreement or instrument by which such Member or any of such Member's properties may be bound or affected.

(b) There are no lawsuits or other proceedings pending or threatened against such Member before any court or arbitrator or by or before any governmental commission, bureau or other regulatory authority, which, if determined adversely, would have a material adverse effect on such Member's ability to consummate the transactions provided for in this Agreement.

(c) This Agreement constitutes the legal, valid and binding obligation of such Member, enforceable in accordance with its terms, except insofar as the enforceability hereof may be limited by applicable bankruptcy, insolvency, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

(d) Such Member understands that the Units are not being registered under the Securities Act or the securities or "Blue Sky" laws of any State, and that, in addition to the restrictions on Transfer provided for herein, the Units may not be sold or otherwise Transferred without such registration unless an exemption from registration is available.

(e) Such Member is an “*Accredited Investor*” as defined in Regulation D of the Securities and Exchange Commission and has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of such Member’s investment in the Fund and is able to bear such risks. Such Member is acquiring Units for its own account, for investment purposes only, and not with a view to distribution or resale in whole or in part.

(f) None of such Member’s representations and warranties set forth in this Agreement contains any untrue statement of material fact, or omits or will omit to state a material fact necessary in order to make the statements set forth herein not misleading.

## **ARTICLE XIX**

### **Miscellaneous**

19.1 Special Power of Attorney. Each Member hereby irrevocably makes, constitutes and appoints the Fund Manager or such other Person or Persons as the Fund Manager may designate (the “Attorney-in-fact”), with full power of substitution, the true and lawful representative and Attorney-in-fact of, and in the name, place and stead of such Member, with the power from time to time to make, execute, sign, acknowledge, swear to, verify, deliver, record, file and/or publish: (a) any application, certificate, certification, report or similar instrument or document required to be submitted by or on behalf of the Fund to any governmental, administrative or self-regulatory agency or body; and (b) all such other instruments, documents and certificates which, in the opinion of legal counsel retained by the Fund, may from time to time be required by the laws of the United States, the State of New Jersey, or any other state or foreign country in which the Fund shall determine to do business, or any political subdivision or agency thereof, or which said legal counsel may deem necessary or appropriate to effectuate, implement and continue the valid and subsisting existence and business of the Fund. This power-of-attorney is a special power-of-attorney and is coupled with an interest in favor of the Attorney-in-fact and as such (i) shall be irrevocable and continue in full force and effect notwithstanding the subsequent death or incapacity of any party granting this power-of-attorney, regardless of whether the Fund or the Attorney-in-fact shall have had notice thereof, (ii) may be exercised for a Member by a facsimile signature of the Attorney-in-fact or, after listing all of the Members, by a single signature of the Attorney-in-fact acting as Attorney-in-fact for all of them, and (iii) shall survive the Transfer by a Member of the whole or any portion of its interest in the Fund, except that where the Transferee of such Member’s whole interest has been approved for admission to the Fund as a substitute Member, this power-of-attorney given by the Transferor shall survive such Transfer for the sole purpose of enabling the Attorney-in-fact to execute, acknowledge and file any instrument necessary to effect such substitution.

19.2 Actions to be taken by Members. Except where otherwise expressly stated herein, any action or decision to be taken by a Member shall be taken in such Member's absolute and sole discretion.

19.3 Further Information.

(a) The Members agree to execute or furnish any additional documents or supplemental information which the Fund may require in connection with the pursuit of its objectives and purposes.

(b) The Members shall do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments and documents, including, without limitation, any amended powers-of-attorney, as the Fund Manager may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

19.4 Amendments. This Agreement may be amended, from time to time, only with the Supermajority Consent of the Members; provided, that the Fund Manager may amend the Member Schedule to reflect changes validly made in the membership of the Fund, the address of the Members, the admission of new Members, and the Capital Contributions of the Members.

19.5 Binding Effects; Benefits. This Agreement shall be binding upon and inure to the benefit of the Members, the Fund Manager and the other parties hereto and their legal representatives and permitted successors and assigns, as applicable. No Person, other than the Members, the Fund Manager and the other parties hereto, shall be entitled to any benefits under the Agreement, except as otherwise expressly provided. Reference to any Person (except for Members) in this Agreement includes such Person's successors and permitted assigns.

19.6 Headings. The article, section and other headings of this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

19.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement.

19.8 Grammatical Construction. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine and/or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

19.9 Governing Law. This Agreement shall be governed by and construed both as to validity and enforceability in accordance with the laws of the State of New Jersey, without regard to the conflict of laws provisions thereof.

19.10 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms or provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

19.11 Modification; Waiver. No modification or waiver of this Agreement or any part hereof and notice or consent required or permitted to be given pursuant to this Agreement shall be valid or effective unless in writing and signed by the party or parties sought to be effected thereby; and no waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other subsequent breach or condition, whether of like or different nature.

19.12 Entire Agreement. This Agreement and all other documents executed simultaneously herewith constitute the entire agreement between the parties hereto and supersede any prior agreements, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof.

19.13 Notices. Unless otherwise provided herein, any notice or other communication contemplated by any provision of this Agreement shall be in writing and, in the case of a notice to a Member, shall be deemed given, if delivered personally, when so delivered, or if mailed, on the fourth Business Day after the same shall be mailed by certified mail, postage prepaid, return receipt requested, addressed to such Member at his address appearing on the Member Schedule and, in the case of a notice to the Fund or the Fund Manager, shall be deemed given when received at the address set forth in Section 3.2 hereof, but any other address may be designated by a notice similarly given to Members and the Fund.

19.14 Remedies. Each party to this Agreement acknowledges that monetary damages may not provide an adequate remedy for breach of this Agreement and that each party shall have the right, in addition to any other rights it may have, to specific enforcement of this Agreement or other equitable relief against the other parties hereto. All remedies under this Agreement shall be cumulative and shall be in addition to, and not in lieu of, any remedies available at law, in equity or otherwise.

19.15 Insurance. The Fund Manager may cause the Fund to purchase and maintain, at the expense of the Fund, insurance on behalf of the Members, the Fund Manager or any agent of the Fund against any liability (other than liabilities arising out of, or resulting from, the gross negligence or willful misconduct of the applicable

Member, Fund Manager or agent) asserted against any of them or incurred by any of them in any such capacity or arising out of their status as such, whether or not the Fund would have the power to indemnify any of them against such liability under the provisions of this Agreement.

19.16 Legends on Certificates. Conformed copies of this Agreement shall be filed with the Fund Manager at the office of the Fund. Each certificate, if any, representing the Units held by a party hereto shall bear the following endorsement:

“THE UNITS EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO AN OPERATING AGREEMENT DATED AS OF OCTOBER 1, 2002, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE FUND AND WILL BE FURNISHED TO ANY HOLDER ON REQUEST. SUCH AGREEMENT PROVIDES, AMONG OTHER THINGS, FOR CERTAIN RESTRICTIONS ON THE SALE, TRANSFER, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE UNITS EVIDENCED BY THIS CERTIFICATE.”

“THE LIMITED LIABILITY COMPANY UNITS REPRESENTED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION IN RELIANCE UPON THE EXEMPTIONS AVAILABLE THEREUNDER. THE SALE OR OTHER DISPOSITION OF SUCH INTERESTS IS RESTRICTED AS STATED IN THE OPERATING AGREEMENT AND IN ANY EVENT IS PROHIBITED UNLESS THE FUND RECEIVES AN OPINION OF COUNSEL SATISFACTORY TO THE FUND AND ITS COUNSEL THAT SUCH SALE OR OTHER DISPOSITION CAN BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND OTHER APPLICABLE LAWS.”

19.17 Expenses. Except as expressly provided herein, each Member shall bear its own expenses in connection with the Fund and this Agreement.

19.18 Dispute Resolution.

(a) Members and the Fund Manager will first attempt to settle each and every dispute, controversy or claim, whether based in contract, tort, statute, fraud, misrepresentation or any other legal theory, arising out of or relating to this Agreement (“Dispute”(s))), through good faith negotiations. Any Dispute not thus resolved within thirty (30) days or such other period as the parties shall mutually agree in writing, shall be then settled by final and binding arbitration conducted in a mutually agreed location in Bergen County, New Jersey by one neutral arbitrator, in accordance with this Section and the then current Commercial Arbitration Rules of the American Arbitration

Association ("AAA"). Each party shall bear its own expenses and the parties shall equally share the filing and other administrative fees of the AAA and the expenses of the arbitrator. Judgment upon an award may be entered in any Court having competent jurisdiction. The arbitrator shall not have the power to award any consequential or punitive damages. The arbitrator shall have the power to order prehearing discovery of documents or the taking of depositions, and may compel attendance of witnesses and the production of documents at the hearing. The arbitrability of any Dispute, including those as to the enforceability of this Section, shall be determined solely by the arbitrator. The Federal Arbitration Act, 9 U.S.C. Section 1 to 16, shall govern the interpretation and enforcement of this Section 19.18. Any party may seek a temporary injunction in any court of competent jurisdiction to the limited extent necessary to preserve the status quo during the pendency of final resolution of a Dispute in accordance with this Section. The statute(s) of limitation applicable to any Dispute shall be tolled upon initiation of the Dispute resolution procedures under this Section and shall remain tolled until the Dispute is resolved under this Section. However, tolling shall cease if the aggrieved party does not file a demand for arbitration of the Dispute with the AAA within sixty (60) calendar days after good faith negotiations have been terminated by either party.

(b) The parties, their representatives and participants and the arbitrator shall hold the existence content and result of the arbitration in confidence, except to the limited extent necessary to enforce a final settlement agreement or to obtain or enforce a judgment on an arbitration decision and award.

IN WITNESS WHEREOF, the parties hereto have executed this Operating Agreement or counterpart signature pages thereto as of the date first above written.

FUND MANAGER:

PALISADES FUND MANAGEMENT,  
LLC

By: \_\_\_\_\_

Name: William Procida

Title: Manager

MEMBERS:

WILLIAM PROCIDA  
INCORPORATED

By: \_\_\_\_\_

Name: William Procida

Title: President

## APPENDIX A

*“Admission Period”* means the period of time between the Initial Closing Date and the Final Admission Date.

*“Advisory Committee”* means a three or more persons committee consisting of persons appointed by the Fund Manager consisting of real estate industry professionals and potentially a Member of the Fund.

*“Affiliate”* means, with respect to any Person, any other Person, directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with such Person. The term *“control”*, as used in the immediately preceding sentence and elsewhere in this Agreement, means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled Person.

*“Available Cash”* means, as reasonably determined by the Fund Manager at a given time, the gross cash receipts of the Fund from any and all sources, including but not limited to interest payments on loans, proceeds from the refinancing of loans, proceeds from the sale of Permitted Investments, income derived from the liquidation, sale or refinancing of Permitted Investments (but excluding any amounts such as taxes that are held by the Fund as a collection agent or in trust for others or that are otherwise not unconditionally available to the Fund) less all amounts paid by or for the account of the Fund during the same fiscal year or other period (including, without limitation, payments of principal and interest on any Fund indebtedness, less direct fees and expenses incurred by the Fund and/or the Fund Manager (which may be reimbursed to Fund Manager), and less any amounts determined by the Fund Manager to be necessary to provide a reasonable reserve for working-capital needs or any other contingencies of the Fund. Available Cash shall be determined in accordance with the cash receipts and disbursements method of accounting and otherwise in accordance with generally accepted accounting principles, consistently applied. Available Cash shall not be reduced by depreciation, amortization, cost recovery deductions, depletion, similar allowances or other non-cash items, but shall be increased by any reduction of reserves previously established.

*“Business Day”* means any day excluding Saturday, Sunday and any day which shall be in the State of New Jersey a legal holiday or a day on which banking institutions are authorized by law or other government action to

close. If any date hereunder is not a Business Day, then such date shall be the next succeeding Business Day.

*“Capital Account”* means, with respect to any Member, the capital account of such Member established pursuant to Section 5.2 hereof, including all debits and credits required to be made thereto pursuant to this Agreement.

*“Capital Contribution”* means with respect to each its commitment to contribute, in cash to the capital of the Fund an amount at least equal to \$250,000 per Unit or fractional portions thereof.

*“Cash Equivalents”* means (i) obligations issued or guaranteed by the United States or any agency thereof, (ii) certificates of deposit insured as to principal and interest by the Federal Deposit Insurance Corporation and (iii) commercial paper rated A-1 or higher by Standard & Poor’s and P-1 or higher by Moody’s Investors Service, in each case having a term to maturity of not more than 90 days.

*“Code”* means the Internal Revenue Code of 1986, as in effect on the date hereof and as amended hereafter from time to time.

*“Fund’s Accountants”* has the meaning set forth in Section 16.2(a).

*“Event of Bankruptcy”* means (i) the filing by a Member of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code or any other federal or state insolvency law, or a Member’s filing an answer consenting to or acquiescing in any such petition, (ii) the making by a Member of any assignment for the benefit of its creditors, (iii) a Member seeks consent to, or acquiesces in, the appointment of a trustee, receiver or liquidator for such Member for all or substantially all of such Member’s properties; or (iv) a Member fails, within 90 days after the appointment of a trustee, receiver or liquidator (without the Member’s consent or acquiescence) of the Member or of all or substantially all of that Member’s properties, to have the appointment vacated or stayed, or fails within 90 days after the expiration of a stay to have the appointment vacated.

*“Fair Market Value”* of an asset means, as of a given time, the fair market value of such asset in an arm’s length sales transaction between a willing seller and a willing buyer in accordance with United States generally accepted accounting principles as reasonably determined by the Fund Manager as of such time.

*“Final Closing Date”* means November 1, 2003.

*"Fiscal Year"* means a calendar year (or part thereof included in the term of the Fund).

*"Fund Manager"* means Palisades Fund Management, LLC, a New Jersey limited liability company and its successors and assigns.

*"Initial Closing Date"* means the date on which the Fund Manager decides to accept additional subscriptions for Units after the date hereof.

*"Investment Committee"* has the meaning set forth in Section 8.2(e).

*"Investment Period"* means the three year period from and after the end of the Admission Period.

*"Legal Representative"* means the executor, administrator, committee or other personal representative of a party hereto after the Incompetence or death of such party.

*"Member"* means the initial Members and any other Person admitted to the Fund as a Member pursuant to this Agreement, subject to the provisions hereof.

*"Membership Interest"* means an equity interest held by a Member in the Fund represented by one or more Units or any fractional portion of a Unit.

*"Palisades Financial"* means Palisades Financial, LLC, a New Jersey limited liability company and the parent entity of the Fund Manager.

*"Percentage Interest"* means, as to any Member, such Member's interest in the Fund equal to a fraction (expressed as a percentage), the numerator of which is the number of Units held by such Member and the denominator of which is the number of Units issued and outstanding.

*"Permitted Investments"* means any of the following types of investments or activities by the Fund:

- (a) Investments in real property, including without limitation, the purchase, management, holding, exchanging, owning, investing in and sale of multi-family residential complexes, single family residential property, office buildings, commercial strip centers, industrial, mixed-use facilities, and raw land, alone or with other Persons through joint ventures or otherwise. Such real property may be "distressed" property or acquired from owners in default under obligations secured by such real property. Raw land will be considered only if it is zoned as of right, or is contracted for subject to approvals; and

(b) Investments in loans originated by the Fund or third parties or acquired through participations with third parties which shall be secured by collateral which may consist of first or second mortgages on real property, the pledge or equity interests in companies owning real estate (including stock, partnership interests or limited liability company interests) or liens on other collateral, including but not limited to equipment, accounts receivable and inventory. Such loans may take the form of debtor-in-possession financing made to borrowers who have filed for protection under the United States Bankruptcy Code, “non-performing” loans on which the borrower has defaulted and which would be acquired at a discount from face value or loans to borrowers made to refinance loans in default or in a work-out or restructuring process.

(c) for cash management purposes, or pending investments in other Permitted Investments described herein or pending distributions to the Members, cash investments in (i) obligations issued or guaranteed by the United States or any agency thereof, (ii) certificates of deposit or in accounts of a commercial bank organized under the laws of the United States or any State thereof whose deposits are insured by the Federal Deposit Insurance Corporation, (iii) debt securities which are rated “AA” (or its equivalent) or higher by a nationally recognized credit rating agency, (iv) commercial paper rated A-1 or higher by Standard & Poor’s and P-1 or higher by Moody’s Investors Service, or (v) money-market accounts holding only cash and obligations of the government of the United States of America.

“*Person*” means any natural person, corporation, partnership, limited liability company, trust, association or other entity.

“*Quarterly Date*” means each March 31st, June 30th, September 30th or December 31st of any Fiscal Year.

“*Reg. §*” refers to a Section of the regulations under the Code as now in force.

“*Section 705(a)(2)(B) Expenditure*” means any expenditure described in Section 705(a)(2)(B) of the Code, and any expenditure considered to be an expenditure described in Section 705(a)(2)(B) of the Code pursuant to regulations under Section 704(b) of the Code.

“*Subsidiary*” shall mean, as to any Person, (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the

happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (ii) any partnership, limited liability company, association, joint venture or other entity in which such Person and/or one or more Subsidiaries of such Person has more than a 50% equity interest at the time.

*"Supermajority Consent"* means the consent of the Members (which unless otherwise indicated shall include, to the extent that they hold any Units, the Fund Manager, Palisades Financial or their Affiliates) holding in excess of 75% of the Percentage Interests in the Fund.

*"Transfer"* means to sell, assign, convey, donate, bequeath, transfer or otherwise dispose of (whether by operation of law or otherwise), or contract to transfer.

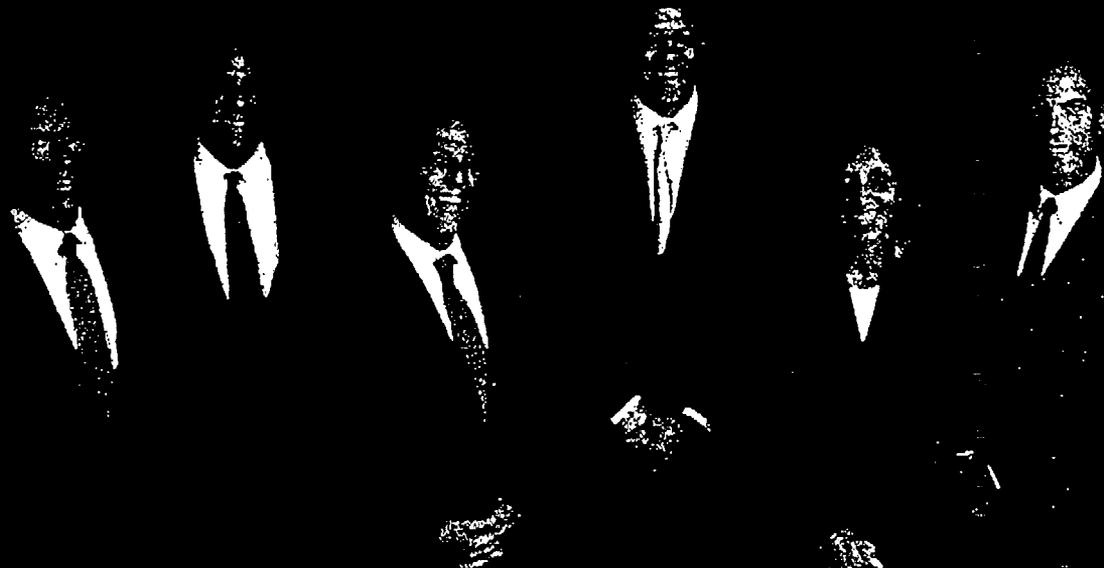
*"Transferee"* means the Person to whom a Transfer is made.

*"Transferor"* means the Person who is effecting a Transfer.

*"Unit"* means a Membership Interest in the Fund represented by a Capital Contribution of \$250,000.00. The Fund may from time to time issue fractional Units and all references in this Agreement to "Units" shall be deemed to include Units and fractions thereof.

# IT'S ALL ABOUT TEAMWORK

PALISADES FINANCIAL



*From left to right: David McLain, Mark Zurlini, William Procida, Jim Runsdorf, Ali Betts, Dick Hecker*

*"We* look forward to your review of the most commonly asked questions about our new fund. While the answers are brief, we are all available to discuss the Fund's attributes and our collective qualifications."

For more information and stats visit [www.palfi.net](http://www.palfi.net)

## **WHAT IS THE PALISADES REGIONAL INVESTMENT FUND?**

First, it is the only vehicle through which we as the principals of the Fund Manager will make investments in real estate. We will be personally investing over \$1 million in the Fund.

The Fund will provide investors with a vehicle through which to participate in value-added, turnaround, distressed, and event-driven real estate investment opportunities in the northeast region, particularly the New York /New Jersey Metropolitan area.

Investments in the Fund will be available in Units of \$250,000 each (fractional Units may be available). The Fund will be limited to \$25 million. An investment in the Fund may be made on the first of each month through and including November 1, 2003.

The Fund will have exclusivity on all investment opportunities of under \$5 million brought to the attention of Palisades Financial and the Fund Manager.

## **WHO IS PALISADES FUND MANAGEMENT AND PALISADES FINANCIAL?**

Palisades Fund Management, LLC, is a newly created affiliate of Palisades Financial, LLC that will be solely dedicated to investing and managing the Fund. Palisades Financial is the successor to William Procida, Incorporated, which was established in 1995. The two entities have completed over \$1 billion of real estate transactions as Investment Banker, Advisor and or Asset Manager.

The firms are located in Englewood Cliffs, New Jersey, and the principal executives are William Procida, Mark Zurlini, David McLain, Jim Runsdorf, and Richard Hecker.

As advisor for third party accounts, Palisades Financial has deployed in excess of \$225 million of capital in Real Estate investments. For our own account, the firm has invested over \$5 million. Returns on these investments have ranged from 15% to in excess of 40%. A detailed history is included in the Private Placement Memorandum.

We have also managed the development of ground-up or renovated real estate development projects and acted as broker on the sale or purchase of over \$200 million of residential, office, retail and industrial properties. In addition, the firm has placed a significant amount of permanent financing and construction loans.

For more information about the firm and a detailed history of transactions please visit our web site at [www.palfi.net](http://www.palfi.net).

## **WHY DID PALISADES FINANCIAL DECIDE TO CREATE A FUND?**

We needed an efficient vehicle for our investors and us to participate in the diversified investment opportunities presented to our firm.

Since 1995, Palisades Financial (and its predecessor William Procida Incorporated) has represented a number of funds, fund managers, and institutional lenders, deploying capital and/or managing assets. During that time we generated significant profits and fees for these various funds and managers as well as institutional lenders.

We came to realize that there are very few institutions that service and provide capital for the \$5 million and under transaction market. The borrower or seller in the under \$5 million arena often does not have access to qualified investment bankers and is forced to deal with private "hard money lenders" or unpredictable or unidentifiable capital sources. We provide this market with a quality alternative.

## **IN WHAT WILL THE FUND INVEST AND WHERE WILL THE INVESTMENTS BE LOCATED?**

The Fund will deploy capital in real estate and collateralized corporate investments in two ways: loans (debt) and property ownership (equity).

The Fund will specialize in real estate and collateralized transactions ranging from \$500,000 to \$5 million in the northeast regional corridor, primarily the New York/New Jersey Metropolitan area. The Fund may also invest in larger transactions through joint ventures or loan participations with other real estate developers, operators, and lenders.

The Fund will concentrate on office, multifamily, retail, industrial, and particularly specialty and distressed properties.

Loans will be made through the origination of a loan, the purchase of a loan from another lender (often offered at a discount to face value), or through a participation in a larger loan. Such loans will be secured by real estate, equity in companies owning real estate, and other assets of recognizable value. The types of loans may include first and second mortgage loans, mezzanine financing, bridge loans, debtor-in-possession financing, stand-by financing, and loans secured by equity interests in real estate companies.

The Fund will seek to acquire real property in situations where competition is reduced by either time constraints or by the complexity of the transaction. Properties will be acquired that will utilize our skills, capabilities, and contacts in construction, renovation, repositioning, finance, and marketing. Properties will be acquired by the Fund acting as either the sole principal or in joint ventures with other funds, investors and operating partners.

The Fund will also participate in bankruptcy auctions and in direct negotiations with bankruptcy trustees, property receivers, and lenders. In these distressed situations the Fund will benefit by offering the assurance of closing in a timely manner, which is often more important than pricing.

## **WHAT IS THE FUND'S INVESTMENT STRATEGY?**

The Fund's investment objective is to create a portfolio that provides a blend of consistent cash flow and capital appreciation. These transactions will be undertaken in markets we understand and with professionals we know.

The Fund will seek situations which are driven by some event, some peculiarity in the market, or human error. We will also rely heavily on Palisades Financial for its referral network to provide a significant amount of opportunities from which to select. These investment opportunities typically require speed and creativity that generally is not provided by, conventional lenders and institutional buyers.

Our philosophy is to preserve capital and diversify the Fund's risk by utilizing the following investment guidelines. The Fund will spread risk by investing in numerous transactions, versus just a few, and will normally not invest more than 20% of the Fund's capital in any one transaction.

We will blend stable income-producing positions with potentially high-yielding opportunistic investments, such as purchasing properties or non-performing loans requiring turnaround expertise.

## **WHY DO I NEED A FUND? WHY CAN'T I JUST INVEST IN AN INDIVIDUAL DEAL?**

Diversification is the key to managing risk. A fund allows the investor the opportunity to spread their risk by having a smaller overall percentage of ownership in numerous assets as opposed to a larger exposure in just a few investments.

By investing in the Fund, investors have the ability to participate in and profit from the multitude of investments that are made available to the Fund Manager. Each investor will depend on the Fund Manager for quick and decisive investment, management and divestment strategies.

## **WHAT MAKES PALISADES FUND MANAGEMENT SO SPECIAL?**

We are a tight and cohesive team combining many disciplines and years of experience. The group has known each other or worked together for over a decade. We know how each other thinks and utilize the strengths of each team member. Rarely does an investor find such a compliment of skill sets as the team is led by an award winning real estate developer, a conventional commercial real estate banker, an investment banker, a real estate broker and a property manager. Together as a team the whole is greater than the sum of the parts.

Investors may see some of these disciplines in one company, but rarely do all come together as a cohesive team.

The cohesiveness and expertise of the Fund team is what makes it special in any size deal, but our credentials and credibility really stand out in the \$5 million and under market.

## **HOW DOES THE FUND MANAGER GET PAID?**

The Fund Manager's primary compensation is a performance fee based on return on investment. The Fund Manager will be entitled to 25% of the annual profits after a 10% yield has been paid to the investors, with the remainder being distributed to the investors until they have received a 20% annual return. Thereafter, 50% of the annual profits will be distributed to the investors and 50% to the Fund Manager. No performance fee will be paid until the investors have realized an annualized 10% return on their invested capital. For its Fund management and asset management services, the Fund Manager will receive a fee of 3% of the assets under management. For originating, underwriting and structuring transactions the Fund Manager will receive a fee equal to 2% of the amount of each transaction. The Fund will not incur office or personnel expenses, all of which will be paid for by The Fund Manager.

## **WILL PALISADES FINANCIAL ENGAGE IN OTHER BUSINESS?**

Yes. Palisades Financial will continue to service conventional lenders, hedge funds, borrowers, and lenders, as well as continue to provide advisory and consulting services that do not conflict or compete with the Fund's business.

## **DOES THIS BENEFIT THE FUND?**

Yes. The constant deal flow, information, and associated professionals encountered will all benefit the Fund. The Fund will also enjoy the exclusivity of all of Palisades Financial's deal flow that is under \$5 million per transaction.

## HOW IS YOUR ACCOUNTING HANDLED?

Unlike public companies our accounting is simple: what we lend, buy, sell, or refinance will all be reflected at cost. There will be no value-added, unrealized gains, off-balance-sheet financing or other creative accounting. We will endeavor to utilize conventional avenues to minimize or defer tax consequences. The Fund will have an independent accountant provide audited annual statements, and investors will be provided with a quarterly update of transactions as well as a valuation of the Fund's investments. Investors will all have daily access to the Fund Manager and will be regularly informed as to the Fund's positions and value.

## WHAT IS THE TARGETED RETURN TO INVESTORS?

While we hope it to be more, the targeted overall net annual return is 15% over the life of the Fund, which is anticipated to be no less than 3 years and no more than 5 years. Depending upon the Fund's cash flow, a 10% annual preferred return on the invested capital will be paid quarterly.

## IN CLOSING

Unlike the stock market, investors can see and touch the investments that the Fund will make, as well as see and speak with the people who manage the Fund. The Fund offers investors a fair way to participate in a diversified real estate portfolio. Most importantly, we will be investing side by side with each investor in the Fund and will be treating your money as if it were our own. We would be honored to have you participate as an investor in our Fund and look forward to discussing the content of the Private Placement Memorandum. We are always available to answer any of your questions and look forward to hearing from you.



William Procida



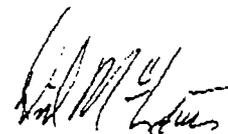
Mark Zurini



Jim Runsdorf



Dick Hecker

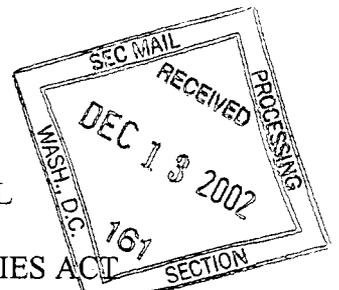


David McLain

### Legal Notice:

The information provided herein briefly describes the Palisades Regional Investment Fund, LLC a New Jersey limited liability company (the "Fund") and is meant to summarize certain provisions of the Confidential Private Placement Memorandum of the Fund (the "Memorandum"). This summary is qualified in its entirety by the Memorandum.

ACQUISITION, RENOVATION & REPOSITIONING OF MIXED USE PROPERTY \$2,000,000 (20) COPPER SPRINGS SWIM AND TENNIS CLUB, HARDING TOWNSHIP, NJ, 1ST MORTGAGE \$800,000 (21) WINE & ALL THAT JAZZ, PLEASANTVILLE, NY, SECURED WORKING CAPITAL LOAN \$700,000 (22) RED DEVIL INC., UNION, NJ, A 1ST MORTGAGE \$3,600,000 (23) METROPOLITAN PLACE, MADISON, WI, MEZZANINE FINANCING FOR A MAJOR CONDOMINIUM DEVELOPMENT \$6,000,000 (24) 325 MORROW STREET, ENGLEWOOD, NJ, 2ND MORTGAGE TO CUSTOM HOME BUILDER \$250,000 (25) EDGEWATER PARK, NJ, ACQUISITION OF A DEFAULTED MORTGAGE \$350,000 (26) FORT LEE, NJ, TWO FAMILY SPEC HOME 2ND MORTGAGE \$200,000 (27) 250 EAST 30TH STREET, NY, NY, BRIDGE EQUITY FOR ACQUISITION OF DEVELOPMENT PARCEL \$400,000 (28) BRIDGE FINANCING (29) PEAK PERFORMANCE, PAUSADES PARK, NJ, SECURED WORKING CAPITAL LOAN, \$100,000 (30) UNION CITY, NJ, 1ST MORTGAGE \$110,000 (31) NY COUNTRY CLUB, NY, STAND BY COMMITMENT FOR ACQUISITION OF A DEFAULTED LOAN \$5,500,000 (32) DAVID N. DEUTCH & CO., NY, NY, SECURED WORKING CAPITAL LOAN \$150,000 (33) 147 WOODFORD ROAD, SPARTA, NJ, ACQUISITION OF DEFAULTED MORTGAGE AND FEE INTEREST IN STRIP CENTER, \$425,000 (34) PHYCO LTD, PATERSON, NJ, BRIDGE LOAN FOR THE ACQUISITION OF A NURSING HOME \$450,000 (35) COUNTRYSIDE ESTATES, UPPER MERIONET, PA, ACQUISITION OF A DEFAULTED MORTGAGE \$6,500,000 (36) MEZZANINE FINANCING (37) 201 EAST 17TH STREET, NY, NY, HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$46,000,000 (38) CROSSINGS AT CLIFTON, CLIFTON, NJ, A TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$160,000,000 (39) CAMBRIDGE HEIGHTS ON TERRACE LAKE IN BUTLER, NJ, A TOWNHOUSE WITH A SELL OUT OF \$45,000,000 (40) METROPOLITAN PLACE, MADISON, WI, A HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$50,000,000 (41) CAMBRIDGE HEIGHTS AT TERRACE LAKE SHOPPING, HADDONFIELD, NJ, \$2,500,000 (42) RODEO PLAZA, PAUSADES PARK, NJ, \$2,200,000 (43) PLAZA 35, PARAMUS, NJ, \$3,400,000 (44) MULTI-TENANT OFFICE BUILDING, CARLSTADT, NJ, \$3,500,000 (45) ICARUS DEVELOPMENT CORPORATION, CLEVELAND, OH, \$14,000,000 (46) WHITEWELD BARRISTER & BROWN MULTI FAMILY/OFFICE PROPERTY, NORWOOD, NJ, \$4,250,000 (47) CORPORATE EXTENDED STAY HOTEL, NY, NY, \$3,750,000 (48) OFFICE BUILDING, 156 W. 48TH STREET, NY, NY, \$2,325,000 (49) WEST 100TH STREET, NY, NY, \$1,875,000 (50) PROPERTY SALES/ACQUISITION (51) ACTED AS AGENT FOR US BANKRUPTCY ATTORNEY IN DISPOSITION OF RESIDENTIAL PROPERTY RIDGEWOOD, NJ, \$28,000,000 (52) SEA COURT PAVILION PLAZA AND SOUTH BRUNSWICK SQUARE MALL, TOMS RIVER AND SOUTH BRUNSWICK, NJ, \$28,000,000 (53) CASTLE HILL BEACH CLUB, THE BRONX, NY, \$15,000,000 (54) 421-A TAX ABATEMENT CERTIFICATES, NY, NY, \$2,300,000 (55) FAIRFIELD TOWERS, BROOKLYN, NY, \$30,000,000 (56) OCEAN FRONT PROPERTY, QUEENS, NY, \$3,750,000 (57) TITANY CHASE APARTMENTS, WAYNE, NJ, \$2,150,000 (58) 161 DWIGHT PLACE, FAIRFIELD, NJ, \$1,050,000 (59) RIVERSIDE TOWERS, NEW BRUNSWICK, NJ, \$3,550,000 (60) HENDERSON STREET, GALESBURG, IL, \$3,000,000 (61) DEVELOPMENT/ASSET MANAGEMENT & ADVISORY SERVICES (62) CONDUCTED A "REQUEST FOR PROPOSAL" FOR THE NORWOOD CITIZENS HOUSING CORPORATION, NORWOOD, NJ, \$16,000,000 (63) 325 MORROW ROAD, ENGLEWOOD, NJ, \$800,000 (64) JOBCO, HUNTINGTON, LONG ISLAND, NY, PARTNERSHIP INTERESTS IN THE LONG ISLAND DEVELOPMENT CENTER (65) SHOREHAVEN, THE BRONX, NY, COMPLETED PHASE I OF A PARTIALLY BUILT 1,158 UNIT DEVELOPMENT AND SECURED APPROVALS FOR REMAINING PHASES (66) DiBELLA MUSIC, BERGENFIELD, NJ, \$1,500,000 (67) CREDIT FACILITIES (68) PHOENIX FOUR INC., CREDIT FACILITY PLACEMENT FOR THE ACQUISITION OF HISTORIC REAL ESTATE NATIONWIDE, \$150,000,000 (69) VERMONT PRATT PARTNERS, RESIDENTIAL RENTAL COMMUNITY, NORTH BRONX, NY, \$15,000,000 (70) THE LOEWS PARADISE PLAZA AT GRAND CONCOURSE, BRONX, NY (71) DEBT PURCHASES (72) CINEPLEX ODEON THEATERS IN LONG ISLAND AND NY, NY, \$19,000,000 (73) THE DANBURY HILTON, DANBURY, CT, \$50,000,000 (74) WISE COUNTY SHOPPING CENTER, WISE, VA, \$5,500,000 (75) 121-125 HUDSON STREET NY, NY, \$15,000,000 (76) INDUSTRIAL BUILDING, FAIRFIELD, NJ, \$500,000 (77) 500 VALLEY ROAD, WAYNE, NJ, \$2,480,000 (78) BAY PLAZA SHOPPING CENTER, STATEN ISLAND, NY, \$45,000,000 (79) PROPERTIES LOCATED IN CARLSTADT, NJ, AND HOUSTON, TX, \$5,000,000 (80) 25 GRAPHIC PLACE, INDUSTRIAL BUILDING LOCATED MOONACHEE, NJ (81) THE MALL @ IV, 120,000 SF PARAMUS, NJ (82) 67,000 SF WOODBRIDGE, NJ (83) THE MALL @ IA 82,000 SF PHILADELPHIA, PA (84) 5 TAYLOR ROAD TOTOWA, NJ (85) THE ROUTE 55 CENTER EATONTOWN, NJ (86) GEORGETOWN, NY, \$15,000,000 (87) OFFICE BUILDING, WAYNE, NJ, \$5,000,000 (88) PENTAX MANUFACTURING, HAZLET, PA, \$10,500,000 (89) BURLINGTON SQUARE SHOPPING CENTER BUILDING, BURLINGTON, VT, \$18,000,000 (90) FAIRCHILD AVENUE, INDUSTRIAL PROPERTY, PLAINVIEW, NY, \$6,500,000 (91) SOUTHPORT CONDOMINIUMS, CAPE COD, MA, \$25,000,000 (92) PRIVATE FINANCE (93) JOSEPH CORY HOLDINGS, LLC, \$9,500,000 (94) MRS. SMITH'S PIES, \$6,500,000 (95) EQUIPMENT LEASE FINANCING (96) CONSTRUCTION FINANCING (97) FORT PIERCE, FL, RESIDENTIAL CONDOMINIUM DEVELOPMENT WITH A SELL OUT OF \$40,000,000 (98) CEDAR STREET TOWN HOMES, CLIFFSIDE PARK, NJ, TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$1,350,000 (99) FOX HILL MANOR, NORWOOD, NJ, \$16,000,000 (100) THE SPEC CONSTRUCTION OF A TWO-FAMILY HOME, FORT LEE, NJ, \$250,000 (101) CONDOMINIUM DEVELOPMENT, PAUSADES PARK, NJ, \$4,000,000 (102) PRINCIPAL TRANSACTIONS (103) LINCOLN AVENUE, CLIFFSIDE PARK, NJ, ACQUISITION RENOVATION & REPOSITIONING OF 18 APARTMENTS \$1,000,000 (104) HARDENBURGH AVENUE, DEMAREST, NJ, ACQUISITION, RENOVATION & REPOSITIONING OF MIXED USE PROPERTY \$2,000,000 (105) COPPER SPRINGS SWIM AND TENNIS CLUB, HARDING TOWNSHIP, NJ, 1ST MORTGAGE \$800,000 (106) WINE & ALL THAT JAZZ, PLEASANTVILLE, NY, SECURED WORKING CAPITAL LOAN \$700,000 (107) RED DEVIL INC., UNION, NJ, A 1ST MORTGAGE \$3,600,000 (108) METROPOLITAN PLACE, MADISON, WI, MEZZANINE FINANCING FOR A MAJOR CONDOMINIUM DEVELOPMENT \$6,000,000 (109) 325 MORROW STREET, ENGLEWOOD, NJ, 2ND MORTGAGE TO CUSTOM HOME BUILDER \$250,000 (110) EDGEWATER PARK, NJ, ACQUISITION OF A DEFAULTED MORTGAGE \$350,000 (111) FORT LEE, NJ, TWO FAMILY SPEC HOME 2ND MORTGAGE \$200,000 (112) 250 EAST 30TH STREET, NY, NY, BRIDGE EQUITY FOR ACQUISITION OF DEVELOPMENT PARCEL \$400,000 (113) BRIDGE FINANCING (114) PEAK PERFORMANCE, PAUSADES PARK, NJ, SECURED WORKING CAPITAL LOAN, \$100,000 (115) UNION CITY, NJ, 1ST MORTGAGE \$110,000 (116) NY COUNTRY CLUB, NY, STAND BY COMMITMENT FOR ACQUISITION OF A DEFAULTED LOAN \$5,500,000 (117) DAVID N. DEUTCH & CO., NY, NY, SECURED WORKING CAPITAL LOAN \$150,000 (118) 147 WOODFORD ROAD, SPARTA, NJ, ACQUISITION OF DEFAULTED MORTGAGE AND FEE INTEREST IN STRIP CENTER, \$425,000 (119) PHYCO LTD, PATERSON, NJ, BRIDGE LOAN FOR THE ACQUISITION OF A NURSING HOME \$450,000 (120) COUNTRYSIDE ESTATES, UPPER MERIONET, PA, ACQUISITION OF A DEFAULTED MORTGAGE \$6,500,000 (121) MEZZANINE FINANCING (122) 201 EAST 17TH STREET, NY, NY, HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$46,000,000 (123) CROSSINGS AT CLIFTON, CLIFTON, NJ, A TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$160,000,000 (124) CAMBRIDGE HEIGHTS ON TERRACE LAKE IN BUTLER, NJ, A TOWNHOUSE WITH A SELL OUT OF \$45,000,000 (125) METROPOLITAN PLACE, MADISON, WI, A HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$50,000,000 (126) CAMBRIDGE HEIGHTS AT TERRACE LAKE SHOPPING, HADDONFIELD, NJ, \$2,500,000 (127) RODEO PLAZA, PAUSADES PARK, NJ, \$2,200,000 (128) PLAZA 35, PARAMUS, NJ, \$3,400,000 (129) MULTI-TENANT OFFICE BUILDING, CARLSTADT, NJ, \$3,500,000 (130) ICARUS DEVELOPMENT CORPORATION, CLEVELAND, OH, \$14,000,000 (131) WHITEWELD BARRISTER & BROWN MULTI FAMILY/OFFICE PROPERTY, NORWOOD, NJ, \$4,250,000 (132) CORPORATE EXTENDED STAY HOTEL, NY, NY, \$3,750,000 (133) OFFICE BUILDING, 156 W. 48TH STREET, NY, NY, \$2,325,000 (134) WEST 100TH STREET, NY, NY, \$1,875,000 (135) PROPERTY SALES/ACQUISITION (136) ACTED AS AGENT FOR US BANKRUPTCY ATTORNEY IN DISPOSITION OF RESIDENTIAL PROPERTY RIDGEWOOD, NJ, \$28,000,000 (137) SEA COURT PAVILION PLAZA AND SOUTH BRUNSWICK SQUARE MALL, TOMS RIVER AND SOUTH BRUNSWICK, NJ, \$28,000,000 (138) CASTLE HILL BEACH CLUB, THE BRONX, NY, \$15,000,000 (139) 421-A TAX ABATEMENT CERTIFICATES, NY, NY, \$2,300,000 (140) FAIRFIELD TOWERS, BROOKLYN, NY, \$30,000,000 (141) OCEAN FRONT PROPERTY, QUEENS, NY, \$3,750,000 (142) TITANY CHASE APARTMENTS, WAYNE, NJ, \$2,150,000 (143) 161 DWIGHT PLACE, FAIRFIELD, NJ, \$1,050,000 (144) RIVERSIDE TOWERS, NEW BRUNSWICK, NJ, \$3,550,000 (145) HENDERSON STREET, GALESBURG, IL, \$3,000,000 (146) DEVELOPMENT/ASSET MANAGEMENT & ADVISORY SERVICES (147) CONDUCTED A "REQUEST FOR PROPOSAL" FOR THE NORWOOD CITIZENS HOUSING CORPORATION, NORWOOD, NJ, \$16,000,000 (148) 325 MORROW ROAD, ENGLEWOOD, NJ, \$800,000 (149) JOBCO, HUNTINGTON, LONG ISLAND, NY, PARTNERSHIP INTERESTS IN THE LONG ISLAND DEVELOPMENT CENTER (150) SHOREHAVEN, THE BRONX, NY, COMPLETED PHASE I OF A PARTIALLY BUILT 1,158 UNIT DEVELOPMENT AND SECURED APPROVALS FOR REMAINING PHASES (151) DiBELLA MUSIC, BERGENFIELD, NJ, \$1,500,000 (152) CREDIT FACILITIES (153) PHOENIX FOUR INC., CREDIT FACILITY PLACEMENT FOR THE ACQUISITION OF HISTORIC REAL ESTATE NATIONWIDE, \$150,000,000 (154) VERMONT PRATT PARTNERS, RESIDENTIAL RENTAL COMMUNITY, NORTH BRONX, NY, \$15,000,000 (155) THE LOEWS PARADISE PLAZA AT GRAND CONCOURSE, BRONX, NY (156) DEBT PURCHASES (157) CINEPLEX ODEON THEATERS IN LONG ISLAND AND NY, NY, \$19,000,000 (158) THE DANBURY HILTON, DANBURY, CT, \$50,000,000 (159) WISE COUNTY SHOPPING CENTER, WISE, VA, \$5,500,000 (160) 121-125 HUDSON STREET NY, NY, \$15,000,000 (161) INDUSTRIAL BUILDING, FAIRFIELD, NJ, \$500,000 (162) 500 VALLEY ROAD, WAYNE, NJ, \$2,480,000 (163) BAY PLAZA SHOPPING CENTER, STATEN ISLAND, NY, \$45,000,000 (164) PROPERTIES LOCATED IN CARLSTADT, NJ, AND HOUSTON, TX, \$5,000,000 (165) 25 GRAPHIC PLACE, INDUSTRIAL BUILDING LOCATED MOONACHEE, NJ (166) THE MALL @ IV, 120,000 SF PARAMUS, NJ (167) 67,000 SF WOODBRIDGE, NJ (168) THE MALL @ IA 82,000 SF PHILADELPHIA, PA (169) 5 TAYLOR ROAD TOTOWA, NJ (170) THE ROUTE 55 CENTER EATONTOWN, NJ (171) GEORGETOWN, NY, \$15,000,000 (172) OFFICE BUILDING, WAYNE, NJ, \$5,000,000 (173) PENTAX MANUFACTURING, HAZLET, PA, \$10,500,000 (174) BURLINGTON SQUARE SHOPPING CENTER BUILDING, BURLINGTON, VT, \$18,000,000 (175) FAIRCHILD AVENUE, INDUSTRIAL PROPERTY, PLAINVIEW, NY, \$6,500,000 (176) SOUTHPORT CONDOMINIUMS, CAPE COD, MA, \$25,000,000 (177) PRIVATE FINANCE (178) JOSEPH CORY HOLDINGS, LLC, \$9,500,000 (179) MRS. SMITH'S PIES, \$6,500,000 (180) EQUIPMENT LEASE FINANCING (181) CONSTRUCTION FINANCING (182) FORT PIERCE, FL, RESIDENTIAL CONDOMINIUM DEVELOPMENT WITH A SELL OUT OF \$40,000,000 (183) CEDAR STREET TOWN HOMES, CLIFFSIDE PARK, NJ, TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$1,350,000 (184) FOX HILL MANOR, NORWOOD, NJ, \$16,000,000 (185) THE SPEC CONSTRUCTION OF A TWO-FAMILY HOME, FORT LEE, NJ, \$250,000 (186) CONDOMINIUM DEVELOPMENT, PAUSADES PARK, NJ, \$4,000,000 (187) PRINCIPAL TRANSACTIONS (188) LINCOLN AVENUE, CLIFFSIDE PARK, NJ, ACQUISITION RENOVATION & REPOSITIONING OF 18 APARTMENTS \$1,000,000 (189) HARDENBURGH AVENUE, DEMAREST, NJ, ACQUISITION, RENOVATION & REPOSITIONING OF MIXED USE PROPERTY \$2,000,000 (190) COPPER SPRINGS SWIM AND TENNIS CLUB, HARDING TOWNSHIP, NJ, 1ST MORTGAGE \$800,000 (191) WINE & ALL THAT JAZZ, PLEASANTVILLE, NY, SECURED WORKING CAPITAL LOAN \$700,000 (192) RED DEVIL INC., UNION, NJ, A 1ST MORTGAGE \$3,600,000 (193) METROPOLITAN PLACE, MADISON, WI, MEZZANINE FINANCING FOR A MAJOR CONDOMINIUM DEVELOPMENT \$6,000,000 (194) 325 MORROW STREET, ENGLEWOOD, NJ, 2ND MORTGAGE TO CUSTOM HOME BUILDER \$250,000 (195) EDGEWATER PARK, NJ, ACQUISITION OF A DEFAULTED MORTGAGE \$350,000 (196) FORT LEE, NJ, TWO FAMILY SPEC HOME 2ND MORTGAGE \$200,000 (197) 250 EAST 30TH STREET, NY, NY, BRIDGE EQUITY FOR ACQUISITION OF DEVELOPMENT PARCEL \$400,000 (198) BRIDGE FINANCING (199) PEAK PERFORMANCE, PAUSADES PARK, NJ, SECURED WORKING CAPITAL LOAN, \$100,000 (200) UNION CITY, NJ, 1ST MORTGAGE \$110,000 (201) NY COUNTRY CLUB, NY, STAND BY COMMITMENT FOR ACQUISITION OF A DEFAULTED LOAN \$5,500,000 (202) DAVID N. DEUTCH & CO., NY, NY, SECURED WORKING CAPITAL LOAN \$150,000 (203) 147 WOODFORD ROAD, SPARTA, NJ, ACQUISITION OF DEFAULTED MORTGAGE AND FEE INTEREST IN STRIP CENTER, \$425,000 (204) PHYCO LTD, PATERSON, NJ, BRIDGE LOAN FOR THE ACQUISITION OF A NURSING HOME \$450,000 (205) COUNTRYSIDE ESTATES, UPPER MERIONET, PA, ACQUISITION OF A DEFAULTED MORTGAGE \$6,500,000 (206) MEZZANINE FINANCING (207) 201 EAST 17TH STREET, NY, NY, HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$46,000,000 (208) CROSSINGS AT CLIFTON, CLIFTON, NJ, A TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$160,000,000 (209) CAMBRIDGE HEIGHTS ON TERRACE LAKE IN BUTLER, NJ, A TOWNHOUSE WITH A SELL OUT OF \$45,000,000 (210) METROPOLITAN PLACE, MADISON, WI, A HIGH RISE CONDOMINIUM WITH A SELL OUT OF \$50,000,000 (211) CAMBRIDGE HEIGHTS AT TERRACE LAKE SHOPPING, HADDONFIELD, NJ, \$2,500,000 (212) RODEO PLAZA, PAUSADES PARK, NJ, \$2,200,000 (213) PLAZA 35, PARAMUS, NJ, \$3,400,000 (214) MULTI-TENANT OFFICE BUILDING, CARLSTADT, NJ, \$3,500,000 (215) ICARUS DEVELOPMENT CORPORATION, CLEVELAND, OH, \$14,000,000 (216) WHITEWELD BARRISTER & BROWN MULTI FAMILY/OFFICE PROPERTY, NORWOOD, NJ, \$4,250,000 (217) CORPORATE EXTENDED STAY HOTEL, NY, NY, \$3,750,000 (218) OFFICE BUILDING, 156 W. 48TH STREET, NY, NY, \$2,325,000 (219) WEST 100TH STREET, NY, NY, \$1,875,000 (220) PROPERTY SALES/ACQUISITION (221) ACTED AS AGENT FOR US BANKRUPTCY ATTORNEY IN DISPOSITION OF RESIDENTIAL PROPERTY RIDGEWOOD, NJ, \$28,000,000 (222) SEA COURT PAVILION PLAZA AND SOUTH BRUNSWICK SQUARE MALL, TOMS RIVER AND SOUTH BRUNSWICK, NJ, \$28,000,000 (223) CASTLE HILL BEACH CLUB, THE BRONX, NY, \$15,000,000 (224) 421-A TAX ABATEMENT CERTIFICATES, NY, NY, \$2,300,000 (225) FAIRFIELD TOWERS, BROOKLYN, NY, \$30,000,000 (226) OCEAN FRONT PROPERTY, QUEENS, NY, \$3,750,000 (227) TITANY CHASE APARTMENTS, WAYNE, NJ, \$2,150,000 (228) 161 DWIGHT PLACE, FAIRFIELD, NJ, \$1,050,000 (229) RIVERSIDE TOWERS, NEW BRUNSWICK, NJ, \$3,550,000 (230) HENDERSON STREET, GALESBURG, IL, \$3,000,000 (231) DEVELOPMENT/ASSET MANAGEMENT & ADVISORY SERVICES (232) CONDUCTED A "REQUEST FOR PROPOSAL" FOR THE NORWOOD CITIZENS HOUSING CORPORATION, NORWOOD, NJ, \$16,000,000 (233) 325 MORROW ROAD, ENGLEWOOD, NJ, \$800,000 (234) JOBCO, HUNTINGTON, LONG ISLAND, NY, PARTNERSHIP INTERESTS IN THE LONG ISLAND DEVELOPMENT CENTER (235) SHOREHAVEN, THE BRONX, NY, COMPLETED PHASE I OF A PARTIALLY BUILT 1,158 UNIT DEVELOPMENT AND SECURED APPROVALS FOR REMAINING PHASES (236) DiBELLA MUSIC, BERGENFIELD, NJ, \$1,500,000 (237) CREDIT FACILITIES (238) PHOENIX FOUR INC., CREDIT FACILITY PLACEMENT FOR THE ACQUISITION OF HISTORIC REAL ESTATE NATIONWIDE, \$150,000,000 (239) VERMONT PRATT PARTNERS, RESIDENTIAL RENTAL COMMUNITY, NORTH BRONX, NY, \$15,000,000 (240) THE LOEWS PARADISE PLAZA AT GRAND CONCOURSE, BRONX, NY (241) DEBT PURCHASES (242) CINEPLEX ODEON THEATERS IN LONG ISLAND AND NY, NY, \$19,000,000 (243) THE DANBURY HILTON, DANBURY, CT, \$50,000,000 (244) WISE COUNTY SHOPPING CENTER, WISE, VA, \$5,500,000 (245) 121-125 HUDSON STREET NY, NY, \$15,000,000 (246) INDUSTRIAL BUILDING, FAIRFIELD, NJ, \$500,000 (247) 500 VALLEY ROAD, WAYNE, NJ, \$2,480,000 (248) BAY PLAZA SHOPPING CENTER, STATEN ISLAND, NY, \$45,000,000 (249) PROPERTIES LOCATED IN CARLSTADT, NJ, AND HOUSTON, TX, \$5,000,000 (250) 25 GRAPHIC PLACE, INDUSTRIAL BUILDING LOCATED MOONACHEE, NJ (251) THE MALL @ IV, 120,000 SF PARAMUS, NJ (252) 67,000 SF WOODBRIDGE, NJ (253) THE MALL @ IA 82,000 SF PHILADELPHIA, PA (254) 5 TAYLOR ROAD TOTOWA, NJ (255) THE ROUTE 55 CENTER EATONTOWN, NJ (256) GEORGETOWN, NY, \$15,000,000 (257) OFFICE BUILDING, WAYNE, NJ, \$5,000,000 (258) PENTAX MANUFACTURING, HAZLET, PA, \$10,500,000 (259) BURLINGTON SQUARE SHOPPING CENTER BUILDING, BURLINGTON, VT, \$18,000,000 (260) FAIRCHILD AVENUE, INDUSTRIAL PROPERTY, PLAINVIEW, NY, \$6,500,000 (261) SOUTHPORT CONDOMINIUMS, CAPE COD, MA, \$25,000,000 (262) PRIVATE FINANCE (263) JOSEPH CORY HOLDINGS, LLC, \$9,500,000 (264) MRS. SMITH'S PIES, \$6,500,000 (265) EQUIPMENT LEASE FINANCING (266) CONSTRUCTION FINANCING (267) FORT PIERCE, FL, RESIDENTIAL CONDOMINIUM DEVELOPMENT WITH A SELL OUT OF \$40,000,000 (268) CEDAR STREET TOWN HOMES, CLIFFSIDE PARK, NJ, TOWNHOUSE DEVELOPMENT WITH A SELL OUT OF \$1,350,000 (269) FOX HILL MANOR, NORWOOD, NJ, \$16,000,000 (270) THE SPEC CONSTRUCTION OF A TWO-FAMILY HOME, FORT LEE, NJ, \$250,000 (271) CONDOMINIUM DEVELOPMENT, PAUSADES PARK, NJ, \$4,000,000 (272) PRINCIPAL TRANSACTIONS (273) LINCOLN AVENUE, CLIFFSIDE PARK, NJ, ACQUISITION RENOVATION & REPOSITIONING OF 18 APARTMENTS \$1,000,000 (274) HARDENBURGH AVENUE, DEMAREST, NJ, ACQUISITION, RENOVATION & REPOSITIONING OF MIXED USE PROPERTY \$2,000,000 (275) COPPER SPRINGS SWIM AND TENNIS CLUB, HARDING TOWNSHIP, NJ, 1ST MORTGAGE \$800,000 (276) WINE & ALL THAT JAZZ, PLEASANTVILLE, NY, SECURED WORKING CAPITAL LOAN \$700,000 (277) RED DEVIL INC., UNION, NJ, A 1ST MORTGAGE \$3,600,000 (278) METROPOLITAN PLACE, MADISON, WI, MEZZANINE FINANCING FOR A MAJOR CONDOMINIUM DEVELOPMENT \$6,000,000 (279) 325 MORROW STREET, ENGLEWOOD, NJ, 2ND MORTGAGE TO CUSTOM HOME BUILDER \$250,000 (280) EDGEWATER PARK, NJ, ACQUISITION OF A DEFAULTED MORTGAGE \$350,000 (281) FORT LEE, NJ, TWO FAMILY SPEC HOME 2ND MORTGAGE \$200,000 (282) 250 EAST 30TH STREET, NY, NY, BRIDGE EQUITY FOR ACQUISITION OF DEVELOPMENT PARCEL \$400,000 (283) BRIDGE FINANCING (284) PEAK PERFORMANCE, PAUSADES PARK, NJ, SECURED WORKING CAPITAL LOAN, \$100,000 (285) UNION CITY, NJ, 1ST MORTGAGE \$110,000 (286) NY COUNTRY CLUB, NY, STAND BY COMMITMENT FOR ACQUISITION OF A DEFAULTED LOAN \$5,500,000 (287) DAVID N. 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THE UNITS OF MEMBERSHIP INTERESTS OF PALISADES REGIONAL INVESTMENT FUND, LLC SUBSCRIBED FOR PURSUANT TO THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY APPLICABLE STATE SECURITIES LAWS AND TRANSFER OF THE UNITS IS RESTRICTED BY THE TERMS OF THIS AGREEMENT, THE OPERATING AGREEMENT OF PALISADES REGIONAL INVESTMENT FUND, LLC AND BY APPLICABLE LAW.

### SUBSCRIPTION AGREEMENT

To: Mr. William Procida  
c/o Palisades Fund Management, LLC  
640 Palisade Avenue  
Englewood Cliffs, New Jersey 07632

You have informed me that Palisades Regional Investment Fund, LLC is a private investment New Jersey limited liability company (the "Company"), of which Palisades Fund Management, LLC, a New Jersey limited liability company, is the Fund Manager (the "Fund Manager"). The Company was formerly known as Madison Investment Group, LLC. The Company has been formed to make real estate investments and loans, as more fully described in the Confidential Private Placement Memorandum dated as of November 30, 2002 (the "Memorandum"). The Company is to be operated in accordance with the Company's Operating Agreement (the "Operating Agreement"), a form of which is attached as Exhibit A to the Memorandum.

Membership interests in the Company are divided into units (the "Units") of \$250,000 each, and the minimum investment is one (1) Unit, unless the Fund Manager, in its sole and absolute discretion, determines otherwise.

1. Subscription. The undersigned hereby subscribes for and agrees to purchase the number of Units set forth on the Signature Page and Power of Attorney attached hereto and specifically accepts and adopts each and every provision of the Operating Agreement incorporated herein and made a part hereof by reference and agrees to be bound thereby.

2. Payment. Upon acceptance of this Subscription Agreement by the Fund Manager, the undersigned will deliver a check or will wire funds in the amount of \$250,000 per Unit payable to Palisades Regional Investment Fund, LLC as instructed by the Fund Manager. The undersigned acknowledges that the Company is seeking to sell an aggregate of 100 Units of Membership Interests for a total offering of \$25,000,000. There is no minimum number of Units that the Company must sell in order for the Company to accept subscriptions for Units of Membership Interests of the Company; however, the Fund Manager reserves the right to terminate this offering if in the Fund Manager's

judgment investors have subscribed for an insufficient number of Units. The Company will not accept any subscription for Units after November 1, 2003. If this offering is terminated before the acceptance of any subscriptions for Units, this Subscription Agreement and the Operating Agreement shall then be of no further force and effect, and the Fund Manager shall return all funds to investors.

3. Representations, Warranties and Covenants. By executing this Subscription Agreement, the undersigned further:

(a) acknowledges that he or she has received (i) the Memorandum; (ii) a summary description of the Fund and related matters in a Question and Answer format (the "Q & A"); and (iii) the Operating Agreement. The Memorandum, Q & A and the Operating Agreement are hereinafter collectively referred to as the "Documents".

(b) represents and warrants that the undersigned is an accredited investor, as such term is defined in Rule 501 (a) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), as evidenced by my meeting at least one of the following standards: **(INITIAL THE APPROPRIATE LINE)**

(i) \_\_\_\_\_ I am a natural person who had individual income (i.e. not including income of my spouse) in excess of \$200,000 in 2000 and 2001 and I reasonably expect to have individual income in excess of \$200,000 in 2002; or I have had joint income (i.e. including the income of my spouse) in excess of \$300,000 in 2000 and 2001 and I reasonably expect to have joint income in excess of \$300,000 in 2002; or

(ii) \_\_\_\_\_ I am a natural person and my net worth (i.e. excess of total assets over total liabilities), inclusive of home, home furnishings and automobiles, either individually or jointly with my spouse, on the date hereof exceeds \$1,000,000; or

(iii) \_\_\_\_\_ I am a bank as defined in section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Securities Act; any investment company registered under the Investment Company Act of 1940 or business development company as defined in section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality or a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors; or

(iv) \_\_\_\_\_ I am a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940; or

(v) \_\_\_\_\_ I am an organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Units, with total assets in excess of \$5,000,000; or

(vi) \_\_\_\_\_ I am a director, or executive officer of the Company;  
or

(vii) \_\_\_\_\_ I am a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Units offered, whose purchase is directed by a sophisticated person as described in 506(b)(2)(ii) of Regulation D; or

(viii) \_\_\_\_\_ I am an entity in which all of the equity owners would qualify as accredited investors under one or more of paragraphs (i) through (vii) above.

(c) acknowledges that he or she has carefully read the Documents and is familiar with and understands the Documents; has relied solely on the Documents and investigations made by him or her in making the decision to invest in the Company; has not been furnished with any other offering literature, memorandum or prospectus; and has not received any representations or warranties from the Company, the Fund Manager or any agent of any of the foregoing other than as set forth herein or in the Documents.

(d) represents and warrants that he or she is acquiring the Units for his or her own account as principal for investment purposes only and not with a view toward the resale or distribution thereof, and that he or she will not sell or otherwise transfer the Units except in accordance with the restrictions on transfer contained in the Operating Agreement and/or as provided for by applicable law.

(e) understands and acknowledges that the Company will have no obligation to recognize the ownership, beneficial or otherwise, of the Units by anyone but the undersigned, except as provided in the Operating Agreement or by law.

(f) represents and warrants: (i) that he or she has such knowledge and experience in financial and business matters, that he or she is capable of evaluating the merits and risks of the investment in the Units; (ii) that his or her overall commitment to investments which are not readily marketable is reasonable in relation to his or her net worth; and (iii) that he or she is willing and able to bear the economic risk of an investment in the Fund, has no need for liquidity with respect thereto and is able to sustain a significant loss of his or her investment.

(g) represents and warrants that (i) he or she is at least twenty-one (21) years of age, (ii) he or she maintains his or her domicile (and is not a transient or temporary resident) at the address shown below, (iii) he or she has adequate means of

providing for his or her current needs and personal contingencies, (iv) he or she has no need for liquidity in his or her investment in the Units, (v) all of his or her investments in and commitments to non-liquid investments are, and after his or her purchase of the Units will be, reasonable in relation to his or her net worth and current needs, and (vi) he or she is able to bear the economic risk of losing his or her entire investment in the Units.

(h) understands that the Fund Manager shall have the right, in its sole and absolute discretion, to accept or reject this subscription, in whole or in part, at any time prior to closing of this offering. The Fund Manager will notify him or her whether this subscription is accepted or rejected in whole or in part. In the event his or her subscription is rejected, his or her payment will be returned to him or her, without interest, and all of his or her obligations hereunder shall terminate.

(i) understands that the offering and sale of the Units are intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and that the Units have not been registered under the Securities Act or the securities laws of any state and, as a result thereof, are subject to substantial restrictions on transfer.

(j) agrees that he or she will not sell, pledge, assign or otherwise transfer any Unit or any interest therein except in accordance with the terms of the Operating Agreement and all applicable laws, rules and regulations.

(k) understands that (i) the Company has no obligation or intention to register the Units for resale under any federal or state securities laws, or to take any action (including the filing of reports or the publication of information required by Rule 144 under the Securities Act) which would make available any exemption from the registration requirements of such laws, (ii) there will be no public market for the Units, and (iii) therefore he or she may be precluded from selling or otherwise transferring or disposing of any Unit or any portion thereof and may have to bear the economic risk of investment in the Units for the term of the Company.

(l) understands that the Company has no financial or operating history; this is the Company's first venture; and that the Units are speculative investments which involve a high degree of risk of loss of the investment made therein.

(m) understands that an investment in the Company involves certain risks and that he or she has taken full cognizance of and understands all of the risk factors relating to the purchase of the Units, including, in particular, but without limitation, the Risk Factors included in the Memorandum.

(n) understands that no federal or state agency has approved or disapproved the Units, passed upon or endorsed the merits of the offering thereof, or made any finding or determination as to the fairness of the Units for investment.

(o) acknowledges that all material documents, records and books pertaining to this investment have, on request, been made available to him or her.

(p) acknowledges that, if he or she is purchasing the Units subscribed for hereby in a fiduciary capacity, the representations and warranties set forth in this Section 3 shall be deemed to have been made on behalf of the person or persons for whom he or she is so purchasing.

(q) acknowledges that the Company has made available to him or her the opportunity to ask questions of, and receive answers from, the Company and the Fund Manager concerning the terms and conditions of the offering, and to obtain any additional information, to the extent that the Company possesses such information, or can acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information given to him or her or to otherwise make an informed investment decision. The Fund Manager has satisfactorily answered all inquiries that the undersigned has put to it concerning the Company and its proposed activities, the Fund Manager, the offering and sale of the Units or any other matter referred to in the Documents.

(r) understands that the Units are being offered and sold in reliance on specific exemptions from the registration requirements of federal and state securities laws and that the Company and the Fund Manager and controlling persons thereof are relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgements and understandings set forth herein in order to determine the applicability of such exemptions and the suitability of the undersigned to acquire Units.

(s) represents and warrants that he or she has full right, power (and capacity, if he or she is a natural person), and authority to execute and deliver this Subscription Agreement, to become a member in, and make his or her capital contribution to, the Company, and to perform his or her other obligations hereunder, and if the undersigned is an entity, the person signing this Subscription Agreement on behalf of such entity has been duly authorized by such entity to do so.

(t) acknowledges that by executing the Signature Page and Power of Attorney attached hereto, he or she is appointing the Fund Manager (and any additional or substitute Fund Managers) to be his or her agent and attorney-in-fact for certain purposes.

(u) covenants that, if the undersigned is an entity, for so long as it is a member of the Company, it will not take any action that would cause it to be viewed as being organized for the sole purpose of investing in the Company.

(v) covenants that, for so long as he or she is a member of the Company, he or she will not take any action or fail to take any action that would cause any of the representations or warranties contained in this Section 3 to be untrue. If any such representations or warranties shall not be true and accurate prior to or at the Closing Date at which he or she is admitted as a member of the Company, he or she shall give immediate written notice of such fact to the Fund Manager, specifying which representations and warranties are not accurate and the reasons therefor.

4. The undersigned acknowledges that he or she understands the meaning of the representations made by him or her in this Subscription Agreement and hereby agrees to indemnify and hold harmless the Company, the Fund Manager, other members of the Company, and all persons deemed to be in control of or affiliated with any of the foregoing, from and against any and all loss, costs, expenses, damages and liabilities (including, without limitation, court costs and reasonable attorneys fees) arising out of or due to a breach by the undersigned of any such representations. All such representations shall survive the delivery of this Subscription Agreement and the purchase by the undersigned of any Units.

5. The undersigned consents to the placement of a legend on the certificate, if any, representing the Units, which legend will be in substantially the following form:

“THE UNITS EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO AN OPERATING AGREEMENT DATED AS OF OCTOBER 1, 2002, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND WILL BE FURNISHED TO ANY HOLDER ON REQUEST. SUCH AGREEMENT PROVIDES, AMONG OTHER THINGS, FOR CERTAIN RESTRICTIONS ON THE SALE, TRANSFER, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE UNITS EVIDENCED BY THIS CERTIFICATE.”

“THE UNITS OF MEMBERSHIP INTERESTS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION IN RELIANCE UPON THE EXEMPTIONS AVAILABLE THEREUNDER. THE SALE OR OTHER DISPOSITION OF SUCH INTERESTS IS RESTRICTED AS STATED IN THE SUBSCRIPTION AGREEMENT AND THE OPERATING AGREEMENT, AND IN ANY EVENT IS PROHIBITED UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH SALE OR OTHER DISPOSITION CAN BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT AND OTHER APPLICABLE LAWS.”

6. The undersigned agrees that this Subscription Agreement shall be binding upon the undersigned's heirs, executors, administrators, successors and permitted assigns. THE UNDERSIGNED HEREBY AGREES AND UNDERSTANDS THAT HIS OR HER SIGNATURE ON THIS SUBSCRIPTION AGREEMENT CONSTITUTES EXECUTION OF THE SUBSCRIPTION AGREEMENT SUBJECT TO ACCEPTANCE OF THIS SUBSCRIPTION BY THE COMPANY IN THE SOLE AND ABSOLUTE DISCRETION OF THE FUND MANAGER, and he or she agrees that he or she will execute such other documents, including any amendment to the Subscription Agreement necessary to complete the transactions contemplated hereby, and agrees to be bound by all of the terms and provisions of such agreements and to perform all of his or her obligations thereunder with respect to the Units to be purchased.

7. For Florida Residents Only: If the undersigned is a resident of the State of Florida, the undersigned acknowledges and understands that the Units being purchased

by the undersigned pursuant to this Subscription Agreement have not been registered in the State of Florida. Pursuant to the Florida Securities Act, the undersigned has the right to void his or her purchase of the Units within three days after tendering payment for such Units, without incurring any liability to the Company, the Fund Manager or any other person, in which case all funds tendered by the undersigned will be refunded without interest or deduction. If the undersigned wishes to exercise this right to withdraw, the undersigned shall, within three days after making payment for the Units, notify Mr. William Procida, 640 Palisade Avenue, Englewood Cliffs, New Jersey 07632 (201) 894-5000.

**IN WITNESS WHEREOF**, the undersigned executes and agrees to be bound by this Subscription Agreement by executing the Signature Page and Power of Attorney attached hereto on the date therein indicated.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

**SIGNATURE PAGE AND POWER OF ATTORNEY**

The undersigned, desiring to become a member of Palisades Regional Investment Fund, LLC (the "Company") by executing this Signature Page and Power of Attorney, hereby executes, adopts and agrees to all terms, conditions and representations of the Subscription Agreement. The undersigned further constitutes and appoints Palisades Fund Management, LLC, the Fund Manager of the Company, with full power of substitution, his or her true and lawful attorney for the purpose of executing the Operating Agreement of the Company (the "Operating Agreement"), which is an exhibit to the Memorandum, and for all purposes and to the extent set forth in the Power of Attorney granted in Article 19 of the Operating Agreement, including the power to execute, acknowledge, deliver, swear to, file and record the Company's Certificate of Formation, and any amendments thereto, and for the purpose of amending the Operating Agreement, from time to time, or canceling the same, provided such actions are authorized in accordance with the terms of the Operating Agreement. This Signature Page and Power of Attorney shall also serve as a counterpart signature page to the Operating Agreement. The power of attorney hereby granted shall be deemed to be coupled with an interest and shall be irrevocable and shall survive the death of the undersigned.

Number of Units subscribed for: \_\_\_\_\_  
Amount of check enclosed \$ \_\_\_\_\_  
(\$250,000 per Unit)

**SUBSCRIBER(S):**

\_\_\_\_\_  
Subscriber's Signature

\_\_\_\_\_  
Subscriber's Signature

\_\_\_\_\_  
Subscriber's Name  
(Please Print)

\_\_\_\_\_  
Subscriber's Name  
(Please Print)

\_\_\_\_\_  
Social Security or Tax ID No.

\_\_\_\_\_  
Social Security or Tax ID No.

\_\_\_\_\_  
Residence Address

\_\_\_\_\_  
Residence Address

\_\_\_\_\_  
Mailing Address, if different

\_\_\_\_\_  
Mailing Address, if different

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

I HEREBY CERTIFY that on this day personally appeared before me, \_\_\_\_\_, who did certify and swear to me that he (they) executed the within instrument for the purposes therein expressed and in the capacity therein stated.

WITNESS my hand and official seal at \_\_\_\_\_, this the \_\_\_\_\_ day of \_\_\_\_\_, 2002.

\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires: \_\_\_\_\_

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**ACCEPTANCE OF INVESTMENT BY FUND MANAGER**

The foregoing subscription is accepted by Palisades Regional Investment Fund, LLC for \_\_\_\_\_ Units this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

PALISADES REGIONAL  
INVESTMENT FUND, LLC  
a New Jersey limited liability  
company

By: Palisades Fund Management,  
LLC

By: \_\_\_\_\_  
William Procida, Manager