

EDGFI, in October 2004. Castle Hill, and subsequently EDG, have been the managing members of EDGFI. EDGFI purports to be a limited liability company engaged in real estate development.

18. In approximately November 2004, EDGFI commenced an unregistered offering of its securities to investors. Investors were offered membership interests packaged as units in EDGFI. Defendants intended to raise \$5 million in the November 2004 private placement through the sale of 100 units of EDGFI priced at \$50,000 each.

19. EDG conducted a private placement in October 2006 that was intended to raise \$25 million by the sale of 500 units in EDG at a price of \$50,000 per unit. Like EDGFI, EDG purports to be a limited liability company engaged in real estate development. EDG and EDGFI have the same principals and the same office space in Brooklyn, New York. The units were comprised of membership interests in EDG and certain warrants.

20. Other than the number of units to be sold and the amount of money to be raised, the private placement memoranda for the offerings contain similar misrepresentations.

21. The PPMs purport to offer investors the opportunity to participate in the real estate market by purchasing units in a fund that will be used to purchase investment properties including individual and multi-family residential properties, renovate them, and resell at a profit.

22. Both PPMs stated that the EDG and EDGFI Offerings were made pursuant to Rule 506 of Regulation D, 17 C.F.R. § 230.506 (“Rule 506”) and were therefore exempt from the Securities Act’s registration requirements.

23. However, neither offering satisfies the requirements necessary to be exempt from registration under federal securities law due to, *inter alia*, the number of offerees, their relative lack of sophistication and the size and manner of the Offerings.

had little money to invest. And both investors were ultimately persuaded by the caller to invest as much money as they could.

29. Investor A is a resident of Toms River, New Jersey. Investor B is a resident of Monticello, Indiana.

30. During the past two years, Investor A and Investor B received numerous mailings from EDG and received numerous phone calls from various EDG salesman soliciting additional investments.

31. Both Investor A and Investor B were persuaded by the letters and phone calls from EDG to increase their investments on a number of occasions.

32. Neither EDG nor EDGFI have financial statements and financial statements were not provided to Investor A and Investor B.

33. EDG and EDGFI did not provide the PPM to Investor A and Investor B until after they had begun to invest.

34. The Defendants also solicited an investment from another investor, an 86 year old man residing in Pennsylvania.

35. EDG and EDGFI did not file a registration statement for their sales of securities, and a registration statement was not otherwise in effect. The Offerings therefore violated Section 5 of the Securities Act.

EDG Misrepresented Material Facts in Its PPMs and in Letters to Shareholders

36. The November 1, 2004 PPM represented that EDG would use the offering proceeds for "(i) cash investments in foreclosure-related investment properties, property rehabilitation construction costs, and related capital improvements, together with associated legal

