THE CAVALLINO FUND, LLC

Private Placement Memorandum

January 1, 2016

HAMILTON RIDGE
ASSET MANAGEMENT

PRIVATE PLACEMENT MEMORANDUM

of

THE CAVALLINO FUND, LLC

a California limited liability company

111 N. Market Street, Suite 300
San Jose, CA 95113

$250,000,000

Limited Liability Company Membership Interests

Minimum Investment Amount: $100,000

January 1, 2016

THE CAVALLINO FUND, LLC (the “LLC”) is a California limited liability company. The manager of the LLC is Hamilton Ridge Asset Management (the “Manager”), a Nevada corporation. The LLC will engage in business as a mortgage lender for the purpose of making and arranging residential (including mixed-use, covered loans, and HELOCs), commercial, and construction loans to the general public, acquiring existing loans, and selling loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States.

The LLC is hereby offering to investors ("Investors"), pursuant to this Private Placement Memorandum ("Memorandum"), an opportunity to purchase membership interests ("Membership Interests") in the LLC in the minimum aggregate amount of One Hundred Thousand Dollars ($100,000) (the “Minimum Offering Amount”) and up to the maximum aggregate amount of Two Hundred Fifty Million Dollars ($250,000,000) (the “Maximum Offering Amount”) (the "Offering"). The minimum investment amount per Investor is One-Hundred Thousand Dollars ($100,000) (the "Minimum Investment Amount"); provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THIS OFFERING IS MADE IN RELIANCE ON AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION PROVIDED BY SECTION 4(2) OF THE SECURITIES EXCHANGE ACT OF 1933, AS AMENDED (THE “ACT”), AND RULE 506 OF REGULATION D PROMULGATED THEREUNDER.

THIS INVESTMENT INVOLVES A DEGREE OF RISK THAT MAY NOT BE SUITABLE FOR ALL PERSONS. ONLY THOSE INVESTORS WHO CAN BEAR THE LOSS OF THEIR ENTIRE INVESTMENT SHOULD PARTICIPATE IN THE INVESTMENT.

CERTAIN TERMS OF THE OFFERING

	Investments [1]	Selling Commissions [2]	Proceeds to LLC [2, 3]
Minimum Offering Amount	$100,000	$ 0	$100,000
Maximum Offering Amount	$250,000,000	$ 0	$250,000,000

1. The admission of Investors as Members of the LLC is contingent upon the Manager's receipt and acceptance of subscriptions equal to at least the Minimum Offering Amount within six (6) months from the date of this Memorandum, which may be extended for an additional six (6) months at the election of the Manager. After the Minimum Offering Amount is raised, the Offering will continue until (i) the Maximum Offering Amount is raised, (ii) the Offering Period expires, or (iii) the Offering is withdrawn by the LLC.

2. The Membership Interests will be offered and sold directly by the LLC, by the Manager, or through third parties, who may receive selling commissions or fees to be negotiated on a case-by-case basis. Broker-dealer agreements may be entered into. There is no firm commitment to purchase or sell any of the Membership Interests. All selling commissions or fees to third persons incurred in the sale of Membership Interests will be paid by the Manager, which may act as the originator of investments by the LLC. The Manager intends to pay for any selling commissions and fees to broker-dealers or finders incurred in the sale of the Membership Interests; however, at the Manager’s discretion, a portion of the gross proceeds of this Offering may be used to pay such selling commissions.

3. When the assets of the LLC reach Two Million Dollars ($2,000,000), then the Manager may be reimbursed by the LLC for the LLC's initial organizational and syndication expenses including, but not limited to, legal expenses, printing costs, selling expenses and filing fees. At the Manager's discretion, the Manager may also be reimbursed for all other LLC expenses paid by the Manager.

THIS MEMORANDUM HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF AUTHORIZED PERSONS INTERESTED IN THE OFFERING. IT CONTAINS CONFIDENTIAL INFORMATION AND MAY NOT BE DISCLOSED TO ANYONE, OTHER THAN AUTHORIZED PERSONS SUCH AS ACCOUNTANTS, FINANCIAL PLANNERS, OR ATTORNEYS RETAINED FOR THE PURPOSE OF RENDERING PROFESSIONAL ADVICE RELATED TO THE PURCHASE OF SECURITIES OFFERED HEREIN. IT MAY NOT BE REPRODUCED, DIVULGED, OR USED FOR ANY OTHER PURPOSE UNLESS WRITTEN PERMISSION IS OBTAINED FROM THE LLC. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANY PERSON EXCEPT THOSE PARTICULAR PERSONS WHO SATISFY THE SUITABILITY STANDARDS DESCRIBED HEREIN.

THE SALE OF MEMBERSHIP INTERESTS COVERED BY THIS MEMORANDUM HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS SET FORTH IN SECTION 4(2) OF THE ACT AND RULE 506 OF REGULATION D THEREUNDER. THESE SECURIITES HAVE NOT BEEN QUALIFIED OR REGISTERED IN ANY STATE IN RELIANCE UPON THE EXEMPTIONS FROM SUCH QUALIFICATION OR REGISTRATION UNDER STATE LAW. THESE SECURITIES ARE “RESTRICTED SECURITIES” AND MAY NOT BE RESOLD OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT COVERING DISPOSITION OF SUCH MEMBERSHIP INTERESTS IS THEN IN EFFECT, OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

THERE IS NO PUBLIC MARKET FOR THE MEMBERSHIP INTERESTS AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. SUMS INVESTED IN THE LLC ARE ALSO SUBJECT TO SUBSTANTIAL RESTRICTIONS UPON WITHDRAWAL AND TRANSFER, AND THE MEMBERSHIP INTERESTS OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM, AND ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON. ANY PROSPECTIVE PURCHASER OF MEMBERSHIP INTERESTS WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT THE MANAGER IMMEDIATELY TO DETERMINE THE ACCURACY OF SUCH INFORMATION. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALES HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE LLC OR IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

PROSPECTIVE INVESTORS SHOULD NOT REGARD THE CONTENTS OF THIS MEMORANDUM OR ANY OTHER COMMUNICATION FROM THE LLC AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH PROSPECTIVE INVESTOR IS ENCOURAGED TO CONSULT WITH HIS, HER, OR ITS OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONALS WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO HIS, HER, OR ITS OWN TAX SITUATION, PRIOR TO SUBSCRIBING FOR MEMBERSHIP INTERESTS.

THE PURCHASE OF MEMBERSHIP INTERESTS BY AN INDIVIDUAL RETIREMENT ACCOUNT ("IRA"), KEOGH PLAN OR OTHER QUALIFIED RETIREMENT PLAN INVOLVES SPECIAL TAX RISKS AND OTHER CONSIDERATIONS THAT SHOULD BE CAREFULLY CONSIDERED. INCOME EARNED BY QUALIFIED PLANS AS A RESULT OF AN INVESTMENT IN THE LLC MAY BE SUBJECT TO FEDERAL INCOME TAXES, EVEN THOUGH SUCH PLANS ARE OTHERWISE TAX EXEMPT. (SEE "INCOME TAX CONSIDERATIONS" AND "ERISA CONSIDERATIONS")

THE MEMBERSHIP INTERESTS ARE OFFERED SUBJECT TO PRIOR SALE, ACCEPTANCE OF AN OFFER TO PURCHASE, AND TO WITHDRAWAL OR CANCELLATION OF THE OFFERING WITHOUT NOTICE. THE MANAGER RESERVES THE RIGHT TO REJECT ANY SUBSCRIPTIONS IN WHOLE OR IN PART.

THE MANAGER WILL MAKE AVAILABLE TO ANY PROSPECTIVE INVESTOR AND HIS, HER, OR ITS ADVISORS THE OPPORTUNITY TO ASK QUESTIONS AND RECEIVE ANSWERS CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING, THE LLC OR ANY OTHER RELEVANT MATTERS, AND TO OBTAIN ANY ADDITIONAL INFORMATION TO THE EXTENT THE MANAGER POSSESSES SUCH INFORMATION.

THE INFORMATION CONTAINED IN THIS MEMORANDUM HAS BEEN SUPPLIED BY THE MANAGER. THIS MEMORANDUM CONTAINS SUMMARIES OF DOCUMENTS NOT CONTAINED IN THIS MEMORANDUM, BUT ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCES TO THE ACTUAL DOCUMENTS. COPIES OF DOCUMENTS REFERRED TO IN THIS MEMORANDUM, BUT NOT INCLUDED AS AN EXHIBIT, WILL BE MADE AVAILABLE TO QUALIFIED PROSPECTIVE INVESTORS UPON REQUEST.

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EXHIBITS:

SUMMARY OF THE OFFERING

The following information is only a brief summary of, and is qualified in its entirety by, the detailed information appearing elsewhere in this Memorandum. This Memorandum, together with the exhibits attached including, but not limited to, the Limited Liability Company Operating Agreement of the LLC (the "Operating Agreement"), a copy of which is attached hereto as Exhibit A, should be read in their entirety before any investment decision is made. All capitalized terms used herein but not defined herein shall have the meaning ascribed to them in the Operating Agreement. If there is a conflict between the terms contained in this Memorandum and the Operating Agreement, then this Memorandum shall prevail.

The LLC	THE CAVALLINO FUND, LLC is a California limited liability company located at 111 N. Market Street, Ste. 300, San Jose, CA 95113. The LLC was formed for the primary purpose of making and arranging residential (including mixed-use, covered loans, and HELOCs), commercial, and construction loans to the general public, acquiring existing loans, and selling loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States.
The Manager	HAMILTON RIDGE ASSET MANAGEMENT is a Nevada corporation located at 111 N. Market Street, Ste. 300, San Jose, CA 95113. The Manager will manage the LLC. The Manager and its Affiliates will receive the Manager's Fees.
The Offering	The LLC is hereby offering to Investors an opportunity to purchase Membership Interests in the LLC in the minimum aggregate amount of One-Hundred Thousand Dollars ($100,000) and up to the maximum aggregate amount of Two Hundred Fifty Million Dollars ($250,000,000). The minimum investment amount per Investor is One-Hundred Thousand Dollars ($100,000); provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount.
Selling Commissions	The Manager intends to pay for any selling commissions and fees to broker-dealers or finders incurred in the sale of the Membership Interests; however, at the Manager's discretion, a portion of the gross proceeds of this Offering may be used to pay such selling commissions.
Suitability Standards	Membership Interests are offered exclusively, to certain individuals, Keogh plans, IRAs and other qualified Investors who meet certain minimum standards of income and/or net worth. Each purchaser must execute a Subscription Agreement making certain representations and warranties to the LLC, including such purchaser's qualifications as an "Accredited Investor" as defined by the Securities and Exchange Commission in Rule 501(a) of Regulation D, or as one of 35 non-accredited Investors that may be allowed to purchase Membership Interests in this Offering. (See herein "Investor Suitability")
Member Accounts	The Member's investment may be held in an interest-bearing account for the benefit of the LLC prior that Member's admission in the LLC. Because the LLC conducts monthly accounting, admission to the LLC will be on the 1st day of the month after a new loan has been funded or purchased with the new Member's investment. This includes additional deposits after the Member has been admitted to the LLC. The Member's interest in the LLC can be established prior at the Manager's discretion.
Quarterly Distributions	After 6 months, if the Investor elects to do so, the Manager may distribute the LLC's accrued Net Profits, to the extent that there is cash available and provided that the quarterly distribution will not impact the continuing operations of the LLC as follows: 7% Annual Return to Members. The Manager reserves the right to modify the 7% base return semi-annually depending on market conditions.

Reinvestment Election	Each Investor is required to reinvest his or her capital distribution the first six (6) months after subscription. Manager has the sole discretion to waive this requirement. After the initial six (6) months, an Investor may elect to (i) receive quarterly cash distributions from the LLC in the amount of that Member's share of Net Profits for distribution; or (ii) allow his, her, or its distributions to be reinvested and increasing his, her, or its ownership interest in the LLC; or (iii) some combination of (i) and (ii). Such election will become effective on the first (1st) day of the month following receipt of the election. If no election is made, then the quarterly distribution will be reinvested. An election to reinvest distributions is revocable with thirty (30) days notice to the LLC. Cash distributions reinvested by Investors who make such an election will be used by the LLC to make further mortgage loans or for other proper LLC purposes.
Member Withdrawal	A Member may withdraw as a Member of the LLC and may receive a return of capital provided that the following conditions have been met: (i) the Member has been a Member of the LLC for a period of at least twelve (12) months; and (ii) the Member provides the LLC with a written request for a return of capital at least 30 days prior to such withdrawal. The LLC will use its best efforts to honor requests for a return of capital subject to, among other things, the LLC's then cash flow, financial condition, and prospective loans. Redemption will be honored on a first come first serve basis unless the Manager decides that pro-rata basis is better in the given situation. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal or redemptions requirements if a Member is experiencing undue hardship. Any Member withdrawing all of their capital results in the Manager closing the account. When the account is closed the Member forfeits any/all additional proportional profit share (see Performance Fee) owed for that calendar year. The Manager can allow participating in profit share after closing an account at its discretion.
Return of Capital	The LLC may return all or a portion of a Member's capital at the Manager's discretion. Any such return of capital would not be considered a distribution and would not be included in the determination of such Member's return on investment.
Term of the LLC	The term of the LLC will end on December 31, 2039, with provision for an extension up to ten (10) years at the sole discretion of the Manager, unless dissolved sooner. A majority of the Members may extend the term beyond the termination date. The LLC will dissolve and terminate sooner pursuant to the Operating Agreement.
LLC Expenses	The LLC will bear the cost of the annual tax preparation of the LLC's tax returns, any state and federal income tax due, legal fees, accounting fees, filing fees, and any required independent audit reports required by agencies governing the business activities of the LLC. In addition, the LLC will pay all of its own operating expenses, including rent, advertising, supplies, insurance, and other normal operating expenses.
Reports to Members	Annual reports concerning the LLC’s business affairs, including the LLC’s annual income tax return, will be provided to Members who request them in writing. Each Member will receive his, her, or its respective K-1 Form.
No Guaranty	The loans funded and/or purchased by the LLC will NOT be guaranteed by any government agency. Some loans may be personally guaranteed by third parties, however, exercising the remedies under any such guaranty is limited and would require lengthy and costly legal action.
No Liquidity	There are substantial restrictions on transferability of Membership Interests. Investors should not purchase Membership Interests unless they intend to hold them for the full term of the LLC.

TERMS OF THE OFFERING

The LLC is hereby offering to Investors an opportunity to purchase Membership Interests in the LLC in an amount equal to the Minimum Offering Amount and up to an amount equal to the Maximum Offering Amount. The minimum investment amount per Investor is the Minimum Investment Amount; provided, however, that the Manager reserves the right to accept subscriptions in a lesser amount or require a higher amount.

The admission of Investors as Members of the LLC is contingent upon the Manager's receipt and acceptance of subscriptions equal to at least the Minimum Offering Amount on or before the date six (6) months from date of this Memorandum, which may be extended for an additional six (6) months at the election of the Manager (the "Offering Period"). After the Minimum Offering Amount is raised, the Offering will continue until (i) the Minimum Offering is raised, (ii) the Offering Period expires, or (iii) the Offering is withdrawn by the LLC. Each Member will share in distributions of the LLC's Profits and Losses based upon such Member's ownership interest in the LLC. After six months, the Manager can distribute the LLC's accrued Net Profits, to the extent that there is cash available and provided that the quarterly distribution will not impact the continuing operations of the LLC as follows: 7% Annual Return to Members. The Manager reserves the right to modify the 7% base return semi-annually depending on market conditions.

"Net Profits" is defined as the LLC's monthly gross income less the payments of the LLC's monthly operating expenses (such as the Manager's Fees, amounts due by the LLC on any loans or line of credit, audit costs, and LLC taxes) and an allocation of income for a loan loss reserve. All distributions will be made on a quarterly basis, in arrears.

An Investor may elect to (i) receive quarterly cash distributions from the LLC in the amount of that Member's share of Net Profits for distribution; or (ii) allow his, her, or its distributions to be reinvested and increasing his, her, or its ownership interest in the LLC; or (iii) some combination of (i) and (ii). Such election will become effective on the first (1st) day of the month following receipt of the election. If no election is made, then the quarterly distribution will be reinvested. An election to reinvest distributions is revocable with thirty (30) days notice to the LLC. Cash distributions reinvested by Investors who make such an election will be used by the LLC to make further mortgage loans or for other proper LLC purposes.

By the end of the LLC's fiscal year and after completion of its annual CPA prepared statements, the Manager will make every effort to have distributed to each Member the amount of Net Profits that will be allocated to that Member on the Schedule K-1 that he, she, or it receives for income tax reporting. However, the amount of income reported to each Member on his, her, or its Schedule K-1 may differ somewhat from the actual cash distributions made during the fiscal year covered by the Schedule K-1 due to, among other things, the loan loss reserve and factors unique to the tax accounting of LLCs, such as the treatment of investment expense.

HOW TO SUBSCRIBE

To purchase a Membership Interest, an Investor must meet certain eligibility and suitability standards, some of which are set forth below. Additionally, an Investor must execute and deliver a Subscription Agreement, in a form substantially similar to Exhibit B, together with a check in the amount of the investment. By executing the Subscription Agreement, an Investor makes certain representations and warranties upon which the Manager will rely in accepting subscriptions and agrees to invest the amount indicated on the Subscription Agreement.

Executing the Subscription Agreement does not in itself make a person a Member of the LLC. Membership Interests will be issued when the Investor is admitted to the LLC when the sums

representing the purchase for such Membership Interests are transferred into the LLC. Subscription Agreements are non-cancelable and subscription funds are nonrefundable for any reason, except with the consent of the Manager. Each purchaser is liable for the payment of the full investment amount for which he, she, or it has subscribed. Subscription Agreements from prospective Investors will be accepted or rejected by the Manager within thirty (30) days after their receipt. The Manager reserves the right to reject any subscription tendered for any reason, or to accept it in part only. Investors will be admitted into the LLC only when their subscription funds are required by the LLC to fund a mortgage loan or for other proper LLC purposes. (See herein "Use of Proceeds")

After the Minimum Offering Amount is raised, the Manager anticipates that the delay between delivery of a Subscription Agreement and admission to the LLC will be less than ninety (90) days, though there can be no assurance that such delay will not be more than ninety (90) days. The Member's investment may be held in an interest-bearing account for the LLC prior to admission in the LLC.

Because the LLC conducts monthly accounting, admission to the LLC will be on the 1st day of the month after a new loan has been funded or purchased with the new Member's investment. This includes additional deposits after the Member has been admitted to the LLC. The Member's interest can be established prior at the Manager's discretion. After having subscribed for at least the Minimum Investment Amount, an Investor may, at anytime, and from time to time, subscribe to increase such Investor's interest in the LLC so long as the Offering remains open.

READ AND COMPLETE THE SUBSCRIPTION AGREEMENT CAREFULLY. BY EXECUTING THE SUBSCRIPTION AGREEMENT, EACH INVESTOR AGREES TO THE TERMS OF THIS MEMORANDUM AND THE OPERATING AGREEMENT.

INVESTOR SUITABILITY

This investment is appropriate only for Investors who have no need for immediate liquidity in their investments and who have adequate means of providing for their current financial needs, obligations, and contingencies, even if such investment results in a total loss. Investment in the Membership Interests offered involves a high degree of risk and is suitable only for an investor whose business and investment experience, either alone or together with a purchaser representative, renders the investor capable of evaluating each and every risk of the proposed investment.

Each person acquiring Membership Interests will be required to represent that he, she, or it is purchasing for his, her, or its own account for investment purposes and not with a view to resale or distribution. The LLC will sell Membership Interests to an unlimited number of "Accredited Investors" and to no more than thirty-five (35) other Investors. All Investors who are not deemed "Accredited" must have such knowledge and experience in financial matters, either alone or together with a purchaser representative that they are capable of evaluating the merits and risks of such an investment in the Membership Interests being offered. To qualify as an "Accredited Investor" an investor must meet one of the following conditions:

1. 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 that person's spouse in excess of $300,000 in each of those years and who has a reasonable expectation of reaching the same income level in the current year;

2. Any natural person whose individual net worth or joint net worth, with that person's spouse, at the time of their purchase exceeds $1,000,000;

3. Any bank as defined in Section 3(a)(2) of the 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 and Exchange Act of 1934 (the "Exchange Act"); any insurance company as defined in Section 2(13) of the Exchange Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; any Small Business Investment Company (SBIC) 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 of 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 investment advisor, 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 who are Accredited Investors;

4. Any private business development company as defined in Section 202(a)(22) of the Investment Advisors Act of 1940;

5. Any organization described in Section 501(c)(3)(d) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

6. Any director or executive officer, or general partner of the issuer of the securities being sold, or any director, executive officer, or general partner of a general partner of that issuer;

7. Any trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Section 506(b)(2)(ii); or

8. Any entity in which all the equity owners are Accredited Investors as defined above.

RESTRICTIONS ON TRANSFER

As a condition to this Offering of Membership Interests, restrictions have been placed upon the ability of Investors to resell or otherwise dispose of any Membership interests purchased hereunder including, without limitation, the following:

1. The Membership Interests have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions provided for under Section 4(2) and Regulation D thereunder.

2. There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, Membership Interests may not be resold or transferred without satisfying certain conditions designed to comply with applicable tax and securities laws, including, without limitation, provisions of the Act, Rule 144 thereunder, and the requirement that certain legal opinions be provided to the Manager with respect to such matters. A transferee must meet the same investor qualifications as the Members admitted during the Offering Period. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

3. A legend will be placed upon all instruments evidencing ownership of Membership Interests in the LLC stating that the Membership Interests have not been registered under the Securities Act of 1933, as amended, and set forth the foregoing limitations on resale. Notations regarding these limitations shall be made in the appropriate records of the LLC with respect to all Membership Interests offered hereby. The LLC will charge a minimum transfer fee of Five Hundred Dollars ($500) per

transfer of ownership. If a Member transfers Membership Interests to more than one person, except transferees who will hold title together, the transfer to each person will be considered a separate transfer.

PLAN OF DISTRIBUTION

The Membership Interests will be offered and sold by the LLC, with respect to which no commissions or fees will be paid to the Manager. No underwriters or broker-dealers have undertaken to distribute all or any portion of the Membership Interests prior to this Offering, and there is no assurance that the entire Offering, or the Minimum Offering Amount, will be subscribed. If the Minimum Offering Amount is not subscribed, Investors' funds will be returned. If only the Minimum Offering Amount is subscribed, the Offering and LLC operating expenses may constitute a greater percentage of the revenue of the LLC, and as such, a reduction of the LLC's rate of return to Investors as compared with the rate of return that might be realized on a larger portfolio of loans may occur.

The Manager may retain the services of independent third parties to locate prospective Investors. The Manager intends to pay for any for the selling commissions and fees to broker-dealers or finders incurred in the sale of the Membership Interests; however, at the Manager's discretion, a portion of the gross proceeds of this Offering may be used to pay such selling commissions.

USE OF PROCEEDS AND DESCRIPTION OF BUSINESS

The LLC will engage in business as a mortgage lender for the purpose of making and arranging residential (including mixed-use, covered loans, and HELOCs), commercial, and construction loans to the general public, acquiring existing loans, and selling loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States. Upon achieving the Minimum Offering Amount, the LLC will engage primarily in purchasing existing notes from lenders or assignee note holders, including Affiliates, for which it may pay a price greater or less than the remaining balance on such notes as provided herein. Such notes will evidence residential (including mixed-use, covered loans, and HELOCs), commercial, and construction loans originally made by an Affiliate or third party to the general public, all of which are secured by deeds of trust and mortgages on real estate throughout the United States.

The price at which existing notes change hands is normally a function of prevailing interest rates. If the interest rate at which new loans of similar size and quality are being originated is higher than the interest rate on an existing note, that note would be expected to sell for less than the amount of principal owing under it. Accordingly, a decline in the interest rate applicable to new loans of similar size and quality would be expected to increase the value of an existing note bearing a higher interest rate.

Some state's laws make it illegal to charge or collect interest at a rate exceeding a certain annual percentage unless the original lender belonged to a class of regulated lenders such as banks, mortgage companies, or real estate brokers. In other states, loans originally arranged through an entity the required broker or lender license are exempt from states' otherwise applicable usury limitation. The LLC will not purchase any loans made in violation of any state usury laws.

The business of making loans secured by real property is highly competitive. Any person seeking a loan may select from a large number of banks, mortgage companies, consumer finance companies and mortgage brokers, who compete with each other on the basis of points (fees for originating loans), interest rates, terms and convenience.

LENDING STANDARDS AND POLICIES

General Standards for Mortgage Loans

The LLC will engage in the business of making loans to members of the general public, and acquiring existing loans, all secured in whole or in part by deeds of trust, mortgages, security agreements or legal title in real or personal property, including but not limited to, single family homes, multiple unit residential property (such as apartment buildings), unimproved land (including land with entitlements and without entitlements), mobile homes, and other personal property. The LLC may also make HELOC loans. The use of loan proceeds by the borrower will not generally be restricted, except for construction loans where the use of proceeds will be controlled for the building, remodeling, and/or development of the property securing the loan.

If a loan is for construction, rehabilitation, or development of a real property, the Loan will be directly secured by a security instrument encumbering the property being improved, rehabilitated, or developed and will be subject to a disbursement agreement between the LLC, as Lender, the Borrower, and the Borrower's general contractor (if any) and may be funded in installments.

The LLC may invest in loans that are themselves secured by a loan secured by a deed of trust or mortgage. In these cases the underlying loan instruments will be assigned to the LLC as collateral for its loan pursuant to agreements that govern the collection of the LLC's loan as well as the underlying loan collateral. In addition to deeds of trust or mortgages the LLC may secure repayment of its loans by such devices as co-signers, personal guaranties, irrevocable letters of credit, assignments of deposit or stock accounts, personal property, partnership interests, and limited liability company interests.

LLC loans will be made pursuant to a strict set of guidelines designed to set standards for the quality of the security given for the loans. Such standards are summarized as follows:

(a) ***Priority of Mortgages.*** The lien securing each LLC loan will generally be senior mortgage encumbrances on the real property which is to be used as security for the loan.

(b) ***Loan-to-Value Ratios.*** The LLC intends to make or purchase loans according to the loan-to-value ratios set forth below. These ratios may be increased if, in the judgment of the Manager, the loan is supported by sufficient credit worthiness of the borrower, other collateral and/or desirability and quality of the property, to justify a greater loan-to-value ratio. The word "value" as used in the term "loan-to-value ratio," shall mean the appraised value of the security property as determined by an independent written appraisal, Broker Price Opinion ("BPO") or the Manager at the time the LLC makes the loan or which is "current" at the time the LLC makes or purchases a loan. An appraisal or BPO will be considered to be "current" if the Manager has inspected the security property and made a reasonable determination that the value of the security property has not declined since the date of the appraisal or BPO. The term "loan" includes both the amount of the LLC's loan and all other outstanding debt secured by any senior deed of trust on the security property. The amount of the LLC's loan combined with the outstanding debt secured by any senior deed of trust on the security property will not exceed a specified percentage of the value of the security property as determined by an independent written appraisal or the Manager at the time the loan is made, according to the following table:

Type of Security Property	**Loan-to-Value Ratios**	
	1st Trust Deeds	**Junior Trust Deeds**
*Residential	65%	N/A
Commercial	65%	N/A
** Unimproved Land and Residential Vacant Lots	50%	N/A
** Construction, Renovation, Development: Residential and Commercial	65%	N/A

(*Residential includes mobile homes) (**May use "as constructed" or "as-complete" value)

The above loan-to-value ratios will not apply to purchase-money financing offered by the LLC to sell any real estate owned by the LLC (i.e., property which is acquired through foreclosure) or to refinance an existing loan that is in default at the time of maturity. In such cases, the Manager, in its sole discretion, shall be free to accept any reasonable financing terms that it deems to be in the best interests of the LLC.

(c) ***Terms of Loans.*** Most LLC loans will be for a period between two (2) months to ten (10) years. Loans originated whose term exceeds the life of this LLC fund will be sold, at the best prevailing rate, on the open market upon the dissolution of the LLC. Most loans will provide for monthly payments of principal and/or interest, with many LLC loans providing for payments of interest only and a "balloon" payment of principal payable in full at the end of the term. These loans require the borrower to pay the loan in full on the maturity date, to refinance the loan, or sell the property to pay the loan in full at maturity.

(d) ***Interest Rates.*** Most LLC loans will provide for a higher interest rate than the mortgage rates prevailing in the geographical area where the security property is located.

(e) ***Escrow Conditions.*** LLC loans will be funded through an escrow account handled by either a title insurance company, public escrow company, attorney, the Manager, or Affiliate. The escrow agent, whomever it may be, will be instructed not to disburse any of the LLC's funds out of the escrow for purposes of funding the loan until:

(1) TITLE INSURANCE. Satisfactory title insurance coverage or title guarantee product for all loans in excess of Fifteen Thousand Dollars ($15,000) will be obtained, with the title insurance policy naming the LLC as the insured, as appropriate, which provides title insurance in an amount not less than the principal amount of the loan. The nature of each policy of title insurance, including the selection of appropriate endorsements affecting coverage shall be selected by the Manager. Title insurance insures only the validity and priority of the LLC's deed of trust or mortgage, and does not insure the LLC against loss from other causes, such as diminution in the value of the security property, appraisals, loan defaults, etc.

(2) COURSE OF CONSTRUCTION INSURANCE. Course of construction insurance will be obtained for all construction loans.

(3) FIRE AND CASUALTY INSURANCE. Satisfactory fire and casualty insurance will be obtained for all loans containing improvements, naming the LLC as loss payee. Appropriate liability insurance will be obtained on all unimproved real property.

(4) MORTGAGE INSURANCE. The Manager does not intend to arrange for mortgage insurance, which would afford some protection against loss if the LLC foreclosed on a loan and there existed insufficient equity in the security property to repay all sums owed. If the Manager elects in its

sole discretion to obtain such insurance, the minimum loan-to-value ratio for residential property loans may be increased.

(5) PAYEE AND BENEFICIARY NAME. All new loan origination documents (notes, deeds of trust, etc.) and insurance policies obtained will name the LLC as payee and beneficiary. Loans will not be written in the name of the Manager or any other nominee, except in the case of multiple lender or fractional loans. In those cases where the LLC purchases all or a portion of a loan from the Manager or an affiliate or third party, the LLC will obtain an endorsement to the original title insurance policy which names the LLC as the insured or co-insured, as appropriate. In addition, the LLC will make certain that the policy(ies) of fire and casualty insurance insuring the security property (although such policies may not specifically name the LLC as loss payee) do provide that the holder of the loan and/or its assignee is the loss payee.

(f) ***Fractional Interests.*** The LLC may also participate in loans with other lenders (including other limited liability companies organized by the Manager), by providing funds for or purchasing a fractional undivided interest in a loan meeting the requirements set forth above. The Manager will treat the LLC equally with all other limited liability companies and other entities controlled by the Manager when making such fractional loans.

(g) ***Diversification.*** Most loans will be between Twenty Five Thousand Dollars ($25,000) to Three Million Dollars ($3,000,000). After the LLC raises Thirty Million Dollars ($30,000,000), no LLC loan will exceed twenty percent (20%) of the LLC's capital unless determined by the Manager to be in the best interests of the LLC.

(h) ***Leverage.*** The LLC may borrow funds in the ordinary course of business.

(i) ***Contingency Reserve Fund.*** A contingency reserve fund may be established by the Manager in its business judgment and maintained for the purpose of covering unexpected cash needs of the LLC. Contingency reserve funds will not be invested in mortgage notes.

Credit Evaluations

The Manager will consider the income level and general creditworthiness of a borrower to determine his, her, or its ability to repay the LLC loan according to its terms, in addition to considering the loan-to-value ratios described above and secondary sources of security for repayment. Loans may be made to borrowers who are in default under other obligations (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations.

Loan Packaging

The Manager or its affiliate will assemble and/or obtain all necessary information reasonably required in the sole discretion of the Manager to make a funding decision on each loan request. For those loans funded by the LLC, the documents assembled and obtained for the purpose of making the funding decision will become the property of the LLC.

Loan Servicing

It is anticipated that all LLC loans will be serviced (i.e., collection of loan payments) by the Manager or Affiliate, or in limited cases another outside service provider (in either case, the "Servicer"). The Servicer will be compensated for such loan servicing activities. (See "Compensation to Manager and Affiliates")

Most loans will require payments at the end of each thirty (30) day period commencing on the last day of the first full month of the loan, computed on the principal balance during such thirty (30) day period. Borrowers will make their checks payable to the Servicer or LLC. Checks payable to the Servicer will

be deposited in Servicer's loan servicing trust account, and funds will be transferred to the LLC's bank or money market account.

The LLC will require the Servicer to adhere to the following Payment, Delinquency, Default, and Foreclosure practices, procedures and policies:

(a) ***Payments.*** Generally, payments will be payable monthly, on the first (1st) day of each month. Interest is generally prorated to the first (1st) day of the month following the closing of the loan escrow.

(b) ***Delinquency.*** Generally, loans will be considered delinquent if no payment has been received within thirty (30) days of the payment due date. Borrower will be notified of delinquency by mail on the thirty-first (31st) day after the payment due date and a late charge will be assessed. The Servicer will refer to and rely upon the late charge provisions in the applicable loan documents for each loan.

(c) ***Default.*** A loan will be considered in default if no payment has been received within ninety (90) days of the payment due date. Foreclosure will usually be initiated shortly after the ninety-first (91st) day after a default, with the exact timing in the business judgment of the Manager. Any costs of this process are to be posted to the borrower's account for reimbursement to the LLC.

(d) ***Foreclosure.*** Statutory guidelines for foreclosures in each state are to be followed by the Servicer until the underlying property is liquidated and/or the account is brought current. Any costs of this process are to be posted to the borrower's account for reimbursement to the LLC. If a loan is completely foreclosed upon and the property reverts back to the LLC, the LLC will be responsible for paying the costs and fees associated with the foreclosure process, maintenance and repair of the property, service of senior liens and resale expenses.

Sale of Loans

The LLC intends to sell mortgage loans (or fractional interests therein) when the Manager determines that it would be advantageous to the LLC to do so. Decisions by the Manager concerning the sale of loans will be based upon the business judgment of the Manager considering prevailing market interest rates, the length of time that the loan will be held by the LLC, the payment history on the loan and the investment objectives of the LLC.

Borrowing/Note Hypothecation

The LLC may borrow funds. The Manager anticipates engaging in this type of transaction when the interest rate at which the LLC can borrow funds is significantly less than the rate that can be earned by the LLC on its mortgage loans, giving the LLC the opportunity to earn a profit as a "spread." Such a transaction involves certain elements of risk and also entails possible adverse tax consequences. (See Business Risks -- "Risk of Leverage" and "Income Tax Considerations" and "ERISA Considerations")

THE MANAGER

Hamilton Ridge Asset Management, a Nevada S Corporation, will serve as the Manager of The Cavallino Fund, LLC.

FUND MANAGERS:

Mr. David Bianco, Fund Manager

Mr. Bianco is a Fund Manager for The Cavallino Fund and a Principal of Hamilton Ridge Asset Management. Previously, Mr. Bianco served as COO of Coast Capital, a real estate investment and mortgage company headquartered in Palo Alto, CA. During his tenure at Coast Capital, Mr. Bianco managed and created a distressed real estate fund and three mortgage pools with more than $100

million assets under management. Prior to joining Coast Capital Mr. Bianco spent 6 years in the Corporate and Private Banking departments of Comerica Bank and Bridge Bank. He received his Bachelors degree in Economics from Santa Clara University and has his real estate broker's license.

Mr. Brian Cooke, Fund Manager

Mr. Brian Cooke is a Fund Manager for the Cavallino Fund and a Principal of Hamilton Ridge Asset Management and leads the investor relations department. Mr. Cooke previously acted as the Investor Relations Vice President for Coast Capital Corporation's two private mortgage funds with over $100 million in assets under management. Prior to Coast Capital, Mr. Cooke spent 7 years working in North America and The Netherlands as the Director of a British investment marketing company, working with large institutional investors and alternative investment firms. Mr. Cooke was responsible for management, operations, client services, and opening new office locations. He earned his Bachelor's degree from Santa Clara University and has a California real estate broker's license.

LEGAL PROCEEDINGS

In the lending and real estate investment industries, the Manager and its affiliates expect to be named in cases. Neither the LLC, the Manager nor any of the officer or directors of the Manager are now or have within the past five (5) years been involved in any material litigation or arbitration over One Million Dollars ($1,000,000.00).

COMPENSATION TO MANAGER AND AFFILIATES

The following discussion summarizes the forms of compensation to be received by the Manager or an Affiliate or other third party, in its or their capacity as Manager, Mortgage Broker, and/or Servicer (collectively, "Manager's Compensation"). All of the amounts described below will be received regardless of the success or profitability of the LLC. None of the following compensation was determined through arm's-length negotiations.

Form and Recipient of Compensation	Estimated Amount or Method of Compensation
Loan Brokerage Commissions / Loan Origination Fees (Points) Paid to Manager or Affiliate	Any loan origination fees are paid by borrowers to the Manager or an Affiliate. Loan origination fees consist of points, loan processing fees, underwriting fees, document preparation fees, escrow fees, disbursement fees, warehousing fees, administration fees and other similar charges.
Real Estate Commissions to Manager or Affiliate Upon Resale of Any Property Acquired through Foreclosure Paid to Manager or Affiliate	The Manager or Affiliate has a real estate sales department or business affiliate that may handle the resale of properties taken back in foreclosure by the LLC. If the Manager or Affiliate elects to act as the listing agent, its compensation shall not exceed the prevailing rate in the area where the real property is located. Such fees are approximately four percent (4%) to six percent (6%) of the sales price. As to out of state property, a local state real estate broker will be employed by the LLC and paid the prevailing commission.

Annual Asset Management Fee to Manager	The Manager will be paid an Annual Asset Management Fee (not including attorneys' fees, foreclosure fees and court costs, if needed) of Two Percent (2%) per year, paid monthly at the beginning of each month from each Member's Capital Account. However, the Manager reserves the right to rebate its Asset Management Fee to some investors at its sole discretion.
Performance Fee	In addition to the Annual Asset Management Fee, the Manager shall be distributed the following Performance Fee: (1) If the Annual Return to Members is below 7%, the Manager shall receive no Performance Fee. (2) If the Annual Return to Members is 7% or over, the Manager shall receive up to 40% of the Annual Return over 7%, and the Members shall receive 60% of the Annual Return over 7%. (3) The Manager reserves the right to modify the 7% base return semi-annually depending on market conditions.
Reimbursement of LLC Expenses to Manager	When the assets of the LLC reach Two Million Dollars ($2,000,000), then the Manager may be reimbursed by the LLC for the LLC's initial organizational and syndication expenses including, but not limited to, legal expenses, printing costs, selling expenses and filing fees. At the Manager's discretion, the Manager may also be reimbursed for all other LLC expenses paid by the Manager.
Definition of Manager's Fees	The definition of the Manager's Fees includes all of the fees described in the "Compensation to Manager and Affiliates".
Recovery of Deferred Compensation	The Manager may, but has no obligation to, defer all or a portion of the Manager's Fees. In such event, the Manager will be entitled to recover the deferred fees at a later time.

FIDUCIARY RESPONSIBILITY OF THE MANAGER

The Manager is accountable to the LLC as a fiduciary, which means that a Manager is required to exercise good faith and integrity with respect to LLC affairs and sound business judgment. This is a rapidly developing and changing area of the law, and Members should consult with their own counsel in this regard. The fiduciary duty of the Manager is in addition to the other duties and obligations of, and limitations on, the Manager set forth in the Operating Agreement.

The Operating Agreement provides that the LLC shall indemnify the Manager for any liability or loss (including attorneys' fees, which shall be paid as incurred), suffered by it, and shall hold the Manager harmless for any loss or liability suffered by the LLC, so long as the Manager determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the LLC, and such loss or liability did not result from the gross negligence, fraud or criminal act of the Manager. Any such indemnification shall only be recoverable out of the assets of the LLC and not from Members.

It is the position of the U.S. Securities and Exchange Commission that indemnification for liabilities arising from, or out of, a violation of federal securities law is void as contrary to public policy. However, indemnification will be available for settlements and related expenses of lawsuits alleging securities law violations if a court approves the settlement and indemnification, and also for expenses incurred in successfully defending such lawsuits if a court approves such indemnification.

Members may have a more limited right of action than they would have absent these provisions in the Operating Agreement. A successful indemnification of the Manager could deplete the assets of the

LLC. Members who believe that a breach of the Manager's fiduciary duty has occurred should consult with their own counsel.

CERTAIN LEGAL ASPECTS OF LLC LOANS

Each of the LLC's loans will be secured by, among other things, a deed of trust, mortgage, leasehold deed of trust or leasehold mortgage, or security agreement. A deed of trust formally has three parties; a debtor referred to as the "trustor"; a third party referred to as the "trustee"; and the lender referred to as the "beneficiary." The trustor irrevocably grants the property until the debt is paid, "in trust, with power of sale" to the trustee to secure payment of the obligation. The trustee's authority is governed by law, the express provisions of the deed of trust and the directions of the beneficiary. The LLC will be the beneficiary under all deeds of trust securing LLC loans. In a mortgage loan, there are only two parties, the mortgagor (borrower) and the mortgagee (lender). State law determines how a mortgage is foreclosed.

Foreclosure

Foreclosure statutes vary from state to state. Loans by the LLC secured by mortgages will be foreclosed in compliance with the laws of the state where the real property collateral is located. For example, in California, a statute known as the "one form of action" rule requires the beneficiary of a deed of trust to exhaust the security under the deed of trust (i.e., foreclose on the property) before any personal action may be brought against the borrower. There are two methods of foreclosing a deed of trust in California.

1. Foreclosure of a deed of trust is accomplished in most cases by a non-judicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and send a copy to the trustor and to any person who has recorded a request for a copy of a notice of default, and to the successor in interest to the trustor and to the beneficiary of any junior deed of trust. The trustor or any person having a junior lien or encumbrance of record may, during a three month reinstatement period, cure the default by paying the entire amount of the debt then due, plus costs and expenses actually incurred in enforcing the obligation and statutorily limited attorneys' and trustee's fees. Thereafter, and at least twenty-one (21) days before the trustee's sale, a notice of sale must be posted in a public place and published once a week over such period. A copy of the notice of sale must be posted on the property, and sent to the trustee, to each person who has requested a copy, to any successor in interest to the trustor and to the beneficiary of any junior deed of trust, at least twenty-one (21) days before the sale. Following the sale, neither the debtor/trustor nor a junior lien has any right of redemption, and the beneficiary may not obtain a deficiency judgment against the trustor.

2. A judicial foreclosure (in which the beneficiary's purpose is usually to obtain a deficiency judgment where otherwise unavailable) is subject to most of the delays and expenses of other lawsuits, sometimes requiring up to several years to complete. Following a judicial foreclosure sale, the trustor or his or her successors in interest may redeem for a period of one year (or a period of only three months if the entire amount of the debt is bid at the foreclosure sale), and until the trustor redeems, foreclosed junior lienholder may redeem during successive redemption periods of sixty (60) days following the previous redemption, but in no event later than one year after the judicial foreclosure sale. The LLC generally will not pursue a judicial foreclosure to obtain a deficiency judgment, except where, in the sole discretion of the Manager, such a remedy is warranted in light of the time and expense involved.

AntiDeficiency Legislation

Each state may have laws intended to limit deficiency judgments and requiring the exhaustion of the security. For example, in California, there are four principal statutory prohibitions which limit the remedies of a beneficiary under a deed of trust. Two of the statutes limit the beneficiary's right to

obtain a deficiency judgment against the trustor following foreclosure of a deed of trust, one based on the method of foreclosure and the other on the type of debt secured. Under one of these statutes, a deficiency judgment is barred where the foreclosure was accomplished by means of a non-judicial trustee's sale. It is anticipated that all of the LLC's loans will be enforced by means of a non-judicial trustee's sale, if foreclosure becomes necessary. Under the other statute, a deficiency judgment is barred in any event where the foreclosed deed of trust is secured by a "purchase money obligation," (i.e., a promissory note evidencing a loan used to pay all or part of the purchase price of a residential property occupied, at least in part, by the purchaser). This restriction may apply to a number of LLC loans. The third statute is known as the "one form of action" rule which requires the beneficiary to exhaust the security under the deed of trust by foreclosure before bringing a personal action against the trustor on the promissory note. The fourth statute limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale.

Other matters, such as litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws, may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property.

Special Considerations in Connection with Junior Encumbrances

In addition to the general considerations concerning trust deeds discussed above, there are certain additional considerations applicable to second and more junior deeds of trust ("junior encumbrances"). By its very nature, a junior encumbrance is less secure than a more senior lien. If a senior lienholder forecloses on its loan, unless the amount of the bid exceeds the senior encumbrances, the junior lienholder will receive nothing. Because of the limited notice and attention given to foreclosure sales, it is possible for a junior lienholder to be sold out, receiving nothing from the foreclosure sale. By virtue of anti-deficiency legislation, discussed above, a junior lienholder may be totally precluded from any further remedies.

Accordingly, a junior lienholder (such as the LLC in some cases) may find that the only method of protecting its security interest in the property is to take over all obligations of the trustor with respect to senior encumbrances while the junior lienholder commences its own foreclosure, making adequate arrangements either to (i) find a purchaser for the property at a price which will recoup the junior lienholder's interest, or (ii) to pay off the senior encumbrances so that the junior lienholder's encumbrance achieves first priority. Either alternative may require the LLC to make substantial cash expenditures to protect its interest. (See herein "Business Risks -- Loan Defaults and Foreclosures") The LLC may also make wrap-around mortgage loans (sometimes called "allinclusive loans"), which are junior encumbrances to which all the considerations discussed above will apply. A wrap-around loan is made when the borrower desires to refinance his or her property but does not wish to retire the existing indebtedness for any reason, e.g., a favorable interest rate or a large prepayment penalty. A wrap-around loan will have a principal amount equal to the outstanding principal balance of the existing secured loans plus the amount actually to be advanced by the LLC. The borrower will then make all payments directly to the LLC, and the LLC in turn will pay the holder of the senior encumbrance. The actual yield to the LLC under a wrap-around mortgage loan will likely exceed the stated interest rate on the underlying senior loan, since the full principal amount of the wrap-around loan will not actually be advanced by the LLC. The law requires that the LLC will be notified when any senior lienholder initiates foreclosure.

If the borrower defaults solely upon his or her debt to the LLC while continuing to perform with regard to the senior lien, the LLC (as junior lienholder) will foreclose upon its security interest in the manner discussed above in connection with deeds of trust generally. Upon foreclosure by a junior lien, the property remains subject to all liens senior to the foreclosed lien. Thus, were the LLC to purchase the security property at its own foreclosure sale, it would acquire the property subject to all senior

encumbrances. The standard form of deed of trust used by most institutional lenders, like the one that will be used by the LLC, confers on the beneficiary the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with any condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the deed of trust in such order as the beneficiary may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the beneficiary under the underlying first deed of trust will have the prior right to collect any insurance proceeds payable under a hazards insurance policy and any award of damages in connection with the condemnation, and to apply the same to the indebtedness secured by the first deed of trust before any such proceeds are applied to repay the LLC's loan. The amount of such proceeds may be insufficient to pay the balance due to the LLC, while the debtor may fail or refuse to make further payments on the damaged or condemned property, leaving the LLC with no feasible means to obtain payment of the balance due under its junior deed of trust. In addition, the borrower may have a right to require the lender to allow the borrower to use the proceeds of such insurance for restoration of the insured property.

"Due-on-Sale" Clauses

The LLC's forms of promissory notes and deeds of trust, like those of many lenders, may contain "due-on-sale" clauses permitting the LLC to accelerate the maturity of a loan if the borrower sells, conveys or transfers all or any portion of the property, and may also contain "due-on-encumbrance" clauses which would permit the same action if the borrower further encumbers the property (i.e., executes further deeds of trust). The enforceability of these types of clauses has been the subject of several major court decisions and legislation in recent years.

1. **Due-on-Sale.** Federal law now provides that, notwithstanding any contrary pre-existing state law, due-on-sale clauses contained in mortgage loan documents are enforceable in accordance with their terms by any lender after October 15, 1985. On the other hand, acquisition of a property by the LLC by foreclosure on one of its loans may also constitute a "sale" of the property, and would entitle a senior lienholder to accelerate its loan against the LLC. This would be likely to occur if then prevailing interest rates were substantially higher than the rate provided for under the accelerated loan. In that event, the LLC may be compelled to sell or refinance the property within a short period of time, notwithstanding that it may not be an opportune time to do so.

2. **Due-on-Encumbrance.** With respect to mortgage loans on residential property containing four or less units, federal law prohibits acceleration of the loan merely by reason of the further encumbering of the property (e.g., execution of a junior deed of trust). This prohibition does not apply to mortgage loans on other types of property. Although many of the LLC's junior lien mortgages will be on properties that qualify for the protection afforded by federal law, some loans will be secured by small apartment buildings or commercial properties. Junior lien mortgage loans made by the LLC may trigger acceleration of senior loans on properties if the senior loans contain due-on-encumbrance clauses, although both the number of such instances and the actual likelihood of acceleration is anticipated to be minor. Failure of a borrower to pay off the senior loan would be an event of default and subject the LLC (as junior lienholder) to the risks attendant thereto. It will not be customary practice of the LLC to make loans on non-residential property where the senior encumbrance contains a due-on-encumbrance clause. (See herein "Certain Legal Aspect of LLC Loans - Special Considerations in Connection with Junior Encumbrances," above)

Prepayment Charges

Some loans originated by the LLC may provide for certain prepayment charges to be imposed on the borrowers in the event of certain early payments on the loan. The Manager reserves the right at its business judgment to waive collection of prepayment penalties. LLC loans secured by mortgages or

deeds of trust encumbering single family, owner-occupied, dwellings may be prepaid at any time, regardless of whether the note or deed of trust so provides. There will be pre-payment penalties accordance with borrower qualifications, state guidelines and federal law. The California law limits the prepayment charge on such loans to an amount equal to six months' advance interest on the amount prepaid in excess of the permitted twenty percent (20%), or interest to maturity, whichever is less.

Bankruptcy Laws

If a borrower files for protection under the federal bankruptcy statutes, the LLC will be initially barred from taking any foreclosure action on its real property security by an "automatic stay order" that goes into effect upon the borrower's filing of a bankruptcy petition. Thereafter, the LLC would be required to incur the time, delay and expense of filing a motion with the bankruptcy court for permission to foreclose on the real property security ("relief from the automatic stay order"). Such permission is granted only in limited circumstances. If permission is denied, the LLC will likely be unable to foreclose on its security for the duration of the bankruptcy, which could be a period of years. During such delay, the borrower may or may not be required to pay current interest on the LLC loan. The LLC would therefore lack the cash flow it anticipated from the loan, and the total indebtedness secured by the security property would increase by the amount of the defaulted payments, perhaps reaching a total that would exceed the market value of the property.

In addition, bankruptcy courts have broad powers to permit a sale of the real property free of the LLC's lien, to compel the LLC to accept an amount less than the balance due under the loan and to permit the borrower to repay the loan over a term which may be substantially longer than the original term of the loan.

BUSINESS RISKS

Loan Defaults and Foreclosures

The LLC is in the business of lending money secured in whole or in part by real estate and therefore bears the risks of defaults by borrowers. Many LLC loans will be interest-only loans providing for monthly interest payments with a large "balloon" payment of principal due at the end of the term. Many borrowers are unable to repay such balloon payments out of their own funds and are compelled to refinance. Fluctuations in interest rates and the unavailability of mortgage funds could adversely affect the ability of borrowers to refinance their loans at maturity.

The LLC will rely primarily on the real property securing the loans to protect its investment. It will to a lesser extent rely upon the creditworthiness of a particular borrower. There are a number of factors which could adversely affect the value of such real property security, including, among other things, the following:

(a) The LLC will rely on appraisals or the Manager to determine the fair market value of real property used to secure loans made by the LLC. No assurance can be given that any appraisals will, in any or all cases, be accurate. Moreover, since an appraisal is based upon the value of real property at a given point in time, subsequent events could adversely affect the value of real property used to secure a loan. Such subsequent events may include general or local economic conditions, neighborhood values, interest rates, new construction and other factors.

(b) If the borrower defaults the LLC may have no feasible alternative to repossessing the property at a foreclosure sale. If the LLC cannot quickly sell such property, and the property does not produce any significant income, the cost of owning and maintaining the property will directly affect the LLC's profitability.

(c) Subsequent changes in applicable laws and regulations may have the effect of severely limiting the permitted uses of the property, thereby drastically reducing its value.

(d) Due to certain provisions of state law applicable to real property secured loans, generally if the real property security proves insufficient to repay amounts owing to the LLC, it is unlikely that the LLC would have any right to recover any deficiency from the borrower. (See "Certain Legal Aspects of LLC Loans")

(e) Some of the LLC's loans will be secured by junior deeds of trust, which are subject to greater risk than first deeds of trust. In the event of foreclosure, the debt secured by the senior deed of trust must be satisfied before any proceeds from the sale of the property can be applied toward the debt owed to the LLC that are in junior positions. Furthermore, to protect its junior security interest, the LLC may be required to make substantial cash outlays for such items as loan payments to senior lienholder to prevent their foreclosure; property taxes; insurance and repairs. The LLC may not have adequate cash reserves on hand at all times to protect its security for a particular loan, in which event the LLC could suffer a loss of its investment in that loan. (See "Certain Legal Aspects of LLC Loans")

(f) The recovery of sums advanced by the LLC in making loans and protecting its security may also be delayed or impaired by the operation of the federal bankruptcy laws or by irregularities in the manner in which the loan was made. Any borrower has the ability to delay a foreclosure sale for a period ranging from several months to several years simply by filing a petition in bankruptcy which automatically stays any actions to enforce the terms of the loan. It can be assumed that such delays and the costs associated therewith will reduce the LLC's profitability.

Since the LLC will be relying on its real property security to protect its investment to a greater extent than the creditworthiness of its borrowers, the LLC is likely to experience a borrower default rate higher than would be experienced if its loan portfolio was more heavily focused on borrower creditworthiness. Because of the LLC's underwriting criteria, the LLC may make loans to borrowers who would not qualify for secured loans from institutional lenders (i.e., banks and savings and loan associations).

Reliance on the Manager

As of the date of this Offering, the LLC has no operating history, and there is no assurance that it will operate at a profit. The Manager will make virtually all decisions with respect to the management of the LLC, including the determination as to what loans to make or purchase, and the Members will not have a voice in the management decisions of the LLC and can exercise only a limited amount of control over the Manager. The Manager gives no assurance that the LLC will operate at a profit. The LLC is dependent to a substantial degree on the Manager's continued services. In the event of the withdrawal, dissolution or bankruptcy of the Manager, the business and operations of the LLC may be adversely affected.

Reliance on Key Officers of Manager

The Manager is a limited liability company which consists of a few key officers whose inability to manage the limited liability company, whether because of death, illness or other event, could adversely affect the management of the Manager and consequently the performance of the LLC.

Competition

Because of the nature of the LLC's business, the LLC's profitability will depend to a large degree upon the future availability of secure loans. The LLC will compete with institutional lenders and others engaged in the mortgage lending business, many of whom have greater financial resources and experience than the LLC.

Fluctuations in Interest Rates

Recent years have demonstrated that mortgage interest rates are subject to abrupt and substantial fluctuations. The LLC intends to make a large number of medium to long term (three (3) to fifteen (15)

year) loans. The purchase of Membership Interests is therefore an illiquid investment. (See "Lack of Liquidity") If prevailing interest rates rise above the average interest rate being earned by the LLC's loan portfolio, Investors may be unable to liquidate their investment in order to take advantage of higher returns available from other investments. If prevailing interest rates fall significantly below the average interest rate being earned by the LLC's loan portfolio, borrowers may elect to refinance their loans and prepay their loan from the LLC, reducing the overall yield of the LLC's loan portfolio.

Risk of Using Leverage

Interest rate fluctuations may have a particularly adverse effect on the LLC if it is using borrowed money to fund mortgage loans. There is no limit on the LLC's use of borrowed money to fund asset purchases, or for other purposes. Such borrowed money may bear interest at a variable rate, whereas the LLC may be making fixed rate loans. Therefore, if prevailing interest rates rise, the LLC's cost of money could exceed the income earned from that money, thus reducing the LLC's profitability or causing losses.

Usury Exemption

The LLC intends to make loans that are exempt from states' otherwise applicable usury limitations, if any. If any of the state laws change, the LLC may no longer be able to originate loans in excess of the usury limit, potentially reducing its return on investment or forcing it to limit its lending activities.

Home Equity Lines of Credit Regulatory Issues

The Home Equity Lines of Credit (HELOC) loans that are originated by the LLC and/or its Affiliates in California are governed by two similar but different sets of regulations. One set is federal, and is covered under Section 32 of regulation Z, and the other is the State of California and is known as 'AB489' and is contained in Civil Code Section 4970. The LLC believes it is not subject to either of these regulations because it is providing an open-ended line of credit and is in compliance with Truth In Lending Act 226.2(a)(20). If the LLC's loans are found to be closed-end loans, the points and fees (see "Use of Proceeds", "Compensation to Manager and Affiliates") charged by the LLC and/or Affiliates for originating such loans would exceed the amount permitted by the federal and state statutes.

An analysis of the federal and state statues is as follows: Federal Section 32 (12 CFR § 226.32) is entitled: "Requirements for certain *closed-end* home mortgages." This means the regulation does not apply to closed-end loans. However, Section 32 (12 CFR §226.34(b) states: (b) Prohibited acts or practices for dwelling-secured loans; open-end credit. In connection with credit secured by the consumer's dwelling that does not meet the definition in § 226.2(a)(20), a creditor shall not structure a home-secured loan as an open-end plan to evade the requirements of § 226.32.

The published Official Staff Commentary of the Federal Reserve Board Explains:

1. Amount of credit extended. Where a loan is documented as open-end credit but the features and terms or other circumstances demonstrate that it does not meet the definition of open-end credit, the loan is subject to the rules for closed-end credit, including § 226.32 [Section 32] if the rate or fee trigger is met. In applying the triggers under § 226.32, the "amount financed," including the "principal loan amount" must be determined. In making the determination, the amount of credit that would have been extended if the loan had been documented as a closed-end loan is a factual determination to be made in each case. Factors to be considered include the amount of money the consumer originally requested, the amount of the first advance or the highest outstanding balance, or the amount of the credit line. The full amount of the credit line is considered only to the extent that it is reasonable to expect that the consumer might use the full amount of credit.

In the introduction to the above, the Staff explains the reason for the above comment: 34(b) Prohibited Acts or Practices for Dwelling-secured Loans; Open-end Credit HOEPA covers only closed-end mortgage loans. In the December notice, the Board proposed a prohibition against structuring a home-

secured loan as a line of credit to evade HOEPA's requirements, if the credit does not meet the definition of open-end credit in § 226.2(a)(20).

Although consumer representatives supported the Board's proposal, they generally believe that HOEPA should cover open-end credit carrying rates or fees above HOEPA's price triggers. Industry commentators believe there is little evidence that creditors are using open-end credit to evade HOEPA. Moreover, they oppose the rule as unnecessary because it is already a violation of TILA to provide disclosures for an open-end credit plan if the legal obligation does not meet the criteria for open-end credit.

Pursuant to the Board's authority under section 129(l)(2)(A), as proposed, § 226.34(b) explicitly prohibits structuring a mortgage loan as an open-end credit line to evade HOEPA's requirements, if the loan does not meet the TILA definition of open-end credit. This prohibition responds to cases reported by consumer advocates at the Board's hearings and to enforcement actions brought by the Federal Trade Commission, where creditors have documented loans as open-end "revolving" credit, even if there was no real expectation of repeat transactions under a reusable line of credit. Although the practice would currently violate TILA, the new rule will subject creditors and assignees to HOEPA's stricter liability rule and remedies if the credit carries rates and fees that exceed HOEPA's price triggers for closed-end loans.

Where a loan is documented as open-end credit but the features and terms or other circumstances demonstrate that it does not meet the definition of open-end credit, the loan is subject to the rules for closed-end credit, including HOEPA if the rate or fee trigger is met. In response to comments, comment 34(b)-1 provides guidance on how to apply HOEPA's triggers to transactions structured as open-end credit in violation of §226.34(b).

On the California side, AB489 (Civil Code Section 4970) only applies to "consumer loans" and it goes on to define that as: (d) ''Consumer loan'' means a consumer credit transaction that is secured by real property located in this state used, or intended to be used or occupied, as the principal dwelling of the consumer that is improved by a one-to-four residential unit. ''*Consumer loan" does not include a reverse mortgage, an open line of credit as defined in Part 226 of Title 12 of the Code of Federal Regulations (Regulation Z)*, or a consumer credit transaction that is secured by rental property or second homes.

However, the California side also contains this language in Section 4973(m)(1): (m) A person who originates a covered loan shall not avoid, or attempt to avoid, the application of this division by doing the following: (1) structuring a loan transaction as an open-end credit plan for the purpose of evading the provisions of this division when the loan would have been a covered loan if the loan had been structured as a closed-end loan.

The features of the LLC's Home Equity Line of Credit loans are designed to comply with Truth In Lending Act 226.2(a)(20). Loans are designed to be in the best interest of borrowers, and not to evade sections of statutes. However, because the Federal and State statutes are relatively new, there is no current case law to rely on for exactly what constitutes compliance with the Truth In Lending Act 226.2(a)(20) and what does or does not constitute evasion of a provision of the federal or state statute. As such, it is possible that one or more of the LLC's loans could be determined not to be in compliance, or determined to be evasive, and the LLC could be liable for interest and penalties for those loans.

Manager Not Required to Devote Full-Time to the Business of the LLC

The Manager is not required to devote its full time to the LLC's affairs, but only such time as the affairs of the LLC may reasonably require.

Competition With Clients and Affiliates of the Manager

The Manager may sponsor the formation of other investment groups like the LLC to invest in deeds of trust. When considering each loan, therefore, the Manager will have to decide which client or fund it will choose to originate or hold the resulting note and deed of trust. This will compel the Manager to make decisions that may at times favor persons other than the LLC. The Operating Agreement exonerates the Manager from liability for investment opportunities given to other persons.

Uninsured Losses

The Manager may require title, fire and casualty insurance on the properties securing the LLC's loans. The Manager may also, but is not required to, arrange for earthquake and/or flood insurance if there are improvements. However, there are certain types of losses (generally of a catastrophic nature) which are either uninsurable or not economically insurable, such as losses due to war, floods or mudslide. Should any such disaster occur, the LLC could suffer a loss of principal and interest on the loan secured by the uninsured property. Additionally, the Manager does not intend to, but may, require mortgage insurance on LLC loans, which would protect the LLC from losses due to defaults by mortgage borrowers.

INVESTMENT RISKS

Any investment in the LLC offered hereby involves a significant degree of risk and is suitable only for Investors who have NO NEED FOR LIQUIDITY in their investments. When analyzing this Offering, prospective Investors should carefully consider each of the following risks and should also carefully consider the matters discussed herein under the captions "Compensation to Manager and Affiliates," "Conflicts of Interest," and "Income Tax Considerations" and "ERISA Considerations."

No Registration: Limited Governmental Review

The Membership Interests have not been registered with, or reviewed by, the U.S. Securities and Exchange Commission, nor is registration contemplated. The LLC is not registered with the U.S. Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, and the Manager is not registered with the U.S. Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940.

Limited Transferability of Interests

There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Membership Interests is also restricted by the provisions of the Act and Rule 144 thereunder, and by the provisions of the Operating Agreement. Any sale or transfer of Membership Interests also requires the prior written consent of the Manager. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

Size of the Offering

There is no assurance that the LLC will obtain capital contributions equal to the amount required to close the Offering. In addition, receipt of capital contributions of less than the Maximum Offering Amount will reduce the ability of the LLC to spread investment risks through diversification of its loan portfolio.

Unidentified Investments

None of the assets in which the LLC will invest have been specifically identified. It is therefore impossible for Investors to evaluate the LLC's loan portfolio. In addition, since the short-term investments in which Investor funds will be placed until they are invested in notes meeting the LLC's

criteria are likely to be less than the amount to be earned from such notes, any delay in investing the net proceeds of this Offering will, to that extent, reduce the earnings of the LLC.

Phantom Income

Investors who elect to reinvest their share of the earnings of the LLC will be responsible for the payment of federal and state income taxes on such income, but will not receive distributions from which to pay such taxes. Applicable taxes, both on an annual basis and upon the sale, transfer, or other disposition of Membership Interests, will therefore be an out-of-pocket expense to such Investors.

Speculative Nature of Investment

Investment in the Membership Interests is speculative and by investing, each Investor assumes the risk of losing the entire investment. The LLC has no operations as of the date of this Offering and will be solely dependent upon the Manager and the LLC's loan portfolio, both of which are subject to the risks described herein. Accordingly, only Investors who are able to bear the loss of their entire investment, and who otherwise meet the Investor suitability standards should consider purchasing Membership Interests. (See “Investor Suitability”)

Investors Not Independently Represented

The Investors in the LLC have not been represented by independent counsel in its organization. Attorneys assisting in the formation of the LLC and the preparation of this Memorandum have represented only the Manager. (See "Conflicts of Interest")

Investment Delays

There will be a delay between the time Membership Interests are sold and the time purchasers of Membership Interests are admitted to the LLC and begin to participate in the investment yield being realized by the LLC on its loan portfolio. Once the Minimum Offering is raised, funds will be transferred to the LLC at the Manager's discretion. (See "Use of Proceeds") The overall investment return of the Members will be diminished while their funds await investment by the LLC.

Tax and ERISA Risks

Investment in the LLC involves certain tax risks of general application to all Investors, and certain other risks specifically applicable to Keogh accounts, Individual Retirement Accounts and other tax-exempt Investors. (See "Income Tax Considerations" and "ERISA Considerations")

CONFLICTS OF INTEREST

The following is a list of some of the important areas in which the interests of the Manager will conflict with those of the LLC. The Members must rely on the general fiduciary standards which apply to a Manager of a LLC to prevent unfairness by the Manager and/or its affiliates in a transaction with the LLC. (See "Fiduciary Responsibility of the Manager") Except those as may arise in the normal course of the relationship, there are no transactions presently contemplated between the LLC and its Manager or its affiliates other than those listed below or discussed under "Compensation to Manager And Affiliates."

Loan Origination Fees

Loan origination fees are paid to the Manager who may pay a portion of them to an Affiliate or third party. Loan origination fees consist of points, loan processing fees, underwriting fees, document preparation fees, escrow fees, disbursement fees, warehousing fees, administration fees and other similar charges. (See "Compensation to Manager and Affiliates").

Loan Servicing by Manager or Affiliate

The Manager, Affiliate or third party servicer will supervise the servicing of loans owned by the LLC. This consists of billing and collecting loans owned by the LLC. (See "Compensation to Manager and Affiliates"). Currently the LLC uses FCI Lender Services for most of the servicing.

Other LLCs & Partnerships or Businesses

The Manager also provides loan brokerage services to place loans other than those that will be offered to the LLC. There accordingly exists a conflict of interest on the part of the Manager between its affiliate and the LLC, based on the availability for placement by the affiliate of non-LLC mortgage funds. The Manager may decide, or may influence the selection of which loans are appropriate for funding by the LLC, or by such other sources, after consideration of factors deemed relevant by the Manager including the size of the loan and portfolio diversification.

The Manager and its affiliates may engage, for their own account, or for the account of others, in other business ventures similar to that of the LLC or otherwise, and neither the LLC nor any Member shall be entitled to any interest therein.

The LLC will not have independent management and it will rely on the Manager and its affiliates for the operation of the LLC. The Manager will devote only so much time to the business of the LLC as is reasonably required. The Manager will have conflicts of interest in allocating management time, services and functions between various existing companies, the LLC, and any future LLCs which it may organize as well as other business ventures in which it may be involved. The Manager believes it has sufficient staff to be fully capable of discharging its responsibilities to all such entities.

Purchase, Sale and/or Hypothecation of Loans to the LLC

The Manager and its affiliates may sell, buy, or hypothecate loans (use loans as collateral for another loan) to the LLC, provided such loans meet the underwriting criteria set forth above. The price may exceed the principal balance then owing on such loans by up to ten percent (10%). There will be no independent review of the value of such loans, or of compliance with the conditions set forth above.

Lack of Independent Legal Representation

The LLC has not been represented by independent legal counsel to date. The use of the Manager's counsel in the preparation of this Memorandum and the organization of the LLC may result in a lack of independent review.

Conflict with Related Programs

The Manager and its affiliates may cause the LLC to join with other entities organized by the Manager for similar purposes as partners, joint venturers or co-owners under some form of ownership in certain loans, or in the ownership of repossessed real property. The interests of the LLC and those of such other entities may conflict, and the Manager controlling or influencing all such entities may not be able to resolve such conflicts in a manner that serves the best interests of the LLC.

Sale of Real Estate to Affiliates

In the event the LLC becomes the owner of any real property by reason of foreclosure on an LLC loan, the Manager's first priority will be to arrange the sale of the property for a price that will permit the LLC to recover the full amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of current market conditions. In order to facilitate such a sale the Manager may, but is not required to, arrange a sale to persons or entities controlled by it, e.g. to another LLC formed by the Manager for the express purpose of acquiring foreclosure properties from lenders such as the LLC. The Manager will be subject to conflicts of interest in arranging such sales since it will represent both parties to the transaction. For example, the LLC and the potential buyer will have conflicting interests in determining the purchase

price and other terms and conditions of sale. The Manager's decision will not be subject to review by any outside parties. The LLC may sell a foreclosed property to the Manager or an Affiliate at a price which is fair and reasonable for all parties, but no assurance can be given that the LLC could not obtain a better price from an independent third party.

SUMMARY OF OPERATING AGREEMENT

The following is a summary of the Operating Agreement for the LLC, and is qualified in its entirety by the terms of the Operating Agreement itself. Potential Investors are urged to read the entire Operating Agreement, which is set forth as Exhibit A to this Memorandum.

Rights and Liabilities of Members

The rights, duties and powers of Members are governed by the Operating Agreement and the BeverlyKillea Limited Liability Company Act, and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to them.

Investors who become Members in the LLC in the manner set forth herein will not be responsible for the obligations of the LLC. They may be liable to repay capital returned to them plus interest if necessary to discharge liabilities existing at the time of such return. Any cash distributed to Members may constitute, wholly or in part, return of capital.

Rights, Powers and Duties of Manager

Subject to the right of the Members to vote on specific matters, the Manager will have complete charge of the business of the LLC. The Manager is not required to devote full time to LLC affairs but only such time as is required for the conduct of LLC business. The Manager has the power and authority to act for and bind the LLC. The Manager is granted the special power of attorney of each Member for the purpose of executing any document which the Members have agreed to execute and deliver.

Profits and Losses

The LLC's Profit or Loss for a Taxable Year, including the Taxable Year in which the LLC is dissolved, will be allocated among the Members based upon their pro-rate ownership interest in the LLC held during the applicable tax reporting period.

Quarterly Distributions

The LLC will make all distributions as described in the "Summary of the Offering – Quarterly Distributions."

Compensation to Manager and Affiliates

The LLC will compensate the Manager and its affiliates as described in the "Compensation to Manager and Affiliates."

Capital Distributions

The LLC may, in its discretion, make distributions of capital to Members in proportion to their ownership interest as of the date that such distribution is declared.

Adjustment of Holdings

Allocations of profit, gain and loss in the LLC are made, as required by law, in proportion to the Members' ownership interests in the LLC. Voting rights are based upon Members' ownership percentage in the LLC.

Accounting and Reports

Annual reports concerning the LLC's business affairs, including the LLC's annual income tax return, will be provided to Members who request them in writing. Each Member will receive his, her, or its respective K-1 Form.

The Manager presently intends to maintain the LLC's books and records on the accrual basis for bookkeeping and accounting purposes, and also intends to use the accrual basis method of reporting income and losses for federal income tax purposes. The Manager reserves the right to change such methods of accounting, upon written notice to Members. Any Members may inspect the books and records of the LLC at all reasonable times upon thirty (30) days written notice.

Withdrawal, Redemption Policy and Other Events of Dissociation

A Member may withdraw as a Member of the LLC and may receive a return of capital provided that the following conditions have been met: (i) the Member has been a Member of the LLC for a period of at least twelve (12) months; and (ii) the Member provides the LLC with a written request for a return of capital at least 30 days prior to such withdrawal. The LLC will use its best efforts to honor requests for a return of capital subject to, among other things, the LLC's then cash flow, financial condition, and prospective loans. Redemption will be honored on a first come first serve basis unless the Manager decides that pro-rata basis is better in the given situation. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal or redemptions requirements if a Member is experiencing undue hardship.

Restrictions on Transfer

The Membership Interests have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions provided for under Section 4(2) and Regulation D thereunder. There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, Membership Interests may not be resold or transferred without satisfying certain conditions designed to comply with applicable tax and securities laws, including, without limitation, provisions of the Act, Rule 144 thereunder, and the requirement that certain legal opinions be provided to the Manager with respect to such matters. A transferee must meet the same investor qualifications as the Members admitted during the Offering Period. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

Manager's Interest

The Manager may withdraw from the management of the LLC at any time upon written notice to all Members, in which event the Manager would not be entitled to any termination or severance payment from the LLC, except for the return of its investment, if any. The Manager may also sell and transfer any Membership Interests it may own for such price as it shall determine, in its sole discretion, and neither the LLC nor the Members will have any interest in the proceeds of such sale. However, a successor Manager may only be elected by the Members.

WindingUp

The LLC will not cease to exist immediately upon the occurrence of an event of dissolution, but will continue until its affairs have been wound up. Upon dissolution of the LLC, the Manager will wind up the LLCs affairs by liquidating the LLC's assets as promptly as is consistent with obtaining the fair market value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan(s) until a suitable sale can be arranged. All funds received by the LLC shall be applied to satisfy or provide for LLC debts and liabilities and the balance, if any, shall be distributed to Members on a pro-rata basis.

INCOME TAX CONSIDERATIONS

Federal Income Tax Aspects

The following discussion generally summarizes the material federal income tax consequences of an investment in the LLC based upon the existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable U.S. Department of Treasury regulations ("Treasury regulations") thereunder, current administrative rulings and procedures and applicable judicial decisions. However, it is not intended to be a complete description of all tax consequences to the prospective Members with respect to their investment in the LLC. No assurance can be given that the Internal Revenue Service (the "IRS") will agree with the interpretation of the current federal income tax laws and regulations summarized below. In addition, the LLC or the Members may be subject to state and local taxes in jurisdictions in which the LLC may be deemed to be doing business.

ACCORDINGLY, ALL PROSPECTIVE MEMBERS SHOULD SATISFY THEMSELVES REGARDING THE POTENTIAL FEDERAL AND STATE TAX CONSEQUENCES OF PARTICIPATION IN THE COMPANY AND ARE URGED TO CONSULT THEIR OWN TAX ADVISORS, ATTORNEYS OR ACCOUNTANTS IN CONNECTION WITH ANY INTEREST IN THE COMPANY. EACH PROSPECTIVE INVESTOR/MEMBER SHOULD SEEK, AND RELY UPON, THE ADVICE OF THEIR OWN TAX ADVISORS IN EVALUATING THE SUITABILITY OF AN INVESTMENT IN THE COMPANY IN LIGHT OF THEIR PARTICULAR INVESTMENT AND TAX SITUATION.

Federal Income Tax Matters

The federal income tax consequences of an investment in Membership Interests are complex and their impact may vary depending on each Member's particular tax situation. Potential Members should consider the following federal income tax risks, among others:

(a) The LLC may be classified as an association, taxable as a corporation, which would deprive Members of the tax benefit of operating in a limited liability company form (taxable as a partnership); (b) a Member's share of LLC taxable income may, in any period exceed his, her, or its share of cash distribution from the LLC; (c) the allocation of the LLC's income, gain, loss, deduction and credit may lack substantial economic effect and may be reallocated among the Members in a manner different from that set forth in the Operating Agreement; (d) the federal income tax returns of the LLC might be subject to audit, in which event any adjustments to be made in the LLC's income, gains, losses, deductions, or credits would be made in a unified audit with regard to which Members would have little, if any, control; and (e) adverse changes in the federal income tax laws might occur, which could affect the LLC retroactively as well as prospectively.

EACH PROSPECTIVE MEMBER IS URGED TO SEEK CONSULTATION WITH SPECIFIC REFERENCE TO INDIVIDUAL TAX SITUATIONS AND POTENTIAL CHANGES IN THE APPLICABLE LAW.

No IRS Ruling or Opinion of Legal Counsel

The LLC will not request a ruling from the IRS with respect to any tax issues concerning the LLC, including but not limited to whether the LLC will be classified as a "partnership" for federal income tax purposes, or any issues concerning an investment in the LLC. Furthermore, the LLC will not obtain an opinion of counsel with respect to any of the tax issues concerning the LLC or an investment in the LLC.

LLC Tax Status

The Members will be entitled to deduct their distributive share of any LLC tax deductions, and to include in income their distributive share of any LLC income or gains, only if the LLC is classified as a "partnership" rather than a "corporation" for federal income tax purposes. If it is recognized as a "partnership" for tax purposes, the LLC will not be subject to federal income tax on any of its taxable income, and all LLC income, gains, losses, deductions and credits will pass through to the Members and will be taxable only once to the Members themselves. On the other hand, if the LLC were to be

classified as an "association" taxable as a corporation, the LLC would be subject to federal income tax on its taxable income at the tax rates applicable to corporations, and the Members would not be allowed to claim any LLC tax credits or deduct any LLC operating losses on their individual returns. Consequently, classification of the LLC as a partnership for federal income tax purposes will enable the Members to secure the anticipated tax benefits of their investment in the company.

Federal Taxation of Limited Liability Companies and Members

A limited liability company is treated as a partnership for tax purposes, unless, as discussed above, it is classified as an "association" taxable as a corporation. For purposes of this discussion, it is assumed the LLC will be classified as a partnership for federal income tax purposes. As such, the LLC incurs no federal income tax liability. Instead, all Members are required to report on their own federal income tax returns their distributive share of the LLC's income, gains, losses, deductions and credits for the taxable year of the LLC ending with or within each Member's taxable year, without regard to any LLC distributions.

Taxation of Undistributed LLC Income (Individual Investors)

Under the laws pertaining to federal income taxation of partnerships, no federal income tax is paid by the LLC as an entity. Each individual member reports on his, her, or its federal income tax return his, her, or its distributive share of LLC income, gains, losses, deductions and credits, whether or not any actual distribution is made to such member during a taxable year. Each individual member may deduct his, her, or its distributive share of LLC losses, if any, to the extent of the tax basis of his, her, or its Membership Interests at the end of the LLC year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the member as it was for the LLC. Since individual members will be required to include LLC income in their personal income without regard to whether there are distributions of LLC income, such Investors will become liable for federal and state income taxes on LLC income even though they have received no cash distributions from the LLC with which to pay such taxes.

Distributions of Income

To the extent cash distributions exceed the current and accumulated earnings and profits of the LLC, they will constitute a return of capital, and each Member will be required to reduce the tax basis of his, her, or its Membership Interests by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Membership Interests. Such distributions will not be taxable to Members as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Membership Interests.

LLC Allocations

A Member's distributive share of LLC income, gains, deductions, losses and credits for federal income tax purposes is generally determined in accordance with provisions of the Operating Agreement. However, the IRS may reallocate such items if an allocation in the Operating Agreement does not have "substantial economic effect" and is in accordance with the Member's respective "economic interest" in the LLC.

The IRS has issued regulations to determine whether an allocation has "substantial economic effect," or if it is in accordance with the Member's respective "economic interests" in the LLC. In general, an allocation of income, gain, loss or deduction, or an item thereof, to a Member has economic effect if, and only if: (a) the allocation is properly reflected in that Member's capital account and such capital account is maintained in accordance with the regulations; (b) liquidation proceeds are to be distributed in accordance with the Member's positive capital account balances; and (c) either: (i) any Member with a deficit in its capital account following the distribution of liquidation proceeds must restore the amount of such deficit to the LLC by the later of either the end of the taxable year of the liquidation or ninety (90) days after the liquidation, or (ii) the Operating Agreement must contain "qualified income offset" and “minimum gain charge back" provisions applicable to the Members.

The Operating Agreement does not require Members to restore deficit balances in their capital accounts. However, the Operating Agreement does contain provisions that are believed to meet the requirements for "qualified income offset" and "minimum gain charge back" provisions.

In order for the economic effect of an allocation to be considered substantial, the Treasury regulations require that the allocations must have a reasonable possibility of substantially affecting the dollar amounts to be received by the Members, independent of tax consequences. In applying the substantiality test, tax consequences that result from the interaction of the allocation with such Members tax attributes that are unrelated to the LLC must be taken into account.

Limitations on Deduction of Losses

Adjusted Basis: The adjusted basis of a Member's interest in the LLC is equal to the amount of cash or the adjusted basis of any property which that Member contributes to the LLC: (a) increased by that Member's share of LLC liabilities, if any; (b) decreased (but not below zero) by distributions to the Member from the LLC (including constructive cash distributions resulting from a decrease in LLC liabilities); (c) decreased by the Member's allocable share for the taxable year and prior taxable years, of the LLC's losses; and (d) increased by that Member's allocable share for the taxable year and prior taxable years of the LLC's income.

Under certain circumstances, Members may include a portion of certain LLC liabilities in their basis. The LLC does not presently intend to borrow funds from any Member. In general, LLC recourse liabilities are shared by the Members in the same manner as they share LLC losses, and LLC non-recourse liabilities are shared by the Members in the same manner as they share LLC profits. An LLC liability is a recourse liability to the extent that one or more Members bears the economic risk of loss for such liability. An LLC liability is a non-recourse liability to the extent that no Member bears the economic risk of loss for such liability. It is not known at this time if the LLC will incur any recourse liabilities or any non-recourse liabilities.

If a Member's allocable share of an LLC loss for any LLC taxable year exceeds the Member's adjusted basis in his, her, or its interest in the LLC at the end of that taxable year, such excess may not be deducted at that time but may be carried over and deducted in any later year in and to the extent that, the Member's adjusted basis in his, her, or its interest in the LLC at the end of the later taxable year exceeds zero.

At-Risk Rules: In addition to the adjusted basis limitation, a Member's ability to deduct LLC losses is further limited by the at-risk rules. These rules, which only apply to individuals and certain closely held corporations, allow a Member to deduct losses from an at-risk activity only to the extent of the Member's amount at-risk with respect to such activity at the close of the taxable year. Each Member will be considered at-risk with respect to that Member's initial cash capital contribution to the LLC. A Member generally is not considered to be at-risk for LLC liabilities with respect to which the Member has no personal liability.

A Member will only be considered at-risk for LLC indebtedness to the extent that the Member is personally liable for repayment of such indebtedness or the Member pledged certain property as security for the repayment of such indebtedness. Also, in case of certain real property holding activities, a Member will be considered at-risk for qualified non-recourse financing as defined in the Code. Each Member's initial amount at-risk for their interest in the LLC will be limited to such Member's initial cash capital contribution to the LLC. If a Member borrows the money to fund a capital contribution to the LLC, the Member should consult his, her, or its own tax advisor regarding the possible tax consequences of such borrowing under the at-risk rules.

Passive Loss Rules: In addition to the adjusted basis limitation and at-risk rules, the ability of a Member that is an individual or a closely held corporation to deduct a share of LLC losses is further limited by the passive loss rules. These rules provide that passive activity losses can only be deducted

against passive activity income and cannot be deducted against income from other sources. A passive activity is any activity which involves the conduct of any trade or business and in which the taxpayer does not materially participate. Depending on their individual situations, Members may or may not be considered to materially participate in the management of the LLC, and the income and losses from the LLC may or may not be treated as income or loss from a passive activity. Since the impact of the passive loss rules will vary from Member to Member, all Members should consult their own tax advisor regarding this matter.

Profit Objective of the LLC

Deductions will be disallowed if they result from activities not entered into for profit to the extent that such deductions exceed an amount equal to the greater of: (a) the gross income derived from the activity; or (b) deductions (such as interest and taxes) that are allowable in any event.

The applicable Treasury regulations indicate a transaction will be considered as entered into for profit where there is an expectation of profit in the future, either of a recurring type or from the disposition of property. In addition, the Code provides, among other things, an activity is presumed to be engaged for profit if the gross income from such activity for three (3) of the five (5) taxable years ending with the taxable year in question exceeds the deductions attributable to such activity. It is anticipated that the company will satisfy this test.

Portfolio Income

The LLC's primary source of income will be interest, which is ordinarily considered "portfolio income" under the Internal Revenue Code ("Code"). Similarly, Temporary Regulations issued by the Internal Revenue Service in 1988 (Temp. Reg. Section 1.4692T(f)(4)(ii)) confirmed that net interest income from an equity financed lending activity such as the LLC will be treated as portfolio income, not as passive income, to Members. Therefore, Investors in the LLC will not be entitled to treat their proportionate share of LLC income as passive income, against which passive losses (such as deductions from unrelated real estate investments) may be offset.

Property Held Primarily for Sale: Potential Dealer Status

The LLC has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the LLC were at any time deemed for federal tax purposes to be holding one or more LLC loans primarily for sale to customers in the ordinary course of business (a "dealer"), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The federal income tax rates for ordinary income are currently higher than those for capital gains. In addition, income from sales of loans to customers in the ordinary course of business would also constitute unrelated business taxable income to any Investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all the relevant facts and circumstances. The LLC intends to make and hold the LLC loans for investment purposes only, and to dispose of LLC loans, by sale or otherwise, at the discretion of the Manager and as consistent with the LLC's investment objectives. It is possible that, in so doing, the LLC will be treated as a "dealer" in mortgage loans, and that profits realized from such sales will be considered unrelated business taxable income to otherwise tax-exempt Investors in the LLC.

Unrelated Business Taxable Income

DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS, HER, OR ITS PROSPECTIVE INVESTMENT.

The following summary constitutes only a general discussion of certain aspects of unrelated business taxable income as it applies to Qualified Plans and other tax-exempt entities. A detailed analysis of ERISA considerations of an investment in the LLC is beyond the scope of this discussion.

Membership Interests may be offered and sold to certain tax-exempt entities (if such as qualified pension or profit sharing plans or other tax exempt entities qualified under ERISA) that otherwise meet the Investor suitability standards described elsewhere in this Memorandum. (See "Investor Suitability Standards") Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income," as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Membership Interests will be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the LLC. Interest income (which will constitute the primary source of LLC income) does not constitute an item of unrelated business taxable income, except to the extent it is derived from debt financed property.

Rents from real property and gains from the sale or exchange of property are also excluded from unrelated business taxable income, unless the property is held primarily for sale to customers or is acquired or leased in certain manners described in Section 514 (c) (9) of the Code. Therefore, unrelated business taxable income may also be generated if the LLC operates or sells at a profit any property that has been acquired through foreclosure on a LLC loan, but only if such property (1) is deemed to be held primarily for sale to customers, or (2) is acquired from or leased to a person who is related to a tax-exempt Investor in the LLC.

The trustee of any trust that purchases Membership Interests in the LLC should consult with his, her, or its tax advisors regarding the requirements for exemption from federal income taxation and the consequences of failing to meet such requirements, in addition to carefully considering his, her, or its fiduciary responsibilities with respect to such matters as investment diversification and the prudence of particular investments.

Sale of Membership Interests

Because the LLC may report income on the accrual basis and not distribute all earnings to Members because of cash flow considerations, the sale by Members of their interests in the LLC generally may result in a capital gain (or loss). This is because any gain attributable to a Member's share of the LLC's unrealized receivable or inventory items that have substantially appreciated in value may be reflected in such Member's capital account balance. Any distributions as a result of events such as these will be taxed as ordinary income. In the event of a sale or transfer of an interest in the LLC by a Member, the distributive share of LLC income, gain, loss, deduction or credit for the entire interest would be allocated between the transferor and the transferee.

In the unlikely event that fifty percent (50%) or more of the total number of Membership Interests outstanding are sold or exchanged within any consecutive twelve (12) month period, the LLC would be considered terminated for federal income tax purposes. A termination of the LLC for federal income tax purposes would cause the LLC's taxable year to end with respect to all Members and could have potentially adverse federal income tax consequences, including a change in the adjusted tax basis of LLC property and the bunching of taxable income within one taxable period. The LLC is empowered, by the Operating Agreement, to prohibit any transfer of interest in the LLC that would cause such termination.

Liquidation of the LLC

Upon liquidation of the LLC, any gain or loss recognized by reason of a distribution to the Members will be considered as gain or loss from the sale exchange of a capital asset, except to the extent of unrealized receivable and substantially appreciated inventory items. Members will recognize gain on the distribution only to the extent any money received, including a reduction in a Member's share of LLC liabilities for which no Member is personally liable, exceeds the Member's adjusted basis of its interest in the LLC. Loss will not be recognized except under certain limited circumstances. A loss may be recognized as a result of offsetting the capitalized syndication fees of the LLC against the liquidation proceeds. Generally, the basis to a Member of any property distributed in-kind is its adjusted basis for its Membership interest, less any money received in the distribution.

Alternative Minimum Tax

Individual Members may be subject to the alternative minimum tax, which increases a Member's tax liability to the extent the Member's "Alternative Minimum Tax" exceeds his, her, or its regular income tax (less certain credits) for the year. The amount of alternative minimum tax liability (if any) for a Member will depend on such Member's income, gain, deduction, loss, credit and tax preference from sources other than the LLC and the interaction of these items with such Member's share of LLC income, gain, loss, deduction, credit and tax preference in determining a Members alternative minimum taxable income. The passive loss limitation rules discussed above will apply to income, gain, deductions, loss and credits from LLC sources in the same manner as in determining his, her, or its regular taxable income.

BECAUSE OF THE COMPLEXITY OF THE COMPUTATION OF THE ALTERNATIVE MINIMUM TAX, PROSPECTIVE MEMBERS ARE URGED TO CONSULT THEIR PERSONAL TAX ADVISORS WITH REGARD TO THE IMPACT OF THE ALTERNATIVE MINIMUM TAX ON THEIR TAX SITUATIONS.

Election to Step Up the Basis of its Assets when Members Sell Their Membership Interests in the LLC

When Members sell or exchange Membership Interests, the Transferee Members may have an adjusted basis in the Membership Interests equal to their cost. The LLC does not automatically adjust the tax basis of its property to reflect the change in the Transferee Member's adjusted basis for his, her, or its Interest. However, the LLC may elect, in its sole discretion, upon a sale or exchange of a Member's Interest in the LLC, to adjust the tax basis of LLC property only for purposes of determining the Transferee Member's share of depreciation and gain or loss from the LLC. The general effect of such an election is that the Transferee Members are treated, for purposes of depreciation and gain or loss, as though they had acquired a direct Interest in the LLC assets, and therefore a new cost basis for such assets. Any such election, once made, cannot be revoked without the consent of the IRS. If the LLC chooses not to make the aforementioned election, a Transferee Member may be at a disadvantage in selling their Interest in the LLC since the Transferee ordinarily would obtain no current tax benefit for the excess, if any, of the cost of such Interest over the Transferee's share of the LLC's adjusted basis in its assets.

LLC Audits: The Tax Treatment of LLC Items and Penalties

The tax treatment of all LLC items of income, expense, gain or loss will be determined at the LLC level in a consolidated proceeding rather than in separate proceedings with the Members. A determination by the IRS in proceedings at the LLC level is referred to as a final administrative adjustment ("FAA"). When a FAA is made, the IRS must initially send notice to a "Tax Matters Partner." The LLC believes that in the context of a limited liability company, the IRS will recognize the Manager as the appropriate person to serve in that capacity. The Operating Agreement designates the Manager as Tax Matters Partner, but gives the Manager the authority to designate another person. The IRS also has such authority. Generally, notice to the Members must be mailed within sixty (60) days after the mailing of notice to the Tax Matters Partner. Every Member is entitled to participate in the IRS administrative proceedings at the LLC level. If a settlement is reached with one or more Members, it is binding on them. All other Members shall be entitled to settle on the same terms if they so request. A Member will not be bound by the Tax Matters Partner's settlement agreement if the Member files a statement, within a period to be prescribed by the Secretary of the Treasury, stating that the Tax Matters Partner does not have the authority to enter into a settlement with the IRS on his, her, or its behalf. In general, no person other than the Tax Matters Partner may bind any Member with respect to a settlement agreement with the IRS. Also, the LLC and its Members may choose to litigate an assessment of tax made under the IRS FAA procedures.

While the IRS will ordinarily be required to initiate proceedings against the LLC and not against an Individual Member, such requirement is waived with respect to any Member whose treatment of an item on his, her, or its individual return is inconsistent with the treatment of that item on the LLC's tax

return, unless the Member files a statement with the IRS identifying the inconsistency. In the absence of such a disclosure, the IRS may, without sending the Member a deficiency notice, assess and collect the additional tax necessary to make the Members treatment of the item consistent with the LLC's treatment of the item.

If a deficiency is determined as the result of an audit, each Member will be liable for payment of his, her, or its share of the deficiency, plus compound interest at the then applicable interest rate. Interest on tax deficiencies is generally non-deductible. If a deficiency is determined as the result of an audit, Members may be subject to the "Accuracy related penalty" on all or a portion of the deficiency. The amount of the accuracy related penalty is twenty percent (20%) of any underpayment attributable, among other things, to: (a) negligence or intentional disregard of rules or regulations; (b) a substantial underpayment of tax, or (c) a substantial valuation overstatement.

This penalty does not apply if the Member can show there was reasonable cause for the underpayment and the Member acted in good faith with respect to the underpayment. In the case of a deficiency attributable to a substantial underpayment, the penalty also does not apply to the extent the Member had "substantial authority" for the position taken on the tax return or the facts relevant to that position were adequately disclosed on the Members return or in a statement attached to the return.

Organization Expenses

Amounts paid or incurred to organize the LLC ("Organization Costs") are not currently deductible. However, the Manager has elected to incur the Organization Costs of the LLC. When the assets of the LLC reach a certain amount, the Manager may be reimbursed by the LLC for the Organization Costs if otherwise provided in this Memorandum.

Tax Returns

The LLC intends to retain a certified public accounting firm to prepare and review the LLC's annual federal information tax return, including Schedule K-1, which the LLC will issue to all Members, and other tax returns the LLC may be required to file. The Schedule K-1 will provide the Members with the information regarding the LLC that the Members will need to prepare and file their own tax returns.

Method of Accounting

The LLC will report its income for federal income tax reporting purposes using the accrual method of accounting. Under the accrual method, income is reportable in the year when earned, whether or not it has actually or constructively been received, and expenses are deductible in the year in which all events have occurred that determine the fact of the LLC's liability, the amount of the liability is determinable with reasonable accuracy and "economic performance" (as defined in the Code) has occurred.

Tax Shelter Registration

The Manager has determined the LLC is not a tax shelter under the applicable tax shelter registration rules. Accordingly, the Manager will not register the LLC with the IRS as a tax shelter.

Tax Law Subject to Change

Frequent and substantial changes have been made and will likely continue to be made, to the federal income tax laws. The changes made to the tax laws by legislation are pervasive and, in many cases have yet to be interpreted by the IRS or the courts.

State and Local Taxes

A detailed analysis of the state and local tax consequences of an investment in the LLC is beyond the scope of this discussion. Prospective Members are advised to consult their own tax counsel regarding these consequences and the preparation of any state or local tax returns that a Member may be required to file.

ERISA CONSIDERATIONS

General

The Employee Retirement Income Security Act of 1974 ("ERISA") contains strict fiduciary responsibility rules governing the actions of "fiduciaries" of employee benefit plans. It is anticipated that some Members will be corporate pension or profit sharing plans, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Membership Interests will be a "fiduciary" of such plan and will be required to conform to ERISA's fiduciary responsibility rules.

DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS, HER, OR ITS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS, HER, OR ITS PROSPECTIVE INVESTMENT.

Prudent Man Standard

Persons making investment decisions for employee benefit plans (i.e., "fiduciaries") must discharge their duties with the care, skill and prudence which a prudent man familiar with such matters would exercise in like circumstances. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (See "Income Tax Considerations"), as well as the percentage of plan assets which will be invested in the LLC insofar as the diversification requirements of ERISA are concerned. An investment in the LLC is non-liquid, and fiduciaries must not rely on an ability to convert an investment in the LLC into cash in order to meet liabilities to plan participants who may be entitled to distributions.

FAILURE TO CONFORM TO THE PRUDENT MAN STANDARD MAY EXPOSE A FIDUCIARY TO PERSONAL LIABILITY FOR ANY RESULTING LOSSES.

Annual Valuation

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan's fiscal year. The Manager will provide annually upon the written request of a Member an estimate of the value of the Membership Interests based upon, among other things, outstanding mortgage investments; however, it may not be possible to value the Membership Interests adequately from year to year, because there will be no market for them.

ADDITIONAL INFORMATION AND UNDERTAKINGS

The Manager undertakes to make available to each offeree every opportunity to obtain any additional information from the LLC or the Manager necessary to verify the accuracy of the information contained in this Memorandum, to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes, without limitation, all the organizational documents of the LLC, recent financial statements for the Manager and all other documents or instruments relating to the operation and business of the LLC and material to this Offering and the transactions contemplated and described in this Memorandum.

Adjustment of Holdings

Allocations of profit, gain and loss in the LLC are made, as required by law, in proportion to the Members' ownership interests in the LLC. Voting rights are based upon Members' ownership percentage in the LLC.

Accounting and Reports

Annual reports concerning the LLC's business affairs, including the LLC's annual income tax return, will be provided to Members who request them in writing. Each Member will receive his, her, or its respective K-1 Form.

The Manager presently intends to maintain the LLC's books and records on the accrual basis for bookkeeping and accounting purposes, and also intends to use the accrual basis method of reporting income and losses for federal income tax purposes. The Manager reserves the right to change such methods of accounting, upon written notice to Members. Any Members may inspect the books and records of the LLC at all reasonable times upon thirty (30) days written notice. Interest and fees are accrued on each loan unless the Manager determines it is in the best interests of the LLC to not accrue interest on a specific loan.

Withdrawal, Redemption Policy and Other Events of Dissociation

A Member may withdraw as a Member of the LLC and may receive a return of capital provided that the following conditions have been met: (i) the Member has been a Member of the LLC for a period of at least twelve (12) months; and (ii) the Member provides the LLC with a written request for a return of capital at least 30 days prior to such withdrawal. The LLC will use its best efforts to honor requests for a return of capital subject to, among other things, the LLC's then cash flow, financial condition, and prospective loans. Redemption will be honored on a first come first serve basis unless the Manager decides that pro-rata basis is better in the given situation. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal or redemptions requirements if a Member is experiencing undue hardship.

Exhibit A: Updates and Disclosures

Line of Credit: In 2015, the Fund's $2,250,000 line of credit had an average outstanding balance of approximately $750,000. The Line of Credit had a $0 balance as of 12/31/15. The line of credit is used to bridge the gap between liquidity (investor deposits and loan payoffs) and new loans going out.

Financial Review: Mah & Associates LLP of San Francisco, CA, provides the Tax Return and K1s for the LLC. Armanino LLP of San Francisco, CA, conducts the Compiled Financials (required by the Bank for the Line of Credit).

Licensing & DBA: The LLC incurred expenses in 2015 related to a CFL License. If/when the new License is approved, the LLC will originate loans directly with the CFL License or with the Manager's BRE License: 01870147.

Hamilton Ridge Asset Management, Inc. operates under DBA Hamilton Ridge Capital.

Portfolio Performance 2015: The LLC has no REO in the portfolio and has never foreclosed on a loan, but at any given time the LLC usually has one or two loans requiring special servicing and management: late payments, maturity defaults, project delays, etc. The Manager handles this directly until the asset sells or the borrower refinances.

Below are two examples of loans that required special servicing in 2015: a) One loan was extended twice. After slow progress this note was called due and the borrower agreed to extension penalties and paid off in the 3rd quarter of 2015. b) Another loan matured in late 2015 and the LLC called the note due and a NOD was filed. The borrower filed bankruptcy for the borrowing entity in December 2015. A

bankruptcy and default can create increased default interest, or burden the LLC's performance with idle capital and fees (see "Bankruptcy Laws"). The Manager is awaiting the Trustee notification if we can pursue foreclosure on the asset or negotiate a workout until the borrower can refinance. As of 12/31/15, all other loans in the portfolio were current. The Members can contact the Manager at any time to receive a summary of the portfolio or request any docs related to the portfolio of loans.

Waived Compensation related to True LLC Performance: The Manager often does not take the full management fee. The Manager generally takes a rounded number slightly below the max fee allowed and waives a nominal amount. If the full management fee is taken the true performance of the LLC for the Members would drop a small fraction of a percent.

The Manager is entitled to reimbursement of any and all operating expenses incurred on behalf of the LLC (p.49). The Manager often takes a flat fee of $875 per month as a portion of office rent and overhead and generally waives reimbursement of nominal daily operating costs related to the LLC. If the full overhead costs were reimbursed to the Manager, the true performance of the LLC would drop a small percentage.

Servicer: The LLC employs FCI Lender Services the third-party servicer. The servicer handles all payments of principal and interest for the LLC as well as non-essential borrower communication.

Treatment and Accrual of Origination Points/Income: The LLC earns origination fees either when the loan funds or when it pays off. The origination fees are realized over a fully amortized schedule. For example, a 12 month loan is often 12 months plus the partial month when the loan was Funded. Therefore the LLC begins the amortization schedule of fees the 1st month after the partial month of funding.

This origination fee schedule is accelerated when a loan pays off (ie, the remaining amortized income is earned in the month the loan pays off). A loan is considered paid off when the entire loan balance is received by the Servicer.

LIMITED LIABILITY COMPANY OPERATING AGREEMENT
of
THE CAVALLINO FUND, LLC
A California limited liability company

This Limited Liability Company Operating Agreement ("Agreement") of THE CAVALLINO FUND, LLC ("LLC") is among HAMILTON RIDGE ASSET MANAGEMENT, a Nevada corporation (the "Initial Member" and "Manager"), and each of the additional Persons who become Members in accordance with the provisions of this Agreement. Any capitalized terms used herein but not defined herein shall have the meaning ascribed to them in the Private Placement Memorandum dated as of January 1, 2016 (the "Memorandum").

RECITALS

The LLC is a limited liability company formed under the BeverlyKillea Limited Liability Company Act. The other parties to this Agreement are the LLC's Initial Member and those additional Persons who are subsequently admitted as Members in accordance with the provisions of this Agreement. The parties intend by this Agreement and the terms of the Memorandum to define their rights and obligations with respect to the LLC's governance and financial affairs and to adopt regulations and procedures for the conduct of the LLC's activities. Accordingly, for good and valuable consideration, the receipt and sufficiency of which is mutually acknowledged, the parties agree as follows:

ARTICLE 1: DEFINITIONS

1.1 **Scope.** For purposes of this Agreement, unless the language or context clearly indicates that a different meaning is intended, capitalized terms have the meanings specified in this Article.

1.2 **Defined Terms.**

(a) "Act" means the BeverlyKillea Limited Liability Company Act.

(b) "Affiliate", with respect to a Person, means (1) a Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Person, (2) a Person who owns or controls at least ten percent (10%) of the outstanding voting interests of the Person, (3) a Person who is an officer, director, manager or general partner of the Person, or (4) a Person who is an officer, director, manager, general partner, trustee or owns at least ten percent (10%) of the outstanding voting interests of a Person described in clauses (1) through (3) of this sentence.

(c) "Agreement" means this agreement, including any amendments.

(d) "Articles" means the Articles of Organization filed with the Secretary of State to organize the LLC as a limited liability company, including any amendments.

(e) "Bankruptcy" means the filing of a petition seeking liquidation, reorganization, arrangement, readjustment, protection, relief or composition in any state or federal bankruptcy, insolvency, reorganization or receivership proceeding.

(f) "Capital Account" of a Member means the capital account maintained for the Member in accordance with Article 4.

(g) "Capital Investment" of a Member means a Member's original capital investment less any return of capital plus any additions to capital.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Contribution" means anything of value that a Member contributes to the LLC as a prerequisite for, or in connection with, membership including any combination of cash, property, services rendered, a promissory note or any other obligation to contribute cash or property or render services.

(j) "Dissociation" means a complete termination of a Member's membership in the LLC due to an event described in Article 3.

(k) "Distribution" means the LLC's direct or indirect transfer of money or other property to a Member with respect to a Membership Interest.

(l) "Effective Date" means the date on which the LLC's existence as a limited liability company begins, as prescribed by the Act.

(m) "Entity" means an association, relationship or artificial person through or by means of which an enterprise or activity may be lawfully conducted, including, without limitation, a partnership, trust, limited liability company, corporation, joint venture, cooperative or association.

(n) "Family," with respect to a Member, means individuals who are related to the Member by blood, marriage or adoption. For the purposes of this definition, an individual is related to the Member by marriage if the person is related by blood or adoption to the Member's current spouse.

(0) "Initial Member" means the initial purchaser of Membership Interests.

(p) "Manager" means a Person who is vested with authority to manage the LLC in accordance with Article 5.

(q) "Member" means an Initial Member and any Person who is subsequently admitted as an additional or a substitute Member after the Effective Date, in accordance with Article 3.

(r) "Membership Interest" means a Member's percentage interest in the LLC, which consists of the member's right to share in profits, receive Distributions, participate in the LLC's governance, approve the LLC's acts, participate in the designation and removal of the Manager and receive information pertaining to the LLC's affairs. The Membership Interests of the Initial Members are set forth in Article 3. Changes in Membership Interests after the Effective Date, including those necessitated by the admission and Dissociation of Members, will be reflected in the LLC's records. The allocation of Membership Interests as reflected in the LLC's records from time to time is presumed to be correct for purposes of this Agreement and the Act.

(s) "Minimum Gain" means minimum gain as defined in Sections 1.7042(b)(2) and 1.7042(d) of the Regulations.

(t) "Net Profits" means the LLC's monthly gross income less the payment of the LLC's monthly operating expenses (such as Manager's Fees, amounts due by the LLC on any loans or lines of credit, audit costs and LLC taxes) and an allocation of income for a loan loss reserve. All distributions will be made on a monthly basis, in arrears.

(u) "Permitted Transferee", with respect to a Member, means another Member, a member of the Member's Family, or a trust for the benefit of the Member or a member of the Member's Family.

(v) "Person" means a natural person or an Entity.

(w) "Profit", as to a positive amount, and "Loss", as to a negative amount, mean, for a Taxable Year, the LLC's income or loss for the Taxable Year, as determined in accordance with accounting principles appropriate to the LLC's method of accounting and consistently applied.

(x) "Regulations" means proposed, temporary or final regulations promulgated under the Code by the U.S. Department of the Treasury, as amended.

(y) "Taxable Year" means the LLC's taxable year as determined in Article 6.

(z) "Transfer," as a noun, means a transaction or event by which ownership of any Membership Interest is changed or encumbered, including, without limitation, a sale, exchange, abandonment, gift, pledge or foreclosure. "Transfer," as a verb, means to affect a Transfer.

(aa) "Transferee" means a Person who acquires any Membership Interest by Transfer from Member or another Transferee not admitted as a Member in accordance with Article 3.

ARTICLE 2: THE LLC

2.1 **Status.** The LLC is a California limited liability company organized under the Act.

2. **Name.** The LLC's name is THE CAVALLINO FUND, LLC.

2.3 **Term.** The LLC's existence as a limited liability company will commence on the Effective Date and continue until December 31, 2039, unless sooner dissolved or terminated under the Act or as described herein. At the sole discretion of the Manager, the LLC's term of existence may be extended for up to ten (10) years at the sole discretion of the Manager. Any further extensions will require the vote of the Members holding at least a majority of the Membership Interests.

2.4 **Purpose.** The purpose of the LLC is to engage in business as a mortgage lender for the purpose of making and arranging residential (including mixed-use, covered loans, and HELOCs), commercial, and construction loans to the general public, acquiring existing loans, and selling loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States. The LLC may take any action incidental and conducive to the furtherance of that purpose.

2.5 **Principal Place of Business.** The LLC's principal place of business is located at: 111 N. Market Street, Ste. 300, San Jose, CA 95113.

2.6 **Registered Agent and Registered Office.** The LLC's registered office in California is located at: 111 N. Market Street, Ste. 300, San Jose, CA 95113, and its registered agent at that location is David Bianco. The LLC may change its registered agent or registered office at any time.

ARTICLE 3: MEMBERSHIP

3.1 **Identification.**

(a) Membership. The Manager will be the initial Member, having made an initial contribution of One-Hundred Thousand Dollars ($100,000). Upon admission of additional Members, as set forth below, the Manager may withdraw, and the LLC will redeem its capital contribution. Nothing contained herein shall be deemed to prohibit the Manager from increasing its interest in the LLC on the same basis as any other person.

(b) Additional and Substitute Members. The LLC may admit additional or substitute Members with the sole approval of the Manager. Except as set forth herein, the Manager may withhold approval of the admission of any Person for any or no reason. The Manager will not permit any person to become a member until such person has agreed to be bound by all the provisions of this Operating Agreement as amended as of the date of the proposed admission, and the terms of the Memorandum, and has delivered to the LLC a completed Subscription Agreement along with a check in the amount of such investment.

(c) Rights of Additional or Substitute Members. A Person admitted as an additional or substitute Member has all the rights and powers, and is subject to all the restrictions and obligations of a Member under this Agreement and the Act.

3.2 **Withdrawal.** A Member may withdraw as a Member of the LLC and may receive a return of capital provided that the following conditions have been met: (i) the Member has been a Member of the LLC for a period of at least twelve (12) months; and (ii) the Member provides the LLC with a written request for a return of capital at least 30 days prior to such withdrawal. The LLC will use its best efforts to honor requests for a return of capital subject to, among other things, the LLC's then cash flow, financial condition, and prospective loans. Redemption will be honored on a first come first serve basis unless the Manager decides that pro-rata basis is better in the given situation. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal or redemptions requirements if a Member is experiencing undue hardship.

3.3 **Restrictions on Transfer.**

(a) Restrictions on Transfer. A Member may Transfer his, her or its Membership Interest only in compliance with this Article. Restrictions have been placed upon the ability of Investors to resell or otherwise dispose of any Membership interests purchased hereunder including, without limitation, the following:

(1) The Membership Interests have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions provided for under Section 4(2) and Regulation D thereunder.

(2) There is no public market for the Membership Interests and none is expected to develop in the future. Even if a potential buyer could be found, Membership Interests may not be resold or transferred without satisfying certain conditions designed to comply with applicable tax and securities laws, including, without limitation, provisions of the Act, Rule 144 thereunder, and the requirement that certain legal opinions be provided to the Manager with respect to such matters. A transferee must meet the same investor qualifications as the Members admitted during the Offering Period. Investors must be capable of bearing the economic risks of this investment with the understanding that Membership Interests may not be liquidated by resale or redemption and should expect to hold their Membership Interests as a long-term investment.

(3) A legend will be placed upon all instruments evidencing ownership of Membership Interests in the LLC stating that the Membership Interests have not been registered under the Securities Act of 1933, as amended, and set forth the foregoing limitations on resale. Notations regarding these limitations shall be made in the appropriate records of the LLC with respect to all Membership Interests offered hereby. The LLC will charge a minimum transfer fee of Five Hundred Dollars ($500) per transfer of ownership. If a Member transfers Membership Interests to more than one person, except transferees who will hold title together, the transfer to each person will be considered a separate transfer.

(b) Null and Void. An attempted Transfer of all or a portion of a Membership Interest that is not in compliance with this Article will be null and void. No Membership Interest may be transferred if, in the judgment of the Manager, a transfer would jeopardize the availability of

exemptions from the registration requirements of federal securities laws, jeopardize the tax status of the LLC as a LLC or, cause a termination of the LLC for federal income tax purposes.

(c) Permitted Transfers. A Member may at any time Transfer one or more Membership Interest to a Permitted Transferee if, as of the date the Transfer takes effect, the LLC is reasonably satisfied that all of the following conditions are met: (1) the conditions listed above have been met; (2) the Transferee is a person with the same qualifications as the original Member; (3) the Transfer, alone or in combination with other Transfers, will not result in the LLC's termination for federal income tax purposes; (4) the Transfer is the subject of an effective registration under, or exempt from the registration requirements of, applicable state and federal securities laws; (5) the LLC receives from the Transferee the information and agreements reasonably required to permit it to file federal and state income tax returns and reports; and (6) the LLC receives payment from the Transferee of a transfer fee of Five Hundred Dollars ($500) for each Transferee.

(d) Transferor's Membership Status. If a Member Transfers less than all of his, her, or its Membership Interest, the Member's rights with respect to the transferred portion of the Membership Interest, including the right to vote or otherwise participate in the LLC's governance and the right to receive Distributions, will terminate as of the effective date of the Transfer. However, the Member will remain liable for any obligation with respect to the transferred portion that existed prior to the effective date of the Transfer, including any costs or damages resulting from the Member's breach of this Agreement. If the Member Transfers all of his, her or its Membership Interest, the Transfer will constitute an event of Dissociation.

(e) Transferee's Status.

(1) Admission as a Member. A Member who Transfers one or more Membership Interests has no power to confer on the Transferee the status of a Member. A Transferee may be admitted as a Member only in accordance with the provisions of this Article. A Transferee who wishes to become a Member must make application in writing to the LLC and provide evidence, as requested by the LLC, of compliance with all conditions to admission, as set forth above. Prior to admission, each proposed member must execute and deliver a counterpart of this Agreement, as amended to date, or a separate written agreement to be bound hereby. The LLC shall not without cause refuse the application for membership of a Transferee who has complied with all the provisions of this Agreement.

(2) Rights of NonMember Transferee. A Transferee who is not admitted as a Member in accordance with the provisions of this Article: (i) has no right to vote or otherwise participate in the LLC's governance; (ii) is not entitled to receive information concerning the LLC's affairs or inspect the LLC's books and records; (iii) with respect to the transferred Membership Interests, is entitled to receive the Distributions to which the Member would have been entitled had the Transfer not occurred; and (iv) is subject to the restrictions imposed by this Article to the same extent as a Member. Any provision of the Agreement permitting or requiring the Members to take action by vote or written approval of a specified percentage of the Membership Interests shall be deemed to mean only Membership Interests then owned by Members.

3.4 **Expulsion of a Member.** At any time there are more than two (2) Members, the LLC may expel a Member, but only for cause. Cause for expulsion exists if the Member has materially breached or is unable to perform the Member's material obligations under this Agreement. A Member's expulsion from the LLC will be effective upon the Member's receipt of written notice of the expulsion.

3.5 **Return of Capital.** The LLC may return all or a portion of a Member's capital at the Manager's discretion. Any such return of capital would not be considered a distribution and would not be included in the determination of such Member's return on investment.

3.6 **Upon Dissociation.** Upon the occurrence of any such event described in this Article (an event of "Dissociation"): (1) the Member's right to participate in the LLC's governance, receive information concerning the LLC's affairs and inspect the LLC's books and records will terminate; and (2) unless the Dissociation resulted from the Transfer of the Member's Membership Interests, the Member will be entitled to receive the Distributions to which the Member would have been entitled as of the effective date of the Dissociation had the Dissociation not occurred. The Member will remain liable for any obligation to the LLC that existed prior to the effective date of the Dissociation, including any costs or damages resulting from the Member's breach of this Agreement. Under most circumstances, the Member will have no right to any return of his or her capital prior to the termination of the LLC unless the Manager elects to return capital to a Member. The effect of such Dissociation on the remaining Members who do not sell will be to increase their percentage share of the remaining assets of the LLC, and thus their proportionate share of its future earnings, losses and distributions. The reduction in the outstanding Membership Interests will also increase the relative voting power of remaining Members.

3.7 **Verification of Membership Interests.** Within thirty (30) days after receipt of a Member's written request, the LLC will provide such Member with a statement evidencing his, her, or its Membership Interest in the LLC.

3.8 **Manner of Action by Members.**

(a) Meetings.

(1) Right to Call. The Manager, or any combination of Members holding in the aggregate more than twenty-five percent (25%) of the Membership Interest, may call a meeting of Members by giving written notice to all Members not less than thirty (30), or more than sixty (60) days prior to the date of the meeting. The notice must specify the date, time and place of the meeting and the nature of any business to be transacted. A Member may waive notice of a meeting of Members orally, in writing, or by attendance at the meeting.

(2) Time and Place. Unless otherwise specified in the notice of meeting, all meetings shall be held at 2:00 p.m. on a regular business day of the LLC, at the LLC's principal place of business. No meeting may be held on a Sunday or legal holiday; at a time that is before 7:30 a.m. or after 9:00 p.m.; or at a place more than sixty (60) miles from the LLC's principal place of business.

(3) Proxy Voting. A Member may act at a meeting of Members through a Person authorized by signed proxy.

(4) Quorum. Members whose aggregate holdings exceed a majority of the outstanding Membership Interests will constitute a quorum at a meeting of Members. No action may be taken in the absence of a quorum.

(5) Required Vote. Except with respect to matters for which a greater minimum vote is required by the Act or this Agreement, the vote of Members present whose aggregate holdings exceed a majority of the outstanding Membership Interests will constitute the act of the Members at a meeting of Members.

(b) Written Consent. The Members may act without a meeting by written consent describing the action and signed by Members whose aggregate holdings of the Membership Interest equal or exceed the minimum that would be necessary to take the action at a meeting at which all Members were present.

3.9 **Limitation on Individual Authority.** A Member who is not also the Manager has no authority to bind the LLC. A Member whose unauthorized act obligates the LLC to a third party will indemnify the LLC for any costs or damages the LLC incurs as a result of the unauthorized act.

3.10 **Negation of Fiduciary Duties.** A Member who is not also the Manager owes no fiduciary duties to the LLC or to the other Members solely by reason of being a Member.

3.11 **Resignation of a Member.** A Member may resign from the LLC at any time by giving written notice to the LLC at least sixty (60) days prior to the effective date of resignation.

ARTICLE 4: FINANCE

4.1 **Contributions.**

(a) Initial Member. The Initial Member will contribute a total of Twenty-Five Thousand Dollars ($25,000) to the capital of the LLC, thereby, purchasing a Membership Interest in the LLC.

(b) Additional Members. Upon raising the Minimum Offering Amount, investors' subscription funds will be released to the LLC and Membership Interests will be issued to such investors.

(c) Additional Contributions. The LLC may authorize additional Contributions at such times and on such terms and conditions as it determines to be in its best interest. Absent the LLC's authorization, no Member is permitted to make additional Contributions.

(d) Contributions Not Interest Bearing. A Member is not entitled to interest or other compensation with respect to any cash or property the Member contributes to the LLC.

4.2 **Allocation of Profit and Loss.** After giving effect to special allocations, if any, the LLC's Profit or Loss for a Taxable Year, including the Taxable Year in which the LLC is dissolved, will be allocated among the Members in proportion to their ownership interests in the LLC during the applicable tax reporting period.

3. **Tax Allocations.** For federal income tax purposes, unless the Code otherwise requires, each item of the LLC's income, gain, loss or deduction will be allocated to the Members in proportion to their allocations of the LLC's Profit or Loss.

4.4 **Quarterly Distributions.**

(a) After six months, the Manager can distribute the LLC's accrued Net Profits, to the extent that there is cash available and provided that the quarterly distribution will not impact the continuing operations of the LLC as follows: 7% Annual Return to Members. The Manager has the sole discretion to change the Annual Return semi-annually.

(b) “Net Profits” is defined as the LLC’s monthly gross income less the payments of the LLC’s monthly operating expenses (such as the Manager’s Fees, amounts due by the LLC on any loans or line of credit, audit costs, and LLC taxes) and an allocation of income for a loan loss reserve. All distributions will be made on a quarterly, in arrears.

(c) By the end of the LLC's fiscal year and after completion of its annual audit, the Manager will make every effort to have distributed to each Member the amount of Net Profits that will be allocated to that Member on the Schedule K-1 that he, she, or it receives for income tax reporting. However, the amount of income reported to each Member on his, her, or its Schedule K-1 may

differ somewhat from the actual cash distributions made during the fiscal year covered by the Schedule K-1 due to, among other things the loan loss reserve and factors unique to the tax accounting of LLCs, such as the treatment of investment expense.

4.5 **Reinvestment Election.** Each Investor is required to reinvest his or her capital distribution the first six (6) months after subscription. Manager has the sole discretion to waive this requirement. After the initial six (6) months, an Investor may elect to (i) receive quarterly cash distributions from the LLC in the amount of that Member's share of Net Profits for distribution; or (ii) allow his, her, or its distributions to be reinvested and increasing its ownership interest in the LLC; or (iii) some combination of (i) and (ii). Such election will become effective on the first (1st) day of the month following receipt of the election. If no election is made, then the quarterly distribution will be reinvested. An election to reinvest distributions is revocable with thirty (30) days notice to the LLC. Cash distributions reinvested by Investors who make such an election will be used by the LLC to make further mortgage loans or for other proper LLC purposes.

4.6 **Capital Accounts.**

(a) General Maintenance. The LLC will establish and maintain a Capital Account for each Member. A Member's Capital Account balance will be:

(1) increased by: (i) the amount of any money the Member contributes to the LLC's capital; and (ii) the Member's share of the LLC's Profits and any separately stated items of income or gain; and

(2) decreased by: (i) the amount of any money the LLC distributes to the Member; and (ii) the Member's share of the LLC's Losses and any separately stated items of deduction or loss.

(b) Transfer of Capital Account. A Transferee of Membership Interests succeeds to the portion of the transferor's Capital Account that corresponds to the portion of the Membership Interest that is the subject of the Transfer.

(c) Compliance with Code. The requirements of this Article are intended and will be construed to ensure that the allocations of the LLC's income, gain, losses, deductions and credits have substantial economic effect under the Regulations promulgated under Section 704(b) of the Code.

ARTICLE 5: MANAGEMENT

5.1 **Representative Management.** The LLC will be managed by one Manager. By execution of this Agreement, and without prejudice to the right of the Members to remove the Manager as set forth in Article 5, the Initial Members and each Person hereafter admitted as a Member, other than Transferees, shall be deemed to have elected such Manager. The initial manager of the LLC shall be: HAMILTON RIDGE ASSET MANAGEMENT, a Nevada corporation.

5.2 **Time Devoted to Business.** The Manager will devote to the LLC's activities the amount of time reasonably necessary to discharge the Manager's responsibilities.

5.3 **Powers and Authority.**

(a) General Scope. Except for matters on which the Members' approval is required by the Act or this Agreement, the Manager has full power, authority and discretion to manage and direct the LLC's business, affairs and properties, including, without limitation, the specific powers referred to in paragraph (b), below.

(b) Specific Powers.

(1) The Manager is authorized on the LLC's behalf to make all decisions as to (i) the development, sale, lease or other disposition of the LLC's assets; (ii) the purchase or other acquisition of other assets of all kinds; (iii) the management of all or any part of the LLC's assets and business; (iv) the borrowing of money and the granting of security interests in the LLC's assets (including loans from Members) as, and only if, provided for in the Memorandum; (v) the prepayment, refinancing or extension of any mortgage affecting the LLC's assets; (vi) the compromise or release of any of the LLC's claims or debts; (vii) the employment of Persons for the operation and management of the LLC's business; and (viii) all elections available to the LLC under any federal or state tax law or regulation.

(2) The Manager on the LLC's behalf may execute and deliver (i) all contracts, conveyances, assignments, leases, subleases, franchise agreements, licensing agreements, management contracts and maintenance contracts covering or affecting the LLC's assets; (ii) all checks, drafts and other orders for the payment of the LLC's funds; (iii) all promissory notes, mortgages, deeds of trust, security agreements and other similar documents; (iv) all articles, certificates and reports pertaining to the LLC's organization, qualification and dissolution; (v) all tax returns and reports; and (vi) all other instruments of any kind or character relating to the LLC's affairs.

5.4 **Required Member Approval.** Except as specifically provided herein, without the approval of the Members holding a majority of the issued and outstanding Membership Interests, the LLC may not take any action with respect to: (a) the sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the LLC's assets; (b) the LLC's merger with or conversion into another Entity; (c) an undertaking involving a debt or obligation which would exceed the amount provided for in the Memorandum; or (d) a transaction, not expressly permitted by this Agreement or Memorandum, involving a conflict of interest between the Manager and the LLC.

5.5 **Duties of Manager.**

(a) Fiduciary Duty. The Manager shall have fiduciary responsibility for the safekeeping and use of all funds and assets of the LLC, whether or not in the Manager's possession or control. Except as expressly permitted herein, or by subsequent approval of the Members, the Manager shall not employ, or permit another to employ LLC funds or assets in any manner except for the exclusive benefit of the LLC.

(b) Standard of Care.

(1) Exculpation. The Manager will not be liable to the LLC or any Member for an act or omission done in good faith to promote the LLC's best interests, unless the act or omission constitutes gross negligence, intentional misconduct or a knowing violation of law.

(2) Justifiable Reliance. The Manager may rely on the LLC's records maintained in good faith and on information, opinions, reports or statements received from any Person pertaining to matters the Manager reasonably believes to be within the Person's expertise or competence.

(c) Competing Activities. The Manager may participate in any business or activity without accounting to the LLC or the Members. Each Member waives the benefit of the corporate opportunity doctrine, on his or her own behalf and on behalf of the LLC, and agrees that the Manager may deal in other real estate transactions for its own account and/or for the accounts of others without any requirement to account to the LLC for such dealings.

(d) Specific Transactions. Without limiting the generality of the foregoing, it is hereby acknowledged and agreed that the Manager shall be permitted to bargain for and accept the following transactions connected with the business of the LLC, subject to the terms of any other agreement among the Members.

(1) Loan Origination Fees. The Manager shall serve as portfolio manager for the LLC, and in that connection cause all origination fees to be paid to the LLC. This does not include underwriting fees, inspection fees, or fees not directly related to the LLC's investment(s).

(2) Real Estate Commissions. In the event the LLC acquires ownership of any real property, whether by foreclosure or otherwise, and the Manager decides to sell it, the Manager shall be allowed to receive such portion of the real estate commission as the real estate broker handling such sale is willing to share with the Manager, provided the total real estate commission does not exceed the rate then prevailing in the area where the property is located. The Manager may also bargain for and accept finder's fees, in lieu of a share of commission, from selling real estate brokers.

(3) Reimbursement of Business Expenses. The LLC shall pay its own general administrative and operating expenses. It shall reimburse the Manager for any expenses incurred by the Manager that are properly considered ordinary and reasonable business expenses of the LLC, including without limiting the generality of the foregoing, rent, insurance, stationery, office supplies, postage, accounting and legal fees related to the LLC's business, notary, document preparation fees and escrow fees payable by the lender, and other ordinary and reasonable business expenses.

6. **Indemnification of Manager.** Except as limited by law, the LLC shall indemnify the Manager for all expenses, losses, liabilities and damages the Manager actually and reasonably incurs in connection with the defense or settlement of any action arising out of or relating to the conduct of the LLC's activities, except an action with respect to which the Manager is adjudged to be liable for breach of a fiduciary duty owed to the LLC or the Members under the Act or this Agreement. The LLC shall advance the costs and expenses of defending actions against the Manager arising out of or relating to the management of the LLC, provided it first receives the written undertaking of the Manager to reimburse the LLC if ultimately found not to be entitled to indemnification.

5.7 **Compensation to Manager and Affiliates.** The LLC will compensate the Manager as follows for services rendered to or on behalf of the LLC:

(a) Loan officer compensation will be paid to regular loan offices of the Manager, and an Affiliate, or third party. All other fees will be retained by the LLC.

(b) The Manager or Affiliate may have a real estate sales department or business affiliate that may handle the resale of properties taken back in foreclosure by the LLC. If the Manager or Affiliate elects to act as the listing agent, its compensation shall not exceed the prevailing rate in the area where the real property is located. As to out of state property, a local state real estate broker will be employed by the LLC and paid the prevailing commission.

(c) For market rate compensation, the Manager, Affiliate, or third party servicer will supervise the servicing of loans owned by the LLC. This consists of billing and collecting loans owned by the LLC.

(d) The Manager will be paid an Annual Asset Management Fee (not including attorneys' fees, foreclosure fees and court costs, if needed) of Two Percent (2%) per year, paid monthly at the beginning of each month from each Member's Capital Account. However, the Manager reserves the right to rebate its Asset Management Fee to some investors at its sole discretion.

(e) In addition to the Annual Asset Management Fee, the Manager shall be distributed the following Performance Fee:

(1) If the Annual Return to Members is below 7%, the Manager shall receive no Performance Fee.

(2) If the Annual Return to Members is 7% or over, the Manager shall receive up to 40% of the Annual Return over 7%, and the Members shall receive 60% of the Annual Return over 7%.

(3) The Manager reserves the right to modify the 7% base return semi-annually depending on market conditions.

(f) The LLC will bear the cost of the annual tax preparation of the LLC's tax returns, any state and federal income tax due, and any required independent audit reports required by agencies governing the business activities of the LLC. In addition, the LLC will pay all of its own operating expenses, including rent, advertising, supplies, insurance, and other normal operating expenses.

(g) When the assets of the LLC reach Two Million Dollars ($2,000,000), then the Manager may be reimbursed by the LLC for the LLC's initial organizational and syndication expenses including, but not limited to, legal expenses, printing costs, selling expenses and filing fees. At the Manager's discretion, the Manager may also be reimbursed for all other LLC expenses paid by the Manager.

(h) The definition of Manager’s Fees includes all of the fees described above.

(i) The Manager may, but has no obligation to, defer all or a portion of the Manager’s Fees. In such event, the Manager will be entitled to recover the deferred fees at a later time.

(j) In the normal course of business, the Manager originates loans for the LLC or for outside investors. Later, this loan could be purchased, refinanced, or increased by the LLC. All new origination fees realized by the new loan are due to the LLC - as stated in Loan Origination Fees. Prior to a loan funded or purchased by the LLC, the previous points and fees paid by the Borrower to the Manager are not due and payable to the LLC.

5.8 **Tenure.**

(a) Term. The Manager will serve until the earlier of (1) the Manager's resignation; (2) the Manager's removal; (3) the Manager's Bankruptcy; (4) as to a Manager who is a natural person, the Manager's death or adjudication of incompetency; and (5) as to a Manager that is an Entity, the Manager's dissolution. In any such event, a majority of the Members, shall promptly elect a successor as Manager; provided, however if the then Manager desires to appoint an Affiliate as the new Manager, then such Affiliate may become the Manager without Member approval.

(b) Resignation. The Manager at any time may resign by written notice delivered to the Members at least thirty (30) days prior to the effective date of the resignation.

(c) Removal. The Members may remove the Manager if: (1) the Manager commits an act of willful misconduct which materially adversely damages the LLC, or (2) the holders of at least seventy five percent (75%) of the outstanding Membership Interests vote in favor of such removal.

ARTICLE 6: RECORDS AND ACCOUNTING

6.1 **Maintenance of Records.**

(a) Required Records. The LLC will maintain, at its principal place of business, such books, records and other materials as are reasonably necessary to document and account for its activities, including without limitation, those required to be maintained by the Act.

(b) Member Access. A Member and the Member's authorized representative will have reasonable access to, and may inspect and copy, all books, records and other materials pertaining to the LLC or its activities. The exercise of such rights will be at the requesting Member's expense.

(c) Confidentiality. No Member or Manager will disclose any information relating to the LLC or its activities to any unauthorized person or use any such information for his or her or any other Person's personal gain.

6.2 **Financial Accounting.**

(a) Accounting Method. The LLC will account for its financial transactions using the accrual method of accounting.

(b) Taxable Year. The LLC's Taxable Year is the LLC's annual accounting period, as determined by the Manager in compliance with Sections 441, 444 and 706 of the Code.

6.3 **Reports.**

(a) Members. As soon as practicable after the close of each Taxable Year, the LLC will prepare and send to the Members such reports and information as are reasonably necessary to (1) inform the Members of the results of the LLC's operations for the Taxable Year, and (2) enable the Members to completely and accurately reflect their distributive Membership Interests of the LLC's income, gains, deductions, losses and credits in their federal, state and local income tax returns for the appropriate year.

(b) Periodic Reports. The LLC will complete and file any periodic reports required by the Act or the law of any other jurisdiction in which the LLC is qualified to do business.

6.4 **Tax Compliance.**

(a) Withholding. If the LLC is required by law or regulation to withhold and pay over to a governmental agency any part or all of a Distribution or allocation of Profit to a Member:

(1) the amount withheld will be considered a Distribution to the Member; and

(2) if the withholding requirement pertains to a Distribution in kind or an allocation of Profit, the LLC will pay the amount required to be withheld to the governmental agency and promptly take such action as it considers necessary or appropriate to recover a like amount from the Member, including offset against any Distributions to which the Member would otherwise be entitled.

(b) Tax Matters Partner. The Manager, or a Person designated by the Manager, shall act as the "Tax Matters Partner" pursuant to Section 6231(a)(7) of the Code. The Tax Matters Partner will inform the Members of all administrative and judicial proceedings pertaining to the determination of the LLC's tax items and will provide the Members with copies of all notices received from the U.S.

Internal Revenue Service regarding the commencement of a LLClevel audit or a proposed adjustment of any of the LLC's tax items. The Tax Matters Partner may extend the statute of limitations for assessment of tax deficiencies against the Members attributable to any adjustment of any tax item. The LLC will reimburse the Tax Matters Partner for reasonable expenses properly incurred while acting within the scope of the Tax Matters Partner's authority.

ARTICLE 7: DISSOLUTION

7.1 **Events of Dissolution.** The LLC will dissolve upon the first of the following to occur: (a) the termination date stated in Article 2 or such later date if extended pursuant to Article 2; (b) the sale or other disposition of all or substantially all the assets of the LLC; (c) any event that makes the LLC ineligible to conduct its activities as a limited liability company under the Act; or (d) otherwise by option of law.

7.2 **Effect of Dissolution.**

(a) Appointment of Liquidator. Upon the LLC's dissolution, the Manager (unless unwilling or unable to serve as such) shall serve as liquidator, and as such will wind up and liquidate the LLC in an orderly, prudent and expeditious manner in accordance with the following provisions of this Article. While serving as liquidator, the Manager shall have the same authority, powers, duties and compensation as before dissolution, except that the liquidator shall not acquire any additional assets for the LLC, and shall use its best efforts to liquidate the LLC's existing assets as rapidly as is consistent with receiving the fair market value thereof. If the Manager is unwilling or unable to serve as liquidator, or has resigned or been removed, the Members shall elect another person, who may be a Member, to serve as liquidator.

(b) Distributions Upon Dissolution. The LLC will not cease to exist immediately upon the occurrence of an event of dissolution, but will continue until its affairs have been wound up. Upon dissolution of the LLC, the Manager will wind up the LLC’s affairs by liquidating the LLC's assets as promptly as is consistent with obtaining the fair market value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan(s) until a suitable sale can be arranged. All funds received by the LLC shall be applied to satisfy or provide for LLC debts and liabilities and the balance, if any, shall be distributed to Members on a pro-rata basis.

(c) Time for Liquidation. The LLC will not immediately cease to exist upon the occurrence of an event causing its dissolution, but will continue until its affairs have been wound up. It is acknowledged and agreed that the assets of the LLC are illiquid, and will take time to sell. The liquidator shall liquidate the LLC's assets as promptly as is consistent with obtaining the fair market value thereof, either by sale to third parties or by collecting loan payments under the terms of the loans. Due to high prevailing interest rates or other factors, the LLC could suffer reduced earnings (or losses) if a substantial portion of its loan portfolio remains and must be liquidated quickly during the winding up period. Members who sell their Membership Interests prior to any such liquidation will not be exposed to this risk. Conversely, if prevailing interest rates have declined at a time when the loan portfolio must be liquidated, unanticipated profits could be realized by those Members who remained in the LLC until its termination.

(d) Final Accounting. The liquidator will make proper accountings, (1) to the end of the month in which the event of dissolution occurred, and (2) to the date on which the LLC is finally and completely liquidated.

(e) Duties and Authority of Liquidator. The liquidator will make adequate provision for the discharge of all of the LLC's debts, obligations and liabilities. The liquidator may sell, encumber or retain for distribution in kind any of the LLC's assets. Any gain or loss recognized on the sale of assets will be allocated to the Members' Capital Accounts in accordance with the provisions of Article 4. With respect to any asset the liquidator determines to retain for distribution in kind, the liquidator

will allocate to the Members' Capital Accounts the amount of gain or loss that would have been recognized had the asset been sold at its fair market value.

(f) Final Distribution. The liquidator will distribute any assets remaining after the discharge or accommodation of the LLC's debts, obligations and liabilities to the Members in proportion to their Capital Accounts. The liquidator will distribute any assets distributable in kind to the Members in undivided interests as tenants in common. A Member whose Capital Account is negative will have no liability to the LLC, the LLC's creditors or any other Member with respect to the negative balance.

(g) Required Filings. The liquidator will file with the appropriate Secretary of State such statements, certificates and other instruments, and take such other actions, as are reasonably necessary or appropriate to effectuate and confirm the cessation of the LLC's existence.

ARTICLE 8: GENERAL PROVISIONS

8.1 **Amendments.** Except as otherwise provided herein, the Manager or any Member may propose, for consideration and action, an amendment to this Agreement or to the Articles. Except as otherwise provided herein, a proposed amendment will become effective at such time as it is approved by the Members holding a majority of the outstanding Membership Interests. Notwithstanding the foregoing, the LLC, the Manager will execute and file any amendment to the Articles required by the Act. If any such amendment results in inconsistencies between the Articles and this Agreement, this Agreement will be considered to have been amended in the specifics necessary to eliminate fine inconsistencies.

8.2 **Power of Attorney.** Each Member appoints the Manager, with full power of substitution, as the Member's attorneyinfact, to act in the Member's name to execute and file (a) all certificates, applications, reports and other instruments necessary to qualify or maintain the LLC as a limited liability company in the states and foreign countries where the LLC conducts its activities, (b) all instruments that effect or confirm changes or modifications of the LLC or its status, including, without limitation, amendments to the Articles, and (c) all instruments of transfer necessary to effect the LLC's dissolution and termination. The power of attorney granted by this Article is irrevocable, coupled with an interest and shall survive the death of the Member.

8.3 **Binding Arbitration.** Any dispute under this Agreement will be resolved under the then prevailing rules of the American Arbitration Association in the county of the LLC’s principal place of business.

8.4 **Notices.** Notices contemplated by this Agreement may be sent by any commercially reasonable means, including hand delivery, first class mail, facsimile, email or private courier. The notice must be prepaid and addressed as set forth in the LLC's records. The notice will be effective on the date of receipt or, in the case of notice sent by first class mail, the fifth (5^{th}) day after mailing.

8.5 **Resolution of Inconsistencies.** If there are inconsistencies between this Agreement and the Articles, the Articles will control. If there are inconsistencies between this Agreement and the Act, this Agreement will control, except to the extent the inconsistencies relate to provisions of the Act that the Members cannot alter by agreement. If there are inconsistencies between this Agreement and the Memorandum, the Memorandum will control. Without limiting the generality of the foregoing, unless the language or context clearly indicates a different intent, the provisions of this Agreement pertaining to the LLC's governance and financial affairs and the rights of the Members upon Dissociation and dissolution will supersede the provisions of the Act relating to the same matters.

8.6 **Provisions Applicable to Transferees.** As the context requires and subject to the restrictions and limitations imposed by the provisions of this Agreement pertaining to the rights and obligations of a Member also govern the rights and obligations of the Member's Transferee.

8.7 **Additional Instruments.** Each Member will execute and deliver any document or statement necessary to give effect to the terms of this Agreement or to comply with any law, rule or regulation governing the LLC's formation and activities.

8.8 **Computation of Time.** In computing any period of time under this Agreement, the day of the act or event from which the specified period begins to run is not included. The last day of the period is included, unless it is a Saturday, Sunday or legal holiday, in which case the period will run until the end of the next day that is not a Saturday, Sunday or legal holiday. For purposes of this paragraph, a day shall be deemed to end at 5:00 p.m. in the time zone where LLC then maintains its principal place of business.

8.9 **Entire Agreement.** This Agreement and the Articles comprise the entire agreement among the parties with respect to the LLC. This Agreement and the Articles supersede any prior agreements or understandings with respect to the LLC. No representation, statement or condition not contained in this Agreement or the Articles has any force or effect.

8.10 **Waiver.** No right under this Agreement may be waived, except by an instrument in writing signed by the party sought to be charged with the waiver.

8.11 **General Construction Principles.** Words in any gender are deemed to include the other genders. The singular is deemed to include the plural and vice versa. The headings and underlined paragraph titles are for guidance only and have no significance in the interpretation of this Agreement.

8.12 **Binding Effect.** Subject to the provisions of this Agreement relating to the transferability of Membership Interests and the rights of Transferees, this Agreement is binding on and will inure to the benefit of the LLC, the Members and their respective distributees, successors and assigns.

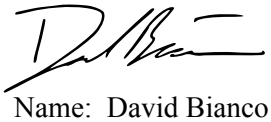
8.13 **Governing Law.** The law of the LLC's principal place of business shall govern the construction and application of the terms of this Agreement.

8.14 **Severability**. If any provision of this Agreement shall be deemed invalid, unenforceable or illegal, then notwithstanding such invalidity, unenforceability or illegality, the remainder of this Agreement shall continue in full force and effect.

8.15 **Counterparts; Facsimile.** This Agreement may be executed in counterparts, each of which will be considered an original as to the party signing it. Facsimile signatures shall have the same legal effect as original signatures.

INITIAL MEMBER AND MANAGER:

HAMILTON RIDGE ASSET MANAGEMENT,
a Nevada corporation



Name: David Bianco
Title: Fund Manager

BY PURCHASING A MEMBERSHIP INTEREST IN THE LLC AND EXECUTING A SUBSCRIPTION AGREEMENT, EACH MEMBER AGREES TO THE TERMS AND PROVISIONS OF THIS OPERATING AGREEMENT, THE SUBSCRIPTION AGREEMENT AND THE MEMORANDUM.

Account #

SUBSCRIPTION AGREEMENT, POWER OF ATTORNEY AND INVESTOR QUESTIONNAIRE

for

THE CAVALLINO FUND, LLC

THE LIMITED LIABILITY COMPANY MEMBERSHIP INTERESTS SUBJECT TO THIS SUBSCRIPTION AGREEMENT ARE SECURITIES WHICH HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). SUCH INTERESTS MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED TO ANY PERSON AT ANY TIME; IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH SHARES UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE MANAGER OF THE LLC (THE "MANAGER") TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED; OR IN A MANNER INCONSISTENT WITH THE TERMS OF THE LIMITED LIABILITY COMPANY OPERATING AGREEMENT GOVERNING SUCH LIMITED LIABILITY COMPANY, WHICH IS INCORPORATED HEREIN BY THIS REFERENCE.

This confidential Subscription Agreement, Power of Attorney and Investor Questionnaire ("Subscription Agreement") will be used for the acquisition of Membership Interests ("Shares") in THE CAVALLINO FUND, LLC, a California limited liability company (the "LLC"). The purpose of these questions is to elicit certain information to determine whether you qualify as an "Accredited Investor" and whether you have sufficient investment sophistication and ability to take financial risk to meet the standards for availability of the private offering exemption from the registration requirements of the Act and the qualification requirements of any other applicable securities law.

THIS QUESTIONNAIRE IS NOT AN OFFER TO SELL SECURITIES.

YOUR ANSWERS WILL AT ALL TIMES BE KEPT STRICTLY CONFIDENTIAL. EACH PERSON SIGNING THIS QUESTIONNAIRE AGREES, HOWEVER, THAT THE LLC MAY PRESENT THIS QUESTIONNAIRE TO SUCH PARTIES AS IT DEEMS APPROPRIATE IF CALLED ON TO ESTABLISH THE AVAILABILITY OF AN EXEMPTION FROM REGISTRATION OF THE SHARES UNDER THE ACT OR ANY OTHER SECURITIES LAW.

AMOUNT OF INVESTMENT: $_____

Make check payable to THE CAVALLINO FUND, LLC. Mail the check, along with this Subscription Agreement to 111 N. Market Street, Ste. 300, San Jose, CA 95113.

1. SUBSCRIPTION

(a) The undersigned ("Purchaser") hereby subscribes to become a Member in **THE CAVALLINO FUND, LLC,** a California limited liability company, (the "LLC") and to purchase the number of limited liability membership interests ("Shares") indicated above, all in accordance with the terms and conditions of this Subscription Agreement, the Operating Agreement (the "Operating Agreement"), and the Private Placement Memorandum (the "Memorandum") dated 1/1/2016.

(b) The Purchaser acknowledges and agrees that this subscription cannot be withdrawn, terminated, or revoked. The Purchaser agrees to become a Member of the LLC and to be bound by all the terms and conditions of the Operating Agreement. This subscription shall be binding on the

heirs, executors, administrators, successors and assigns of the Purchaser. This subscription is not transferable or assignable by the Purchaser.

(c) This subscription may be rejected as a whole or in part by the Manager in its sole and absolute discretion. If this subscription is rejected, the Purchaser's funds shall be returned to the extent of such rejection. This subscription shall be binding on the LLC only upon acceptance by the Manager.

(d) Neither the execution nor the acceptance of this Subscription Agreement constitutes the Purchaser a Member of the LLC. This is an agreement to purchase the Shares on a when issued basis; and the Purchaser will become a Member only when the Purchaser's funds are transferred to the account of the LLC and the Shares are issued to the Purchaser. Until that time, the Purchaser shall have only the rights set forth in this Subscription Agreement.

(e) The Purchaser's rights and responsibilities will be governed by the terms and conditions of this Subscription Agreement, the Memorandum, and the Operating Agreement. The LLC will rely upon the information provided in this Subscription Agreement to confirm that the Purchaser is an "Accredited Investor" as defined in Regulation D promulgated under the Act, or one of thirty-five (35) non-Accredited Investors that will be allowed to purchase Shares.

2. REPRESENTATIONS AND WARRANTIES BY THE PURCHASER

The Purchaser represents, warrants, and agrees as follows:

(a) I have received and read the Memorandum and its Exhibits, including the Operating Agreement, and I am thoroughly familiar with the proposed business, operations, properties and financial condition of the LLC. I have relied solely upon the Memorandum and independent investigations made by me or my representative with respect to the investment in Shares. No oral or written representations beyond the Memorandum have been made or relied upon.

(b) I have read and understand the Operating Agreement and understand how an LLC functions as a corporate entity. By purchasing the Shares and executing this Subscription Agreement, I hereby agree to the terms and provisions of the Operating Agreement.

(c) I understand that the LLC has limited financial and operating history. I have been furnished with such financial and other information concerning the LLC, its Manager, and its business, as I consider necessary in connection with the investment in Shares. I have been given the opportunity to discuss any questions and concerns with the LLC.

(d) I am purchasing Shares for my own account (or for a trust if I am a trustee), for investment purposes and not with a view or intention to resell or distribute the same. I have no present intention, agreement, or arrangement to divide my participation with others or to resell, assign, transfer, or otherwise dispose of all or part of the Shares.

(e) I or my investment advisors have such knowledge and experience in financial and business matters that will enable me to utilize the information made available to evaluate the risks of the prospective investment and to make an informed investment decision. I have been advised to consult my own attorney concerning this investment and to consult with independent tax counsel regarding the tax considerations of participating in the LLC.

(f) I have carefully reviewed and understand the risks of investing in the Shares, including those set forth in the Memorandum. I have carefully evaluated my financial resources and investment position and acknowledge that I am able to bear the economic risks of this investment. I further

acknowledge that my financial condition is such that I am not under any present necessity or constraint to dispose of the Shares to satisfy any existent or contemplated debt or undertaking. I have adequate means of providing for my current needs and possible contingencies, have no need for liquidity in my investment, and can afford to lose some or all of my investment.

(g) I have been advised that the Shares have not been registered under the Securities Act of 1933, as amended (the "Act"), or qualified under any State Securities Laws (the "Law"), on the ground, among others, that no distribution or public offering of the Shares is to be effected and the Shares will be issued by the LLC in connection with a transaction that does not involve any public offering within the meaning of section 4(2) of the Act or of the Law, under the respective rules and regulations of the Securities and Exchange Commission.

(h) All information which I have furnished in this Subscription Agreement, concerning myself, my financial position, and my knowledge of financial and business matters is correct, current, and compete.

3. INVESTOR SUITABILITY STANDARDS

The LLC intends to sell the Interests to an unlimited number of "accredited investors," and to no more than thirty-five (35) other investors. All investors who are *not* deemed "accredited" shall supply such information to the LLC, as the LLC may deem necessary to determine that the investor, or their purchaser representative, render the investor capable of evaluating risks of a proposed investment in an Interest. To qualify as an "accredited investor," an investor must meet any of the following:

(a) Any bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the 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 Act; any investment company registered under the Investment Company Act of 1940 or a 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 of 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;

(b) Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

(c) Any 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 securities offered, with total assets in excess of $5,000,000;

(d) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

(e) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000;

(f) 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 that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(g) Any trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in § 230.506(b)(2)(ii); or

(h) Any entity in which all of the equity owners are accredited investors.

4. AGREEMENT TO REFRAIN FROM RESALE

The Purchaser agrees not to pledge, hypothecate, sell, transfer, assign or otherwise dispose of any Shares, nor receive any consideration for Shares from any person, unless and until prior to any such action:

(a) A registration statement on Form S-1 under the Act (or any other form appropriate for the purpose under the Act or any form replacing any such form) with respect to the Shares proposed to be so disposed of shall be then effective and such disposition shall have been appropriately qualified in accordance with applicable securities laws; or

(b) (i) The Purchaser shall have furnished the LLC with a detailed explanation of the proposed disposition, (ii) the Purchaser shall have furnished the LLC with an opinion of the Purchaser's counsel in form and substance satisfactory to the LLC to the effect that such disposition will not require registration of such Shares under the Act or qualification of such Shares under any other securities law, and (iii) counsel for the LLC shall have concurred in such opinion and the LLC shall have advised the Purchaser of such concurrence.

5. POWER OF ATTORNEY

(a) The Purchaser irrevocably constitutes and appoints the Manager with full power of substitution as his/her true and lawful attorney-in-fact and agent, to execute, acknowledge, verify, swear to, deliver, record, and file, in the Purchaser’s name or his/her assignee’s name, place, and stead, all instruments, documents, and certificates that may from time to time be required by the laws of the United States of America, the State of California, and any other state in which the LLC conducts or plans to conduct business, or any political subdivision or agency of the government, to effectuate, implement, and continue the valid existence of the LLC, including, without limitation, the power of attorney and authority to execute, verify, swear to, acknowledge, deliver, record and file the following:

(i) The Operating Agreement, the Articles of Organization, and all other instruments (including amendments) that the Manager deems appropriate to form, qualify or continue the LLC as a limited liability company in the State of California and all other jurisdictions in which the LLC conducts or plans to conduct business;

(ii) All instruments that the Manager deems appropriate to reflect any amendment to the Operating Agreement, or modification of the LLC, made in accordance with the terms of the Operating Agreement;

(iii) A fictitious business name certificate and such other certificates and instruments as may be necessary under the fictitious or assumed name statute from time to time in effect in the State of California and all other jurisdiction in which the LLC conducts or plans to conduct business;

(iv) All instruments relating to the admission of any additional or substituted Member; and

(v) All conveyances and other instruments that the Manager deems appropriate to reflect the dissolution and termination of the LLC pursuant to the terms of the Operating Agreement.

(b) The power of attorney granted is a special power of attorney and shall be deemed to be coupled with an interest, shall be irrevocable, shall survive the death, dissolution, bankruptcy, or legal disability of the Purchaser, and shall extend to the Purchaser's heirs, successors, and assigns. The Purchaser agrees to be bound by any representations made by the Manager acting in good faith under such power of attorney, and each Member waives any and all defenses that may be available to contest, negate, or disaffirm any action of the Manager taken in good faith under such power of attorney.

6. MISCELLANEOUS

(a) **CHOICE OF LAWS:** This Subscription Agreement will be governed by and construed in accordance with the laws of the State of California.

(b) **ENTIRE AGREEMENT**: This Subscription Agreement constitutes the entire agreement between the parties and may be amended only by written agreement between all parties.

(c) **BINDING ARBITRATION:** Any dispute under this Subscription Agreement will be resolved under the then prevailing rules of the American Arbitration Association in the County of Marin, State of California.

(d) **TERMINATION OF AGREEMENT:** If this subscription is rejected by the LLC, then this Subscription Agreement shall be null and void and of no further force and effect, no party shall have any rights against any other party and the LLC shall promptly return the funds delivered with this Subscription Agreement.

(e) **TAXES.** The discussion of the federal income tax considerations arising from investment in the LLC, as set forth in the Memorandum, is general in nature and the federal income tax considerations to the Purchaser of investment in the LLC will depend on individual circumstances. The Memorandum does not discuss state income tax considerations, which may apply to all or substantially all Purchasers. There can be no assurance the Internal Revenue Code or the Regulations under the Code will not be amended in a manner adverse to the interests of the Purchaser or the LLC.

(f) **DULY AUTHORIZED.** If the Purchaser is a corporation, partnership, trust, or other entity, the individuals signing in its name are duly authorized to execute and deliver this Subscription Agreement on behalf of such entity, and the purchase of the Shares by such entity will not violate any law or agreement by which it is bound.

(g) **SHARES WILL BE RESTRICTED SECURITIES.** The Purchaser understands that the Shares will be "restricted securities" as that term is defined in Rule 144 under the Act and, accordingly, that the Shares must be held indefinitely unless they are subsequently registered under the Act and any other applicable securities law or exemptions from such registration is available. The Purchaser understands that the LLC is under no obligation to register Shares under the Act, to qualify Shares under any securities law, or to comply with Regulation A or any other exemption under the Act or any other law.

(h) **SHARES CONTAIN RESTRICTIVE LEGEND.** Any documents or certificates issued to evidence ownership of the Shares will bear restrictive legends notifying prospective purchasers of the transfer restrictions set forth above, and the Manager will not permit transfer of any Shares on the books of the LLC in violation of such restrictions.

(i) **SUCCESSORS.** The representations, warranties and agreements contained in this Subscription Agreement shall be binding on the Purchaser's successors, assigns, heirs and legal representatives and shall inure to the benefit of the respective successors and assigns of the LLC and its directors and officers. If the Purchaser is more than one person, the obligations of all of them shall be joint and several, and the representations and warranties contained herein shall be deemed to be made by and to be binding upon each such person and his heirs, executors, administrators, successors, and assigns.

(j) **INDEMNIFICATION.** The Purchaser shall indemnify and defend the LLC and the Manager from and against any and all liability, damage, cost, or expense (including attorneys' fees) arising out of or in connection with:

(i) Any inaccuracy in, or breach of, any of the Purchaser's declarations, representations, warranties or covenants set forth in this document or any other document or writing delivered to the LLC;

(ii) Any disposition by the Purchaser of any Shares in violation of this Agreement, the Operating Agreement or applicable law; or

(iii) Any action, suit, proceeding or arbitration alleging any of the foregoing.

7. FORM OF OWNERSHIP

Please indicate the form in which you will hold title to your interest, please consider carefully. Once your subscription is accepted, a change in the form of title constitutes a transfer of the membership interest and will therefore be restricted by the terms of the Operating Agreement and the Act. Purchaser should seek the advice of an attorney in deciding in which of the forms to take ownership of the shares because different forms of ownership can have varying gift tax, estate tax, income tax and other consequences.

( ) INDIVIDUAL OWNERSHIP (one signature required).

( ) COMMUNITY PROPERTY (one signature required if interest held in one name, i.e., managing spouse; two signatures required if interest held in both names).

( ) JOINT TENANTS WITH RIGHT TO SURVIVORSHIP (not as tenants in common)(both or all parties must sign).

( ) TENANTS IN COMMON (both or all parties must sign).

( ) GENERAL PARTNERSHIP (fill out all documents in the name of the partnership, by a partner authorized to sign).

( ) LIMITED PARTNERSHIP (fill out all documents in the name of the limited partnership by a general partner authorized to sign, and include a copy of the Certificate of Limited Partnership – LP1).

( ) LIMITED LIABILITY COMPANY (fill out all documents in the name of the limited liability company by the manager authorized to sign, and include a copy of the Articles of Organization – LLC-1.)

( ) CORPORATION (fill out all documents in the name of the corporation, by the President and Secretary, and include a certified corporate resolution authorizing the signature).

( ) TRUST (fill out all documents in the name of the trust, by the trustee, and include a copy of the instrument creating the trust and any other documents necessary to show that the investment by the trustee is authorized). The date of the trust must appear on the notarial where indicated.

( ) IRA or KEOGH or SELF-DIRECTED PENSION plan (fill out all documents in the name of the IRA or Keogh of SELF DIRECTED PENSION plan, by the beneficiary). If applicable, the documents must also be executed by the custodian of the plan.

8. IDENTIFYING INFORMATION

Individual purchaser(s):

Name of **Purchaser**: _____

Social Security No.: _____ - _____ - _____ Date of Birth: _____/_____/_____

Name of **Co-Purchaser**: _____

Social Security No.: _____ - _____ - _____ Date of Birth: _____/_____/_____

Family Trust purchaser:

Exact name of Family Trust: _____

Federal Tax Identification No.: _____

Address (including City, State, and Zip): _____

For corporation, business trust, investment company, partnership or other business entity:

Principal place of business _____

Phone number of business _____

Federal Tax Identification No. _____

State and date of organization _____

IRA, Company Pension or Profit Sharing Plan purchaser:

Name of the Plan: _____

Name(s) of the Trustee(s)/Custodian(s): _____

Trustee's State Residency: _____

Federal Tax Identification No. _____

State and date of organization _____

Please identify the person(s) with **investment control over the Plan or Trust** assets and that person's state of residence.

EMPLOYMENT STATUS:

Purchaser:

Full Time _____ Part Time _____ Retired _____

Employer: _____

Is this business owned and operated by you? Yes _____ No _____

Current position held: _____

Employer Address: _____

_____

Length of Employment: _____

Spouse:

Full Time _____ Part Time _____ Retired _____

Employer: _____

Is this business owned and operated by you? Yes _____ No _____

Current position held: _____

Employer Address: _____

_____

Length of Employment: _____

INCOME AND NET WORTH:

The LLC intends to sell the Shares to an unlimited number of "Accredited Investors," and to no more than 35 other investors. Any investors ***not*** deemed "accredited" must supply sufficient information for the LLC to determine that the Purchaser or their financial representative are capable of evaluating risks of a proposed investment in the Shares.

To determine if you are an "Accredited Investor" as that term is defined in Regulation D under the Act, please answer the questions below. By answering these questions, you represent that the statement or statements selected are true and correct in all respects:

1. Does your individual net worth, or joint net worth with your spouse, exceed $1 million? (for this question you may include your spouses net worth and the fair market value of the equity in your home, furnishings, and automobiles.)

   ___Yes ___No

2. Did you have an individual income in excess of $200,000 in each of the two most recent years or joint income with your spouse in excess of $300,000 in each of the two most recent years; and reasonably expect to reach the same income level in the current year?

   ___ Yes___No

3. If you answered "**No**" to **BOTH** questions above, please complete the following:

   a. My present net worth exceeds $_____

   b. During the previous tax year I had an annual income in excess of $_____

   c. During the present tax year I anticipate an income of $_____

INVESTMENT EXPERIENCE OF PURCHASER

If Purchaser is not an individual, provide the following information about each officer, general partner, and/or other person who will participate in the decision to purchase the Shares.

Educational background (name of college attended, major, degree obtained, if any, and any professional licenses);

_____

_____

Investment experience (including investment in real estate, bonds, mutual funds);

_____

_____

Any professional licenses or registrations, including bar admissions, accounting certifications, real estate brokerage licenses, and SEC or state broker/dealer registrations held:

_____

_____

Has the Purchaser had the following investment experience. Check all that apply:

_____ Stock Market investing for at least two years in self-managed accounts.

_____ Real Estate investing for at least two years.

_____ Investing in trust deeds for at least two years.

_____ Bond investing in self-managed accounts.

_____ Mutual Fund investing.

INVESTMENT EVALUATION

Purchaser agrees and understands that in making this investment, Purchaser

(i) must have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of a purchase of Shares, **OR**

(ii) must retain the services of a Professional Advisor (who may be an attorney, accountant, or other financial adviser unaffiliated with, and who is not compensated by, the LLC or any affiliate or selling agent of the LLC, directly or indirectly) for the purpose of aiding in the evaluation of this particular transaction.

Do you intend to have a "Professional Advisor" in order to meet this requirement? (If yes, please furnish the information indicated below)

Yes _____ No _____

If you marked “Yes”, please fill out Exhibit “A” attached hereto.

REPRESENTATIONS:

Purchaser understands that the LLC will be relying on the accuracy and completeness of the statements and responses contained in this Investor Questionnaire. Purchaser represents and warrants to the Manager and the LLC as follows:

1. My Statements and responses contained in this Investor Questionnaire are complete and correct and may be relied on by the Manager and the LLC for the purpose of complying with all applicable security laws and to determine whether I am a suitable investor.

2. I will notify the Manager and the LLC immediately of any material change in any statement or response made in this Questionnaire prior to acceptance of my Subscription Agreement by the Manager.

3. I have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the prospective investment, or I have consulted with Professional Advisors identified above who have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of prospective investment.

4. I am able to bear the economic risk of an investment in the Shares for an indefinite period of time and understand that an investment in the Shares is illiquid and may result in a complete loss of such investment.

5. My Statements and responses contained in this Subscription Agreement are complete and correct and may be relied on by the Manager and the LLC for the purpose of complying with all applicable security laws and to determine whether I am a suitable investor.

6. I will notify the Manager and the LLC immediately of any material change in any statement or response made in this Subscription Agreement before acceptance by the Manager of this subscription.

7. I have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the prospective investment, or I have consulted with Professional Advisors identified here who have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of prospective investment.

8. I am able to bear the economic risk of an investment in the Shares for an indefinite period of time and understand that an investment in the Shares is illiquid and may result in a complete loss of such investment.

9. SPECIFIC INFORMATION REQUIRED FROM ENTITIES

(INDIVIDUALS CAN SKIP SECTION 9, IRA'S, LLC'S, ETC NEED TO FILL IT OUT)

ACCREDITED INVESTOR STATUS OF THE ENTITY. Please select a category for the entity:

_____ (1) A bank as defined in section 3(a)(2) of the Act, or a savings and loan association or other institution as defined in section 3(a)(5)(a) of the Act, whether acting in its individual or fiduciary capacity;

_____ (2) A broker or dealer registered pursuant to section 15 of the Act;

_____ (3) An insurance company as defined in section 2(13) of the Act;

_____ (4) An investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act;

_____ (5) A 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;

_____ (6) Any plan established and maintained by a State, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000;

_____ (7) An 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) thereof, which is either a bank, savings and loan association, insurance company or registered investment 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;

_____ (8) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;

_____ (9) Any 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 securities offered, with total assets in excess of $5,000,000;

_____ (10) A director or executive officer of the LLC;

_____ (11)** A trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities of the LLC being offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment in the LLC;

_____ (12) An entity in which all the equity owners are accredited investors.

[*Signature Page to Subscription Agreement follows*]

[*Signature Page to Subscription Agreement*]

FOR GOOD AND VALID CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Purchaser, intending to be legally bound, has executed this Subscription Agreement this _____ day of _____, 20_____.

BY PURCHASING SHARES AND EXECUTING THIS SUBSCRIPTION AGREEMENT, EACH PURCHASER HEREBY AGREES, UPON SUBMISSION AS A MEMBER INTO THE LLC, TO BE LEGALLY BOUND BY THE TERMS OFTHE LLC'S OPERATING AGREEMENT

_____
Name of Entity (if applicable)(printed or typed)

_____	_____
Purchaser Signature :	Co-Purchaser Signature
_____	_____
Name and title (if applicable) of person signing	Name and title (if applicable) of person signing
_____	_____
Co-Purchaser Signature	Co-Purchaser Signature
_____	_____
Name and title (if applicable) of person signing	Name and title (if applicable) of person signing

ACCEPTANCE: (NOT VALID UNTIL ACCEPTED BY MANAGER)
ACCEPTANCE

The LLC has accepted this Subscription this _____ day of _____, 20_____.

THE CAVALLINO FUND, LLC,
a California limited liability company

By: **HAMILTON RIDGE ASSET MANAGEMENT,**
a Nevada corporation, Manager

By: _____
Name:

Title: Fund Manager
Hamilton Ridge Asset Management
111 N. Market St, Suite 300
San Jose, CA 95113
Phone: 408-332-5816